

M A N I T O B A

Order No. 161/09

THE PUBLIC UTILITIES BOARD ACT

THE MANITOBA PUBLIC INSURANCE ACT

**THE CROWN CORPORATIONS PUBLIC
REVIEW AND ACCOUNTABILITY ACT**

December 04, 2009

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

**MANITOBA PUBLIC INSURANCE: COMPULSORY 2010/11
VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS**

Table of Contents

	Page
1.0 EXECUTIVE SUMMARY	5
2.0 BACKGROUND INFORMATION and EVIDENCE HIGHLIGHTS.....	9
2.1 Rate Hearing Process	9
2.2 Lines of Business and Corporate Goals.....	10
2.3 Program Amendments	11
2.4 2010/11 Rate Application.....	15
2.5 Forecasted/Projected Operating Results	16
2.6 Program Revenue	16
2.7 Program Costs.....	17
2.8 PIPP Claims Run-off.....	19
2.9 Claims Incurred Forecasting	19
2.10 Other Costs	21
2.11 Broker Commissions.....	22
2.12 Road Safety Initiatives.....	23
2.13 Capital Expenditures.....	24
2.14 Cityplace	25
2.15 BPR	25
2.16 Investment Income.....	27
2.17 Investment Portfolio	28
2.18 2008/09 Financial Results	29
2.19 2009/10 Financial Results	30
2.20 2010/11 Financial Results	30
2.21 Outlook Period	30
2.22 RSR	31
2.23 RSR Target	32
2.24 Cost Allocation Methodology.....	34
2.25 IFRS	38
2.26 Accounting Entries	39

2.27	DVL.....	40
3.0	INTERVENERS AND PRESENTERS	42
3.1	Interveners.....	42
	RSR Target	42
	Cost Allocation.....	42
	Jurisdiction.....	42
	Red Light Cameras	43
	Transparency	44
3.1.2	CAC/MSOS	44
	RSR Target	44
	RSR Mechanism.....	47
	Forecasting Methodology.....	47
	Road Safety	48
	Cost Controls	48
	Cost Allocation Methodology	49
	Jurisdiction.....	49
	Rates	50
3.1.3	CMMG.....	50
	Rates	50
	Wildlife Claims	51
	Road Safety	51
3.1.4	MBA.....	52
	Transparency	52
3.2	Presenters	54
4.0	BOARD FINDINGS	54
4.1	Investment Portfolio	54
4.2	RSR Target	56
4.3	Cost Allocation Methodology	59
4.4	Wildlife/Livestock Claims and Road Safety.....	60
4.5	Traffic Enforcement.....	61

4.6	Accounting Entries	62
4.7	Expansion of Board's Jurisdiction.....	66
4.8	Rates	69
4.9	Other.....	71
5.0	IT IS THEREFORE RECOMMENDED:.....	73
5.1	THAT GOVERNMENT	73
5.2	THAT MPI.....	74
6.0	BOARD DIRECTIVES	77

Appendices

A	Glossary of Acronyms and Terms	80
B	Appearances	82
C	Witnesses.....	83
D	Interveners and Presenters.....	84

1.0 EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) accepts the application (Application) of Manitoba Public Insurance Corporation (MPI or the Corporation) for rates and premiums for its Basic Compulsory Vehicle Insurance Plan (Basic), effective March 1, 2010, which will result in no overall change in total premium revenue.

Average base premiums for each major vehicle class in 2010/11 will change as follows:

- a) private passenger vehicles - an average 0.2% decrease;
- b) commercial vehicles – an average 0.6% decrease;
- c) public service vehicles – an average 2.5% increase;
- d) motorcycles – an average 5.7% increase;
- e) trailers – an average 3.8% increase; and
- f) off-road vehicles – an average 16.7% decrease.

Of the 945,029 vehicles (including trailers and off-road vehicles) affected by the changes, 51% are expected to receive a premium reduction, most of which will be less than \$50. For 4.3% of vehicles there will no change in rates, and for 45% of vehicles there will be rate increases, the vast majority of which will be less than \$50.

MPI's late fee policies are to be amended, and owners of private passenger vehicles, motorcycles, trailers and off-road vehicles will only be charged one late fee (\$20) for missing a due payment (rather than \$20 per vehicle).

In seeking the Board's approval for vehicle premiums, MPI primarily relied on its financial forecasts, including the balance and projected balance of its Rate Stabilization Reserve (RSR). In the Application, MPI sought the Board's approval of a target point for the RSR of \$185 million, derived by MPI from its most recent Dynamic Capital Adequacy Test (DCAT) review. In seeking to rely on the DCAT review, MPI rejected the approach that it had favoured previously, namely the Minimum Capital Test (MCT), a test prescribed by the federal Office of the Superintendent of Financial Institutions (OSFI) for private insurers.

After considering MPI's currently-proposed approach to determining a target for the RSR, the Corporation's previously-recommended MCT-based approach, and the Board's previously-established (Order 157/08) RSR target range of \$76 million to \$115 million [a range initially based on a Risk Analysis (RA) that incorporated the result of an accompanying Value at Risk (VaR) analysis], the Board concludes that, in the absence of a consensus on how the RSR target is to be derived, it is in the public interest to clearly establish an approach for use not only in considering 2010/11 premiums, but, as well, for the rates of future years.

The RSR target will remain as a range representing 10% to 20% of forecast net written premiums (driver and vehicle) for each upcoming insurance and fiscal year. For the 2010/11 year, the target RSR range is \$77 million to \$154 million. When the Corporation's RSR balance falls or is expected to fall below the minimum of the range, the Board will consider directing that a premium surcharge be assessed. When the Corporation's RSR balance exceeds or is expected to exceed the maximum of the range, the Board will consider directing that a premium rebate be paid. That said, the Board intends to continue to take into account many factors (as outlined later in this order) before implementing either a premium surcharge or a rebate, and will not be bound by the RSR balance or reliance on a surcharge or rebate as the only possible courses of action.

With the Board's current expectation that MPI's RSR balance (as of the end of the Corporation's 2010/11 fiscal year) will fall within the revised RSR range, the Board, in the absence of any other factor suggesting a change to MPI's premium proposal, or a premium surcharge or rebate, accordingly approves MPI's proposal for Basic Automobile Insurance Plan (Basic) rates and fees for 2010/11.

That said, the Board remains concerned with its limited jurisdiction, which is currently confined to Basic premium rates, and does not include MPI's Extension, Special Risk Extension (SRE) and Driver and Vehicle Licensing (DVL) operations.

MPI is one integrated corporation, with one staff complement and one policy-setting Board of Directors. The Corporation has several divisions and lines of business, but its assets, liabilities and risks are commingled. Given its limited jurisdiction, the Board is unable to adequately test

MPI's overall expenditures and forecasts; instead, the Board is forced to rely on MPI's reports, forecasts and allocations of costs among its various business divisions.

In a sense, this circumstance is analogous to having dinner with a group of friends who have agreed to divide dinner costs based on their choices, only to have one person receive the bill and, without disclosing the contents to all, tells each what they owe. In short, the Board has, once again, been unable to assure itself that all costs incurred represent efficient and effective spending. Further, with respect to MPI's overall financial position, the Board cannot adequately test either results or forecasts, steps that the Board considers necessary to adequately assist it in reaching a conclusion on the appropriateness of Basic rates, premiums and fees.

In addition, the Board continues to have concerns with respect to:

- a) MPI's current forecast for Basic operations for 2009/10, which has deteriorated from previous forecasts (a deficit is now expected);
- b) the uncertain state of investment markets, particularly mid to long-term interest rates, and MPI's present asset mix;
- c) the upcoming transition to International Financial Reporting Standards (IFRS), and the potential implications of that transition for MPI (yet to be fully understood);
- d) the magnitude of MPI's operating cost increases, deferred costs and capital expenditures; and
- e) MPI's growing history of claims incurred forecasts that have materially differed from the eventual actual result.

With respect to future years' proceedings, the Board remains hopeful that, eventually, Government will expand the Board's jurisdiction sufficiently to allow the Board to have more confidence in and knowledge of MPI's overall situation and prospects, and to allow for a proper testing of the Corporation's overall expenditures, out of which allocations are made to Basic and the other lines of business.

In addition, the Board continues to be concerned with the ongoing level of vehicle-related fatalities, injuries and collisions occurring in Manitoba each year. Notwithstanding numerous societal actions taken toward the goal of reducing motor vehicle accident frequency and severity

– including higher penalties for unsafe driving behaviour, photo radar and red light cameras in Winnipeg, graduated licensing, enhanced driver education and training, improvements to roads, safety enhancements to new vehicles, the anti-theft initiative, and, most recently, the advertisement of the approaching changes to the *bonus malus* system providing incentives to drive safely – and acknowledging that recent years have produced a reduction in collisions per 10,000 vehicles, reported claims continue to be too high. It has been said that an ounce of prevention is worth a pound of cure; in the case of some accident victims, the cost to them of an accident is much more than can be accepted.

Considering Manitoba's relatively low and "aging" population (the percentage of Manitobans 65 years of age or older has increased by approximately 20% since 1981), and given that the highest accident rates proportionate to population rests with younger drivers, the number of annual accidents, fatalities and injuries remains too high, despite tens of millions of dollars having been spent by MPI over the years on driver education and other loss prevention measures, and legislation changes by both the provincial and federal government.

Part of the problem may be a result of a reduced level of traffic law enforcement compared to ten years ago, although, for the first time in some years, MPI has reported that both the Winnipeg Police Service (WPS) and the RCMP have increased the rate of ticketing of unsafe driving practices. From the Board's perspective, while red light cameras and photo radar (operating only within the City of Winnipeg) may be an incentive for many motorists to slow down, particularly when they approach known (and advertised) red light camera intersections, too many motorists continue to speed, racing through yellow and red lights.

As to the overall fairness of the vehicle and driver premium schedules, the Board remains concerned with MPI allowing claim buy-backs and "gaming the system" (which involves multi-driver households, where vehicles are transferred between drivers to avoid the loss of vehicle premium discounts associated with demerits. MPI is to report to the Board with respect to these issues at the 2011 GRA.

All this said, the Board notes both the evident success to date of MPI's anti-theft initiatives, as well as the divergence of experience between insurance rates in Manitoba (with a "no-fault" mandatory public monopoly insurer that has experienced no change in overall average

premiums this year) and that of other provinces (with private insurers, where significant rate increases are being experienced).

Within this Order, as has been the Board's longstanding practice, the Board makes a number of recommendations, each proffered in the public interest. The most significant recommendation is that the Government of Manitoba (Government or the Province) act to either extend the Board's mandate (with respect to MPI's non-Basic operations), to include MPI's overall operations, or at minimum, direct MPI to provide the Board with such additional information on non-Basic operations as the Board requires from time to time.

The Board also repeats herein several past recommendations, all of which MPI has yet to comply with.

2.0 BACKGROUND INFORMATION and EVIDENCE HIGHLIGHTS

2.1 Rate Hearing Process

In its Application, MPI requested Board approval of proposed 2010/11 premiums for compulsory vehicle insurance. Driver insurance premiums and vehicle premium discounts for the same year were approved by the Board in Order 98/09, issued in June 2009 following a public hearing of the new Driver Safety Rating program (DSR), the replacement for the previous *bonus malus* "good driver discount" program.

The evidentiary component of the public hearing of the Application took place over nine days in October and November 2009, followed by closing statements by Board counsel, interveners and MPI. The hearing was conducted pursuant to *The Crown Corporations Public Review and Accountability Act*, *The Public Utilities Board Act*, and *The Manitoba Public Insurance Corporation Act*.

The Intervenors were:

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

- b) Coalition of Manitoba Motorcycle Groups (CMMG);
- c) Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors (CAC/MSOS); and
- d) Manitoba Bar Association (MBA).

Manitoba Used Car Dealers Association (MUCDA) was accepted as an intervener, but did not participate actively, having advised at the outset of the hearing of its intention to monitor proceedings and participate only as it deemed necessary.

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

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

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

2.2 Lines of Business and Corporate Goals

The operations of MPI are divided into three segments:

- a) Basic (i.e. compulsory vehicle and driver insurance), operated as a regulated monopoly;
- b) Competitive lines (Extension, SRE), which are not regulated; and

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

MPI's broad corporate goals are to:

1. provide universally-available, mandatory protection against the cost of automobile accidents;
2. charge average rates lower than those charged by private insurers for comparable coverage and service;
3. return at least 85% of Basic premium revenue to Manitobans in claims benefits;
4. be a leader in automobile insurance and vehicle and driver licensing;
5. provide Manitobans with superior automobile insurance coverage and service;
6. utilize technology to provide products and services that will enhance the value delivered to Manitobans;
7. provide responsive, fair, courteous and convenient service that meets customer service standards based on customer expectations;
8. support Manitoba infrastructure through investments in municipal, hospital, education and provincial bonds;
9. maintain retained earnings and an RSR within established target levels;
10. offer an environment and career opportunities that encourage employees to strive for excellence;
11. treat employees with respect and fairness and recognize their contributions; and
12. lead driver and vehicle safety initiatives that reduce risk and protect Manitobans, their streets and neighbourhoods.

2.3 Program Amendments

Since the inception of MPI in 1971, there have been several amendments to the nature of its business. Firstly, there was the addition of the Extension and SRE lines of business as well as entry into the general property and liability insurance and reinsurance-assumed market.

However, following a major loss by MPI in its 1985/86 operations, it was directed by Government to sell its general property and liability insurance operations and to discontinue acceptance of reinsurance risks. At or about the same time, Basic deductibles were increased significantly, and MPI implemented the *bonus malus* program, pursuant to which vehicle premium discounts and surcharges were assessed, based on individual driving records.

The major increase to Basic deductibles in 1987 was a significant factor in the initial expansion and growth of the Extension line of business and the annual level of gross written premiums earned in Extension. In addition, the freezing of Basic third party liability coverage and maximum insured values led to increased popularity of the unregulated Extension policies.

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

Beginning in 1988, MPI became subject to the oversight of the Board with respect to Basic premiums and fees.

Thereafter, there have been benefit design changes within Basic, brought about by legislative change. The most significant change was the 1994 adoption by legislation of “total no-fault” benefits, through the Personal Injury Protection Plan (PIPP), an approach first recommended by The Honourable Judge Robert Kopstein (*Autopac Review Commission*, 1988). Pursuant to PIPP, which is a major component of Basic, income replacement, death, permanent impairment and rehabilitation benefits are provided to Manitobans injured in motor vehicle accidents, regardless of fault.

In 1998, PIPP benefits were amended to provide for a Retirement Income Benefit (RIB). RIB was referenced initially in MPI's 1999/00 GRA, filed in June 1998, the same month in which the Government approved amendments to *The Manitoba Public Insurance Corporation Act*, and in particular section 103 thereof, to provide for RIB.

Similar to the recent enhancement of benefits for those suffering catastrophic injuries in a motor vehicle accident (Bill 36), RIB had a retroactive aspect, though from a financial perspective, the

retroactive impact of RIB was apparently very much smaller than the impact of Bill 36, passed and proclaimed this year. While RIB payments began only after the law was enacted and MPI implemented it, claimants involved in accidents back to 1994 and eligible for income replacement benefits were, as a result of the amendment, eligible for RIB.

Interestingly, the Board's order relating to the 1999 GRA, Order 154/98 contains no reference to RIB at all, though a surcharge was ordered in that Order for RSR rebuilding. Similarly, there was no reference to RIB in subsequent Board Orders 177/99 (wherein the RSR surcharge was eliminated), 151/00 (wherein a \$75.4 million rebate was ordered), 179/01 (wherein a rate reduction was sought) or 203/02 (wherein no rate change was directed). In fact, the Board's first reference to RIB came in Order 173/03, the year in which the RIB regulation was amended, and whereby a rate increase of 2.5% was ordered. In Order 173/03 the Board commented that an increase in MPI's then-reported income replacement costs was primarily the result of the introduction of RIB. There were wide fluctuations in rate orders from 1998 through 2003 (from a surcharge in 1998 to a large rebate in 2000, then to a rate increase in 2003).

This series of events highlights the importance of and need for transparency in the Board hearing process, i.e. for the Board's jurisdiction to be sufficiently wide to allow for a full testing of MPI's overall costs and plans, including post-event reviews to assess actual results as compared to the initial estimates.

More recently, in 2004 Government directed the amalgamation of DVL operations within MPI, following which MPI chose to situate these functions within Extension, which is unregulated. Since the first rate application hearing following the transfer of DVL to MPI, the Board has recommended that DVL operations be moved to Basic and be placed under the purview of the Board. MPI has not done so and, as such, DVL has remained in Extension, shielded from the oversight of the Board.

In 2005, pursuant to Board Order 97/05, the no-fault concept was extended to the attribution of PIPP costs to vehicles involved in accidents, and later, the Board's no-fault attribution approach to PIPP costs was extended to collision claims, though only with respect to motorcycles.

Over the years, MPI has become more active in attempting to reduce the frequency and severity of injury claims. Through driver education and training, the introduction of graduated licensing, support provided to the Winnipeg Police Service and Manitoba Justice, and the immobilizer program (among other efforts), MPI has sought to reduce claims, including injuries and fatalities. The Board hopes that the implementation of the new Driver Safety Rating Program (DSR), which is to begin its introduction in 2010/11, will have a positive effect (i.e. a reduction) on the level of accidents, fatalities and injuries.

In early 2009, the DSR Program was embodied in a Government Regulation ahead of a long-planned Board hearing to consider DSR, and, in the spring of 2009, the Board conducted a special hearing with respect to DSR, as a result of which the *bonus/malus* system will be replaced, effective March 1, 2010, pursuant to Board Orders 89/09 and 98/09 (which were issued following the special DSR hearing and which reflect amended driver licence and vehicle premium discounts for 2010/11).

The DSR scale includes 15 merit levels and 20 demerit levels, each level carrying a driver premium (between \$15 and \$1,044) and a vehicle premium discount (between 0% and 25%). The DSR system is expected to offer greater discounts to "good" drivers and greater penalties to "poor" drivers, though the incentives for good driving, at least initially, will outweigh the punishments for bad driving. (DSR premium levels for MPI's 2011/12 year are to be considered by the Board at the 2011 GRA hearing.)

In October 2009, the Government enacted (in Bill 36) enhanced PIPP benefits for the victims of catastrophic injuries. These benefits, some of which are to be implemented with retroactive effect, include increased minimum income replacement indemnities, increased permanent impairment awards (retroactive), increased personal care benefits, enhanced death benefits, and provided for new, additional benefits (to a maximum of \$1 million per person in their lifetime, where other categories of PIPP benefits have been exhausted), and enhanced the ability of MPI to coordinate efforts for benefits to non-MPI entitlements. While the Board fully endorses the merits of enhanced benefits for Manitobans catastrophically injured in motor vehicle accidents, it recommends annual reviews of Basic benefits, so as to avoid the necessity for retroactive changes.

2.4 2010/11 Rate Application

Pursuant to the Application, MPI sought rates and premiums for compulsory vehicle insurance effective March 1, 2010, which would result in no overall change in premium revenue with respect to vehicles registered in 2009/10. (Despite the proposal calling for no overall change in average premiums for the various major vehicle classes, average premiums, and, accordingly, MPI's overall vehicle premium revenue, are expected to continue to increase as a result of the "retirement" of older vehicles, which are assessed lower premiums than newer vehicles, and the purchase and registration of new vehicles, with the overall total of insured vehicles also expected to continue to increase.)

MPI applied experience-based rate adjustments ranging from -15% to +15% for individual classes, with the exception of mopeds and motor scooters, trailers, and off-road vehicles. For all vehicles other than motorcycles, trailers, and off-road vehicles, MPI applied classification offset adjustments ranging from -16.7% to +5.7%, to achieve revenue neutrality from rate group adjustments.

All adjustments are subject to an overriding cap of 20%, pursuant to direction set out in Board Order 148/04, with the exception of mopeds, motor scooters, trailers, off-road vehicles, antique vehicles, and drive-always, regarding which capping for rate changes has been established at 25% pursuant to Board Order 156/06.

In addition, MPI proposed that a gradual, multi-year transition be implemented to incorporate the Insurance Bureau of Canada's (IBC) new accident benefit Canadian Loss Experience Automobile Rating (CLEAR) categories. The effect of this transition upon MPI will be muted given the Board's previous loss transfer decision (Order 97/05).

MPI applied for no changes to insurance uses, and no changes to Basic driver licence premiums and vehicle premium discounts, which were approved by the Board in Order 98/09.

MPI also proposed no changes to the fees charged for services and transactions, though it proposed that late payment fees be customer-based rather than policy-based, such that late payment fees would be charged once per customer per instalment due date. MPI did not

propose any changes in fees for permits or certificates.

2.5 Forecasted/Projected Operating Results

MPI based its premium proposal for 2010/11 upon forecasts for revenue, claims and operating expenses. MPI's operating results forecast for the fiscal year ending February 28, 2010, based on existing rates, and a projection for fiscal 2011 based on proposed rates were as follows:

Statement of Operations (\$ millions) For Years Ending February 28	Fiscal 2010 at Existing Rates	Fiscal 2011 at Requested Rates
Net premiums earned		
Motor vehicle premiums	704.1	726.9
Drivers' premiums	36.5	36.2
Reinsurance ceded	(11.3)	(12.4)
	729.3	750.7
Service fees and other revenues	15.1	14.0
Total earned revenue	744.3	764.8
Net claims incurred	628.5	627.3
Claims expense	83.2	93.4
Road safety/loss prevention	23.1	13.2
Total claims costs	734.7	734.0
Expenses		
Operating	45.6	48.5
Commissions	42.1	41.1
Premium taxes	22.2	22.9
Other regulatory/appeal	3.1	3.2
Total claims and expenses	847.7	849.7
Underwriting loss	(103.4)	(84.9)
Investment income	89.9	88.4
Net income (Loss) from Operations	(13.5)	3.5
Transfer from Immobilizer Incentive Fund	2.0	-
Net Income (Loss) for rate setting purposes	(11.4)	3.5

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 revenues are expected to continue to increase. The Application assumes a 2.5% vehicle upgrade factor, which reflects the renewal of the vehicle fleet through

the disposal of older vehicles and the purchase of newer ones. As well, the Application assumes a 2.0% volume factor representing the expected growth in the number of vehicles insured.

Over the last ten years, the annual registrations of private passenger vehicles, public service vehicles and motorcycles have consistently increased – with the number of motorcycles increasing much more quickly than the number of registrations in the other major classes. Private passenger vehicles have been increasing at an annual rate of approximately 1.3%, public service vehicles at an approximate annual rate of 2.8%, and motorcycles (which include scooters and mopeds) by an annual rate of approximately 6%. The annual number of commercial vehicle registrations has remained basically unchanged over the ten years, which is surprising given ongoing real economic growth.

Total earned premium revenues for the year of the Application, pursuant to the most recent forecast filed, are projected to be \$764.8 million, plus \$88.4 million in investment income.

2.7 Program Costs

Total claims costs (which include net claims incurred, claims expenses, and road safety loss prevention expenses) are expected to be \$734.0 million for 2010/11 which includes an anticipated increase in claims incurred of approximately \$7.0 million due to the PIPP benefit enhancements enacted recently by Government for the victims of catastrophic injuries. Total expenses are projected to be \$115.6 million for 2010/11.

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

Overall, net claims incurred for 2008/09 were \$519.5 million (evidence at the hearing disclosed that MPI's annual claims related to collisions involving wildlife were \$28.9 million), with forecasts

for \$628.5 million for 2009/10 (\$595.7 million at the time of GRA filing) and \$627.3 million for 2010/11, as follows:

Cover (Millions)	2008/09 (Actual)	2009/10 (Forecast)	2010/11 (Projection)
No- Fault Accident Benefits			
Pre- PIPP	\$ 0.3	\$ 1.0	\$ 1.4
PIPP	186.1	236.2	252.8
	\$186.4	\$237.2	\$254.2
Collision	\$247.7	\$261.5	\$274.2
Comprehensive	\$48.1	\$55.4	\$56.0
Property Damage	\$33.7	\$36.5	\$37.5
Public Liability	\$3.6	\$5.1	\$5.2
Total Claims Incurred	\$519.5	\$595.7*	\$627.3

The overall result is that MPI expects that Basic will record a net income of \$3.5 million in 2010/11.

2.8 PIPP Claims Run-off

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

During 2008/09, Basic benefited from about \$134.5 million of favourable net runoff on claims liabilities for all years under PIPP posted at the prior year-end, with only one PIPP year, being 1998/99, experiencing adverse run-off. This run-off represents a continuation of a pattern of favourable run-off that has recurred for several years. In particular, during the five-year fiscal period from 2004/05 through 2008/09, Basic benefited from about \$333.3 million of cumulative favourable net runoff on the claims liabilities for all years under PIPP, with each fiscal year within this period experiencing favourable net runoff overall.

The Corporation indicated that the favourable runoff in 2008/09 was a reflection of the evaluation of claims liabilities as at the year ending February 2009, an evaluation that responded more fully to the emerging experience, with a reported total reduction in these claims liabilities of about \$149.7 million. Since the future forecasts are projections based largely on previous accident year ultimate projections, the future claims incurred for PIPP claims have been reduced from previous forecasts by approximately \$15 million per year.

2.9 Claims Incurred Forecasting

In 2008/09, accident benefits claims incurred amounted to \$186.4 million. In 2009/10, these claims are projected to cost \$237.2 million, and in the year of the Application, 2010/11, the current projection is that such claims will cost \$254.2 million.

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

PIPP Accident Benefits (\$ millions)

Fiscal Year End	Initial Projection	Revised Forecast	Actual
1995	132.8	119.4	112.6
1996	140.2	126.6	105.3
1997	135.9	95.1	90.1
1998	118.8	115.5	132.7
1999	119.3	132.1	124.3
2000	139.0	136.3	144.0
2001	139.6	138.2	154.3
2002	139.8	162.2	182.4
2003	167.8	187.2	198.7
2004	190.1	210.4 ¹	229.3
	190.1	230.7 ²	229.3
2005	206.7	212.2	154.8
2006	215.1	211.2	194.5
2007	221.2	226.2	184.6
2008	237.3	231.3	167.2
2009	242.1	239.3	186.1
2010	249.8	236.2	-
2011	252.9	-	-

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

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

For collision coverage, claims incurred were \$247.7 million in 2008/09, for the current year the forecast is \$261.5 million, and for the year of the Application the projection is \$274.2 million.

For comprehensive coverage, claims incurred were \$48.1 million for 2008/09, for the current year the forecast is \$55.4 million, and for the year of the Application the projection is \$56 million.

For property damage coverage, claims incurred were \$33.7 million in 2008/09, for the current year the forecast is \$36.5 million, and for the year of the Application the projection is \$37.5 million. And, for public liability coverage, claims incurred were \$3.6 million in 2008/09, for the current year the forecast is \$5.1 million, and for the year of the Application the projection is \$5.2 million.

2.10 Other Costs

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

	Forecast Expenses	Projected Expenses
	2009/10	2010/11
	(\$ millions)	(\$ millions)
Claims Expenses (Note 1)	83.2	93.4
Road Safety/Loss Prevention (Note 2)	23.0	13.2
Operating Expenses (Note 3)	45.6	48.5
Commissions (Note 4)	42.1	41.1
Premium Taxes	22.2	22.9
Regulatory/Appeal Expenses (Note 5)	3.1	3.2
Total (Note 6)	\$219.2	\$222.3

Notes:

- Overall claims handling costs are allocated between Basic and Extension based on net claims incurred before financial provisions.
- Excluding the major program immobilizers and 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 in 2009/10, was forecast to be substantially complete in 2009/10, which is reflected in the lower expense forecast for 2010/11.
- These expenses are primarily employee compensation, technology related, telecommunications, occupancy costs and amortization of capital assets. Expenses are allocated between Basic and Extension based on direct premiums written.
- Brokers' commissions will decline due to the implementation of a renegotiated fee arrangement with brokers which will result in a phased-in reduction in commissions on Basic transactions from 5% to 2.5% by November 1, 2012.
- Represents the aggregate of costs associated with the Board process, Automobile Injury Compensation Commission, Crown Corporation Council, Advocate's Office and the Rates Appeal Board.
- Non-claim expenditures for 2008/09 were \$207.6 million. Current outlook for 2013/14 is \$220.5 million. These costs are allocated to Basic by way of formulae established by MPI, formulae now expected to change for future years.

An increase in claims handling expenses of 7.2% over 2008/09 is projected for 2009/10, with a further projected increase for 2010/11 of 12.3%. These major increases relate to the costs of ongoing PIPP infrastructure initiatives.

Operating expenses attributable to the Basic program are projected to increase to \$45.6 million in 2009/10 from \$41.3 million in 2008/09, and projected to further increase to \$48.5 million in 2010/11. This increase is reportedly partly attributable to higher amortization costs from improvement initiatives.

Compensation is the single largest operating expense item, and any variance in compensation can have a significant effect on total operating expenses. Compensation increased from an actual \$21.6 million in 2006/07 to a projected \$25.9 million for 2010/11. Compensation increases include economic increases, merit increases, vacancies, severances, bonuses, overtime, and staff growth. Overall staff salaries increased by 1.5% in 2008/09 and were projected to increase by 9.8% in 2009/10 and by a further 1.0% in 2010/11.

Staffing levels have increased for Basic from 1,365 full-time equivalents, as of March 1st, 2003, to about 1,776 full-time equivalents as at March 1st, 2008. A further increase attributable to Business Process Review (BPR) initiatives, to about 1,990 full-time equivalents was reported as of March 2009, including 228 full-time equivalents assigned to BPR.

MPI's overall staff level is forecast to grow further, to 2,136 full-time equivalents as of March 2010. This increase reportedly relates to technical, professional and clerical positions related to BPR initiatives. Thereafter, MPI projects that staffing levels will decline to 1,789 full-time equivalents, upon the completion of the BPR projects.

2.11 Broker Commissions

MPI attributes two major benefits resulting from the merger with DVL:

- a) policyholder service improvements resulting from the Streamlined Renewal Process (SRP); and
- b) reduced commissions payable to brokers for Basic – the commission rate is

slated to decline from 5% to 2.5% for Basic transactions by November, 2012.

Basic commission expenses are forecasted to decline by \$21.9 million annually when the change is fully implemented. However, the Corporation has also negotiated higher commissions payable for Extension and one-time transactions. (MPI has equated the additional Extension commissions to be representative of approximately a 1% Basic commission rate, suggesting an overall net improvement in costs, when the transition is complete, representative of a reduction of broker commissions from 5% to 3.5%).

As to “why” brokers would accept such an ongoing reduction in their expected annual revenue from MPI, the new process is expected to reduce the obligatory visit to a broker by ratepayers from once per year to once every five years, and one-time payments (neither disclosed nor discussed during the hearing) are expected to be made by MPI as part of the BPR initiative.

2.12 Road Safety Initiatives

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

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

The largest projected road safety expenditure in 2009/10 (\$11.5 million of \$20.4 million) relates to the anti-theft strategies. MPI is projecting to spend \$13.2 million in road safety expenditures in 2010/11, a reduction of \$7.2 million from 2009/10. The decrease is attributable to the winding down of the installation of vehicle immobilizers program. Although MPI planned to similarly complete the Winnipeg Auto Theft Suppression Strategy (WATSS), at the hearing of the Application MPI confirmed that WATSS funding of almost \$900,000.00 per year is to continue through 2011/12 (a change not reflected in the forecasts filed).

Pursuant to the immobilizer installation program, the Corporation has “immobilized” 158,361 vehicles, and that number is forecast to grow to over 185,000 vehicles by the end of 2009/10. Between 2005/06 and 2014/15, MPI forecasts that over 196,000 vehicles will have been “immobilized” under the program. The current forecast assumes that the total immobilizer

installation costs over the period from 2005/06 to 2013/14 will be \$65 million. The program is forecast to be self-supporting, and to result in positive overall net income for the Corporation.

The number of total theft claims in Manitoba decreased in 2008/09 by 37.3% from 2007/08, following a 30.2% reduction from the prior year. Attempted thefts decreased by a total of 56.0% between 2006/07 and 2008/09. Together, total and attempted theft claims dropped by 61.8% during this two-year period. In 2008/09, total and attempted theft claims costs were about \$21.8 million in physical damage costs, a 15.8% decrease from the \$25.9 million in 2007/08.

For 2009/10, the Corporation forecasts a reduction in claims incurred from the auto theft initiative of \$27.9 million (to Basic) and \$5.5 million (to Extension). The total impact on the operating results for the current year is forecast to be a positive \$15.9 million.

For the year of the Application, the Corporation forecasts a reduction in claims incurred as a result of the initiatives related to auto theft of \$30.8 million for Basic and \$5 million for Extension.

The current forecast also provides that the overall anti-theft campaign will result in a reduction in Basic claims incurred over the period from 2005/06 to 2014/15 aggregating \$256 million. The Board applauds MPI for the great success that it has enjoyed as a result of the immobilizer installation program and WATSS.

2.13 Capital Expenditures

Corporate capital expenditures for 2009/10 are projected at approximately \$149.5 million, representing a significant upward revision to the budget presented last year (\$66.2 million). The majority of the increase relates to the acquisition of the Cityplace building and parking lots (\$66.7 million), an increase for MPI's new service centres (\$9.5 million) and increased spending on the BPR.

For the year of the application, capital expenditures are forecasted to be \$25.4 million, an increase of \$1.2 million from the \$24.2 million projected at last year's GRA.

2.14 Cityplace

The purchase price for the Cityplace acquisition was \$81.5 million, allocated between the parking lots at \$14.8 million and the building at \$66.7 million. The purchase was reported as a real estate asset within MPI's investment portfolio. The allocation of the purchase price for the building includes approximately \$16.7 million attributable to space leased by MPI to other firms within Cityplace (the allocations were reportedly based on upcoming IFRS accounting standards).

MPI obtained two external appraisals of Cityplace, both of which supported the purchase price paid. MPI acquired the building to provide operational advantages, and rather than entering into a new lease for the offices from 2013 to 2023, an approach MPI expected would have involved substantially higher rent over the previous leasing arrangements.

MPI indicates that the Cityplace acquisition will result in an annual savings of \$3 million, which represents rent savings net of foregone investment income. The net present value of the base rent from 2010 through the extended lease period ending in 2023 was \$35.9 million. In addition to foregone investment income, the opportunity cost of acquiring the building was estimated to be \$28.2 million.

Therefore, the cost of purchasing the portion of the building attributable to space previously leased by MPI, that being \$40 million, contrasts with the \$35.9 million dollar cost that was projected if the lease had been extended through 2023. In addition, at the end of that lease period, MPI will continue to own the building, which is expected to have a continuing value.

2.15 BPR

As the evidence reflects, MPI is continuing with the BPR, including projects funded by Basic, namely DSR, SRP, PIPP infrastructure and the development of an Enterprise Data Warehouse.

The Corporation plans to spend \$77.2 million on Basic BPR projects through to the end of 2011/12, of which \$55.8 million is currently expected to be capitalized as a deferred development cost, to then be amortized over a five-year period, that to result in amortization

expenses in the year of the Application of \$6.6 million. The Corporation currently has 102 external consultants and 229 full-time equivalent employees assigned to various BPR projects (Basic and non-Basic).

The PIPP infrastructure project is reportedly in its final stages, with an anticipated implementation date of May 2010. MPI has estimated the cost of this BPR project to be \$27.1 million and anticipates full-time equivalent savings of \$8.56 million related to anticipated productivity improvements that are available within any paper-based claims management environment, as well as savings from automation of the invoice processing system. MPI also anticipates that the new technology and other productivity enhancements will lead to quicker implementation of adjudicative decisions, such that ineligible benefit payments will cease earlier than otherwise. MPI also expects just over \$33 million in claims incurred cost savings due to leakage avoidance for a total benefit of \$41.9 million to result from this Basic BPR project through to the end of the Corporation's forecast period.

There are other BPR projects, including the Enhanced Drivers' License (EDL) program and the Enhanced Identity Card (EIC) program, being funded by the Extension Development Fund (EDF), created by transfers from Extension retained earnings. To date, there has been over \$90 million allocated from Extension to these projects. Despite requests, MPI has declined to provide to the Board the overall costs of the BPR broken down by project.

The Board notes that the cost to MPI of the EIC program to date is \$14 million and that approximately 8,000 cards have been issued. MPI indicated to the Board at the hearing of the Application that the Government "*... is on the record as reimbursing the Corporation for the start up costs of the enhanced card program...a little over \$13 million that was the forecast, and we haven't fully resolved the actuals on that*". The Board fully supports this approach. It is the Board's view that there would be no basis on which the Corporation as a whole, or Basic, should bear any costs related to the EIC program. The Board will pursue this issue further at the next GRA.

Further, the Board requires that MPI provide an update to it (on or before June 30, 2010) on the status of continuing BPR projects, including the PIPP Infrastructure project, and that update is to include a full accounting of costs incurred on behalf of and/or to be recovered from the Province

with respect to BPR initiatives that are not “insurance” related.

2.16 Investment Income

Investment income is a major component of Basic's income, and with annual underwriting losses now the norm, investment income is required and expected to provide for "break-even" year-end results. As set out above, MPI's investment portfolio is not segregated by line of business, but rather, all invested funds are commingled, including MPI's pension obligations to its employees. Investment income is allocated between Basic, the competitive lines and the pension plan on the basis of a long-established formula, which deducts the “required” return for pension assets based on accrued pension liabilities and then allocates the remaining investment income amongst the lines of business that have Unpaid Claims, deferred premium revenue and reserves..

MPI has advised, and legislation prescribes, that the Minister of Finance has ultimate authority over MPI's investments, although MPI's Board of Directors has an investment sub-committee, which has, with the support of MPI's board, adopted an investment policy. In addition, MPI participates in an Investment Committee Working Group (ICWG) together with representatives of the Department of Finance, and it has an in-house investment department that reviews investment performance and provides advice to MPI's investment sub-committee, management and the ICWG.

MPI's investment policy includes a “guideline” governing the sales of securities for gains, based on the level of unrealized gains relative to the book value of its investments.

There is no question that fiscal 2008/09 was a difficult time for investors, and MPI realized only \$4.6 million in investment income from a portfolio valued at over \$2 billion, a miniscule rate of return, and some \$80 million below already modest expectations. In contrast to 2008/09, in 2007/08, which in retrospect, was a relatively “good” year for MPI, investment returns totalled over \$125 million (though also representative of a relatively modest rate of return).

In 2008/2009, MPI wrote down impaired investments to the extent of \$24.6 million, a write-down that contributed to Basic's reported loss for 2008/09, and, as at August 31st, 2009, it reported

unrealized gains on these “write-downs” of just under \$6 million (brought about by market price improvement over written-down values at the prior year-end). .

MPI forecasts investment income of \$88.4 million for 2010/11, again a modest expectation for a portfolio in excess of \$2 billion, and the forecasted underwriting loss for the same year is \$84.9 million, once again demonstrating the importance of investment income to Basic net income and rates.

2.17 Investment Portfolio

MPI has adopted weightings for its investment portfolio as reflected in a report prepared by AON Consulting and filed at the 2009 GRA, held in the fall of 2008.

MPI's investment portfolio for 2010/11 is projected to be just over \$2 billion, to be comprised of 75.5% in long-term bonds, 15.3% in North American equities, 3.1% in Europe and Far East equities (EAFE), 2.9% in cash and short-term investments, 2.5% in real estate, 0.4% in venture capital, and 0.4% in infrastructure investments (rounding results in the aggregate percentage being in excess of 100%).

With relatively modest net returns expected through to 2013/14, the Corporation's investment portfolio is expected to grow to \$2.8 billion by the end of fiscal 2013/14.

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

- a) expected continued growth in the PIPP component of Unpaid Claims; and
- b) expected annual net income, forecast to increase annually beginning in 2010/11, resulting in increased retained earnings (assuming neither premium reductions nor rebates are directed).

MPI re-designated bond purchases made after June 1st, 2008, reclassifying such bonds as “Held for Trading”, thus reducing the risk of market value yield fluctuations having an impact on MPI’s annual net income. Changes in unrealized gains and losses for the "Held for Trading" bonds are included in the annual income statement as investment income.

As unrealized gains and losses due to fluctuating market yields will be included in annual income, it will offset to some extent the impact of market yield changes to the Unpaid Claim Liabilities, providing some increased stability in overall annual net income results. A further step being considered by MPI is an election that can be made at the adoption of IFRS to re-designate bond holdings currently classified as "Available for Sale" as "Held for Trading".

2.18 2008/09 Financial Results

In 2008/09, Basic realized a net income of \$7.7 million, after a transfer of \$15.9 million from the Immobilizer Incentive Fund, or IIF. Basic's net income prior to this transfer was a loss of \$8.2 million.

The net income of \$7.7 million may be compared to the projected net loss of \$2.5 million at last year's GRA, which included a \$17 million transfer from the IIF, or a \$19.5 million net loss before the transfer. In other words, MPI reported an actual improvement of \$10.2 million in net income over last year's projection for 2008/09.

The change was attributed to an improvement in forecasted claims costs of \$88.2 million (comprised mainly of an \$83.9 million reduction from forecast for net claims incurred, which was brought about by a take-down of PIPP liabilities of \$149 million). Also, total expenses were \$2.8 million less than forecasted. These improvements were offset in large part by a decrease in projected investment income of \$83.2 million, which decrease was due to three factors:

- a) a realized loss on the equity portfolio of \$35.5 million;
- b) a foreign exchange loss on hedged foreign investments of \$20.2 million; and
- c) a write-down of impaired investments of \$24.6 million.

The take-down of PIPP liabilities of \$149 million was largely offset by the recording of projected liabilities to arise from enhanced Basic PIPP benefits for those previously injured catastrophically as a result of a motor vehicle accident.

2.19 2009/10 Financial Results

For 2009/10, Basic was forecast, in the 2009 GRA filing, to have net income of \$11.5 million, including a transfer of \$2 million from the IIF. Basic's forecasted net income prior to the transfer was \$9.5 million. This forecast is compared to a projected net loss of \$4.2 million, forecast at the 2009 GRA, which included a \$900,000 transfer from the IIF, and a \$5.1 million loss before the transfer.

MPI's most recent forecast for the current year reflects a forecasted net loss of \$11.5 million for rate-setting purposes, which includes a transfer of \$2.0 million from the IIF. The deterioration in the forecast is due to a combination of an increase in forecasted total earned revenues of \$1.4 million, an increase in forecasted total claims costs of \$31.9 million, a reduction in forecasted total expenses of \$1.8 million, and an increase in forecast investment income of \$5.8 million. The majority of the deterioration in the forecast for total claims costs was attributed to the result of a severe hailstorm that struck southern Manitoba in August, 2009, which MPI projected would cost the Corporation \$13.3 million net of reinsurance and, as well, MPI attributes the revised forecast to a decline in interest rates, affecting investment income.

The Corporation anticipates earning \$12 million from its Extension and SRE lines of business in fiscal 2009/10 as reflected in its 2nd Quarter 2009/10 report. MPI refused to provide the Board with any estimates of further future results for Extension and SRE.

2.20 2010/11 Financial Results

The Corporation is forecasting Basic net income of \$3.5 million with no transfer from a projected fully-depleted IIF. This forecast reflects Basic net income that is about \$5 million less than the \$8.5 million projected for 2010/11 at the filing of the Application.

2.21 Outlook Period

MPI's projections for 2011/12 through 2013/14 currently assume no overall premium rate changes, although the latest projections, consistent with general expectations over the years, do reflect annual 2.5% upgrade and 2.0% volume factor increases.

MPI projects Basic net income of \$15.6 million in 2011/12, \$37.6 million in 2012/13, and \$57.7 million in 2013/14. These projections reflect the introduction of the DSR System (which, if the transition proceeds as MPI has forecast, will have the effect of MPI earning less driver premiums), but do not reflect any anticipated changes in claims incurred as a result of the DSR (MPI has indicated a “hope” that DSR will provide a sufficient incentive to motivate better driving behaviour over time.).

These projections also reflect forecast savings expected to result from changes to processes arising out of the ongoing BPR Initiatives, but do not reflect any accounting changes that may arise from the adoption of IFRS (changes to accounting policies may well have an impact on the current forecasts and eventual results).

MPI suggested that its Applications for 2012/13 and 2013/14 may well involve revised forecasts involving projections of reduced levels of net income from the current forecasts and proposals for reduced overall premium levels.

2.22 RSR

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

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

	<i>Actual</i>			<i>Forecast Projection</i>			<i>Outlook</i>		
Years Ending February 28/29,	2006	2007	2008	2009	2010	2011	2012	2013	2014
BASIC RSR (\$,000)									
Retained Earnings, Opening	126.0	136.1	128.1	127.1	134.9	123.4	126.9	142.6	180.2
Total Net Income	85.7	47.8	69.0	(8.2)	(13.5)	3.5	15.6	37.6	57.7
RSR Allocation	2.9	13.9	15.2	15.9	2.0	-	-	-	-
Transfer from SRE	8.4	-	-	-	-	-	-	-	-
Transfer from Extension	11.0	-	-	-	-	-	-	-	-
Premium Rebate	(58.0)	(59.7)	(62.6)	0.1	-	-	-	-	-
Accounting Adjustment	-	-	(22.7)	-	-	-	-	-	-
Appropriation of RSR for IIF	(40.0)	(10.0)	-	-	-	-	-	-	-
Retained Earnings, Closing	136.1	128.1	127.1	134.9	123.4	126.9	142.6	180.2	237.9
Immobilizer Incentive Fund									
Opening Balance	-	37.1	33.1	17.9	2.0	-	-	-	-
RSR Allocation	40.0	10.0	-	-	-	-	-	-	-
Other	(2.9)	(13.9)	(15.2)	(15.9)	(2.0)	-	-	-	-
Closing Balance Iif	37.1	33.1	17.9	2.0	-	-	-	-	-
Total Basic Retained Earnings	173.1	161.3	145.0	136.9	123.4	126.9	142.6	180.2	237.9

MPI advised that if Basic results are realized as it now anticipates, it is likely MPI will apply for overall rate decreases for the later years of its forecast period, which, if approved by the Board, would reduce the projected net income and otherwise projected RSR balances.

2.23 RSR Target

In its Order 157/08, the Board stated that it is in the public interest for a consensus to be reached as to how to set and amend the RSR target range, because that range is a major determinant in both rate and rebate decision-making. Further, both MPI and the Board, assisted by interveners, have a role in protecting MPI's future financial condition.

The Board suggested that this process would be best served if MPI again brought forward the idea of expressing RSR target levels in terms of the MCT ratio, but separated the use of the test from the specification of target MCT ratios. In other words, the Board expressed the view that progress towards redefining the RSR target range would best be addressed in two distinct steps, rather than one.

The Corporation indicated that it had intended on revising the MCT to reach consensus with the Board, but given the volatility to the MCT ratio resulting from the severe market decline experienced, (which saw MPI's Basic net assets as a percentage of MCT-required net assets decline from over 70% to 7%), the Corporation sought reliance on DCAT rather than MCT.

The DCAT was introduced in the Application as MPI's preferred method for establishing the RSR target, on the basis that this approach is the most appropriate tool for risk measurement for the Basic plan (as compared to the RA, VaR and MCT approaches). MPI questioned the stability of utilizing the MCT or RA/VaR approaches, given the impact of the market decline on the calculated target ranges under those methods.

The DCAT as advanced by MPI is not in accordance with Canadian actuarial standards, as it doesn't include balance sheet modelling, an actuary's opinion or a MCT ratio. That acknowledged, the Corporation advised that the "missing" components of the DCAT would be provided in its filing for the 2011 GRA.

The existing Board-approved RSR target range for the year of the Application was \$75 to \$114 million. This range was based on the RA/VaR approach last completed in 2006, with the resultant range since indexed to reflect the percentage growth in gross written premiums.

The Corporation provided not only a DCAT- based approach, but also an update to the RA/VaR and MCT approaches for the year of the Application. Based on the results of the DCAT and its consideration of the other two approaches, the Corporation determined that its recommended RSR target point was \$185 million.

In support of the Corporation's selection of a RSR target of \$185 million, MPI reviewed the objective of setting a range rather than a single target for the RSR, and opined that a range suggested that rebate and surcharge decisions were "rule-bound", and argued that what was required was a "situational based" decision.

The RA/VaR range was reported to be \$102 to \$255 million, while the MCT range was reported to be \$114 to \$228 million.

Given the poor investment environment of the past year, as at February 28, 2009, the Corporation's MCT ratio fell from 70.6% to 7.26% (percent of required net assets). This precipitous decline was attributable to the negative balance of Accumulated Other Comprehensive Income (AOCI) as at that date - \$92.3 million related to unrealized losses on equity investments and an unrealized loss of \$9.3 million with respect to market value declines on Available for Sale debt securities.

The change in AOCI and actuarial adjustments to the Unpaid Claims Liability resulted in a significant increase in the RSR range as determined by the RA/VaR approach.

The Board heard testimony from Dr. Derek Hum and Dr. Wayne Simpson, who appeared as witnesses on behalf of CAC/MSOS. Drs. Hum and Simpson provided their interpretation of the differences in the objectives, scope, tools employed, and informational requirements of DCAT and RA/VAR. Both professors preferred the continued use of RA/VaR, rather than DCAT, for the determination of the RSR target range.

Dr. Simpson stated that the RA/VaR approach is more transparent than DCAT, and that RA/VaR results are more easily replicable and understood (in terms of both the nature of the calculations and the implied risk tolerance).

With respect to the DCAT suggested by MPI, Drs. Hum and Simpson provided extensive commentary on the probability of each of the adverse scenarios utilized. Dr. Hum indicated that five of the seven adverse scenarios presented by the Corporation involved deficient economic analyses.

Drs. Hum and Simpson opined that the setting aside of “excess” reserves (RSR balances higher than required), for events very unlikely to happen, is both publicly and socially wasteful. Despite his criticism of DCAT and the adverse scenarios modeled in MPI’s recent DCAT, Dr. Hum noted that he hoped MPI would continue to use DCAT, but that its use should be more refined. He suggested that DCAT is “as good a tool as any”, and that if employed for Basic, it should also be used with respect to Extension and for the entire Corporation.

Dr. Hum supported the concept of the use of adverse scenarios, as employed in DCAT, as a “stress tester”, not as the determiner of the RSR range. Dr. Simpson suggested that the Corporation should continue to use DCAT as a tool, suggesting that it should be utilized as a simulation exercise, that is DCAT should be employed to generate a distribution of outcomes towards assessing the overall financial wellness of the Corporation, and that a proper distribution would include, implicitly, both favourable and unfavourable outcomes.

2.24 Cost Allocation Methodology

In Order 150/07, the Board ordered MPI to undertake a cost allocation review and file the results at the next GRA. Although the required review did not take place in time for the 2009 rate hearing, a cost allocation report, including a proposed new cost allocation methodology, was prepared by Deloitte and filed with the Application. At the hearing of the Application the Board heard evidence from Mr. Richard Olfert, of Deloitte, with respect to the cost allocation report.

Deloitte outlined five guiding principles to which it had regard in developing the cost allocation methodology:

- a) the methodology should be fair and reasonable;
- b) the approach should be practical and efficient;
- c) the approach should be flexible and adaptable;
- d) the approach should be acceptable in a regulatory context; and
- e) the cost allocation methodology should be consistent with industry standards.

Deloitte identified two objectives flowing from the five guiding principles:

- i) the direct assignment of costs should be maximized; and
- ii) there should be allocators identified that are practical and fair, so that the basis of allocation would meet the criteria of the guiding principles.

Deloitte categorized the Corporation as being within the service industry, meaning that most costs are incurred annually (as opposed to a utility with massive capital asset bases), and that some costs are incurred relating directly to serve specific customers (such as claimants, for example).

Mr. Olfert noted that, for MPI, costs are incurred across lines of business that are generally provided to the same customers. He also spoke about the balance required between complexity and accuracy, and acknowledged that the cost allocation methodology should be able to remain in place for a reasonably long period of time.

The proposed methodology incorporates a number of attributes to mitigate the risk of potentially-increasing difficulty in making an allocation, including:

- a) a focus on maximizing the direct assignment of costs;
- b) a focus on minimizing the requirement for allocation of costs;
- c) the purification of accounting units to facilitate cost assignment;
- d) continued due diligence on the part of the Corporation in adopting views, to ensure assigned cost categories remain purified; and
- e) minimizing the use of “work effort measured allocators”, which can be considered more subjective when other options exist.

Mr. Olfert indicated that the methodology limited the use of work effort as a cost allocator where it was appropriate to do so, and that, as a result, the use of work effort as a cost allocator was suggested for only four of the approximately thirty cost centres addressed in the methodology.

Further, MPI has stated that as the new Integrated Service Centres come online, it will follow a framework template when undertaking the accounting unit purification process.

The main product of the Deloitte report is the cost allocation decision tree, which shows that between the Level A assignment and the Level B assignment, either to line of business or category of business, just under 90 percent of the Corporation's costs can be directly allocated into one of the three insurance lines of business (Basic, Extension and SRE), or the non-insurance line of business (DVL and other government-assigned work).

The Level C allocation is designed to deal exclusively with costs that must be split between the insurance and non-insurance categories of business. In Deloitte's report, just over \$100 million of MPI's annual expenses are allocated at Level C -- the dollar amount based on the 2009/10 budget numbers, of which \$87.9 million was allocated to the insurance operations and \$12.9 million to non-insurance operations.

The distribution of "how" costs are allocated through the report's proposed cost allocation methodology is reflected on MPI's Exhibit 17. For example, the weighted call centre contact ratio was chosen as the allocator at Level C, where an allocation between insurance and non-insurance lines occurs. Mr. Olfert indicated that this detail was one of the biggest challenges that Deloitte had, because these costs were not directly assignable and deal with support services to customers in both categories of business. Deloitte preferred this ratio over alternative approaches (such as direct category of business full-time equivalents, direct category of business salaries, and direct category of business by square feet of space).

Deloitte rejected the use of salaries as an allocator, as in its view, insurance operations are supported by information technology applications. Over \$60.3 million in costs were allocated based on the weighted call centre ratio, which supports the rationale for the selection of the allocation approach chosen, as well as the results of the allocation base on the alternative methods.

With respect to the allocation of \$52 million in corporate support service, the selected method allocates the highest percentage of costs to insurance operations (92.1%), while alternative methods allocated between 85.6% and 87.2% percent to insurance operations.

At Level D of the Deloitte decision tree, over \$159 million in costs are allocated between the insurance lines of business. Deloitte has recommended that these costs be allocated on the basis of net claims incurred versus premiums earned, due to the profit margin included in the competitive lines pricing. The choice of the allocator has a material impact on the costs allocated to Basic.

Deloitte also proposed a similar framework for addressing the allocation of BPR costs. Mr. Olfert stated that in assessing each BPR project, the same decision tree should be employed to consider projects one by one, so that based on the essence of what is being accomplished through the project it can be determined to be either exclusively insurance, exclusively non-insurance, or a project that must be allocated on some basis. That said, the Corporation reported that it has not yet undertaken this process to allocate the cost of the BPR initiatives.

As a result of the cost allocation methodology review, certain costs which were being allocated to DVL, and, in particular, costs related to the management of driver records -- which serve both a driver licence and insurance purpose -- are proposed to be shared with insurance operations.

In effect, the implementation of the proposed methodology, based on MPI's 2009/10 preliminary budget, would have resulted in \$3.9 million more in annual expenses being allocated to Basic.

The Board notes that the allocation of assets and liabilities to Basic was not included within the scope of the Deloitte report, despite a reminder to MPI ahead of the GRA that the Board sought such a review and MPI's agreement to provide same. The Board looks forward to receipt from MPI of such a proposed methodology for the Board's review and approval, in writing and by January 31, 2010.

The Board further directs MPI to ensure that the opening RSR balance for 2010/11 remains unaffected by the new allocation methodology.

2.25 IFRS

IFRS are to replace Canadian Generally Accepted Accounting Principles (GAAP) in 2011/12. MPI will be required to adopt IFRS for fiscal 2011/12 and provide comparative information for 2010/11 based on the standards that will be implemented effective March 1, 2011 for 2011/12.

MPI is currently in the process of a detailed examination of the impact of IFRS. In the coming year, MPI will be obliged to make several elections with respect to IFRS requirements, and these adoptions may affect the 2011/12 rate application to be brought forward at next year's GRA. MPI has stated that it is still in the assessment phase of IFRS implementation, and has further information to consider before it can provide additional details to the Board as to the financial implications of IFRS.

Given the complexity of IFRS, particularly relating to insurance corporations, the Board expressed interest in staying abreast of the potential impact of elections to be made by MPI, at least as far as there may be implications that exist for Basic ratepayers. MPI has indicated that although it has already decided to consult with its auditors, the Province's Comptroller and the Auditor General, it would consider taking a broader view on consultation of the impact of the adoption of IFRS on ratepayers (i.e. consider consulting with the Board, if not interveners).

In addition, the Board notes that MPI's contract with Government relative to DVL may constitute an "onerous contract" pursuant to IFRS. An onerous contract has been defined as a contract that has a party to the agreement incurring net costs that, absent the contract, it would not incur. The contract with DVL has led to MPI incurring substantial net costs. This issue will be explored more fully at next year's GRA.

The Board directs MPI to, on or before June 30, 2010, provide the Board with the IFRS recommendations it will have received from its external consultant, together with the analysis and rationale therefore of MPI's preliminary decisions with respect to IFRS elections.

2.26 Accounting Entries

As set out above, substantial, non-recurring adjustments of an accounting nature took place in the Corporation's 2008/09 fiscal year, and were reported on in its 2008/09 audited financial statements. In particular, adjustments were made to the Unpaid Claims Liability, consisting of:

- a) a downward revision to Unpaid Claims of \$149 million, reflecting MPI's external actuary's opinion on expected and discounted future payments to claimants with respect to PIPP coverage; and
- b) an upward revision to Unpaid Claims of \$90.8 million, reflecting MPI's internal actuary's projection of then-planned increases in future payments to then-current claimants, this with respect to proposed enhancements to benefits related to catastrophic injuries.

Neither of these two significant, and partially-offsetting, accounting adjustments were disclosed in MPI's fourth quarter unaudited statements filed with the Board at the spring 2009 DSR hearing, despite MPI's reference to those statements in the pre-filed testimony of its President contained within the Application.

On cross-examination at the hearing of the Application, MPI's President agreed that while "...the financial forecast that...was presented at the DSR hearing had already contemplated the fact that the \$90 million enhancement had been booked...it wasn't disclosed". The DSR hearing resulted in Order 98/09 wherein the Board approved a transition to DSR that involves reduced overall driver premium revenue in 2010/11 – a year that MPI now expects to result in a near breakeven result for Basic. PUB only became aware of the details of the accounting adjustments, and the timing of the adjustments, upon receiving the Application in June 2009.

The first major adjustment, the downward revision of \$149 million to Unpaid Claims, did not come as a complete surprise to the Board. MPI has a recent multi-year history of over-estimating Unpaid Claims Liability requirements for PIPP and had indicated at both the DSR and the 2009 GRA hearings that the development of PIPP claims incurred, which represents a major portion of the Unpaid Claims liability, was under review. However, the materiality of the adjustment was surprising, as was the lack of disclosure of the reduction from the liability at the DSR hearing.

MPI's external actuary's recommendation in support of the "downward" revision was based on his October, 2008 review of MPI's claims liabilities, although no indication of the need for a material downward revision to Unpaid Claims was either recorded or noted in MPI's unaudited third quarter financial report for fiscal 2008/09 (for the period ending November 30, 2008).

The second major adjustment, the addition of \$90.8 million to the Unpaid Claims liability, was also not known to PUB at the time of the DSR hearing. That adjustment, according to MPI's external actuary's February, 2009 report – again, not available to PUB until MPI's filing of the Application in June 2009, was based on a Government decision, apparently taken prior to the end of MPI's 2008/09 fiscal year, to increase benefits, in part retroactively, for those catastrophically injured in motor vehicle accidents. Present Generally Accepted Accounting Principles (GAAP) were interpreted by MPI and its external auditor to allow for the "booking" of the \$90.8 million estimated cost of the enhanced benefits, because Cabinet had approved the action and the amount was based on a reasonable actuarial estimate of the costs.

MPI's auditor signed the auditor's report on MPI's 2008/09 financial statements on May 1, 2009, which included the two major accounting adjustments cited above, although the annual report including both the financial statements and the auditor's report was not released until June 2009. And, it was not until May 26, 2009, three months after the end of the Corporation's 2008/09 fiscal year, that Bill 36, which enhanced PIPP benefits for those catastrophically injured, was given first reading in the Legislature.

Bill 36 received second reading on June 3, 2009, with significant debate at the Legislature occurring on and after September 21, 2009. Third reading took place on October 7, 2009, and subsequent to that Bill 36 was proclaimed. Through the process, approximately ten amendments were proposed, all defeated.

2.27 DVL

As set out above, in 2004 Government directed the amalgamation of DVL operations within MPI. DVL operations include the administration and assessment of fees for the registration of motor vehicles, the regulation of driver licenses, and management of the Driver Class Licensing

Program. Approximately 300 hundred Government employees became MPI staff at the time of the DVL transfer.

MPI characterizes DVL as its fourth line of business, a non-insurance operation based on a contract with the Government. At the time of the DVL merger, the contribution of the Government to MPI for DVL expenses was fixed at \$21 million annually. As the annual payment is not expected to vary unless additional functions are added to MPI's responsibilities, MPI carries the full risk of inflation and/or other operating cost pressures.

The Government's \$21 million annual contribution to MPI has not covered the costs required to operate DVL, which has and is expected to continue to result in repeated shortfalls to MPI, a deficit met by Extension's annual net income from underwriting and investments, which has an impact on the overall financial results of the Corporation.

In 2008/09 MPI advised that the cost of DVL operations was \$37 million and as such, it was incurring a net loss from DVL operations of \$16 million, which included \$8.3 million due to DVL operations and \$7.7 million due to DVL project costs to be recovered from the EDF. In the previous year, 2007/08, the cost of DVL operations was \$32.8 million, resulting in a shortfall of about \$11.8 million. In 2006/07, the cost of operations was \$31.4 million, and in that year, the funding was unilaterally reduced by Government to \$20.5 million, resulting in a shortfall of \$10.9 million. In the year prior, 2005/06, the shortfall was \$6.1 million.

These shortfalls have materially affected the level of retained earnings of Extension and the overall financial strength of the Corporation, as did the pre-merger decision of Government to cease annual contributions to MPI to offset, in part, Basic commissions paid to brokers; contributions that were in recognition of payments to brokers by MPI that relate to the DVL revenue stream to Government.

MPI has stated, however, that much of the current improvement in customer service (including the SRP, better service and DSR) 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.

3.0 INTERVENERS AND PRESENTERS

3.1 Interveners

3.1.1 CAA

RSR Target

CAA did not accept MPI's argument that the RSR needs to be increased in any meaningful way, since it did not sense any "looming crisis" or documented need to do so. CAA further stated that an RSR range rather than a single target number is more appropriate, since all probabilities are included, rather than a specific number driven by implausible scenarios.

Cost Allocation

CAA recognized that while the majority of MPI's expenses are borne by Basic, the other lines of business exist only because of Basic. CAA stated that in order to ensure fairness of cost allocation among the lines of business, the Board needs access to information regarding those lines of business.

CAA noted that while it was appropriate that MPI update its cost allocation, for practical purposes it is, by itself, not very useful in providing a full picture of the Corporation's finances.

Jurisdiction

CAA noted that MPI's move to the Autopac on-line computerized system increased the convenience of purchasing MPI insurance and, with that system, Extension insurance can be purchased along with the mandatory Basic coverage with a "mere push of a button", while, for any remaining competitors of MPI for Extension business, forms need to be filled out manually.

CAA noted that although MPI admits to ownership of 95 percent of the Extension market, it continues to refer to the Extension line of business as competitive.

CAA stated that the majority of insurers whom MPI refers to as its competitors have effectively been driven out of the marketplace, and expects that MPI will continue to obtain an increased market share. In addition to controlling 95 percent of the market, the new streamlined insurance and driver's licence renewal process (SRP) further positions MPI as the convenient choice when buying insurance.

CAA opined that it is unlikely that a consumer will choose to make a special trip to their broker to purchase Extension insurance with an insurer other than MPI, when they can easily purchase that insurance through MPI and renew on a five-year term. CAA stated that this hassle-free renewal method is effectively going to further MPI's monopoly in Extension.

CAA maintained, as it has in past GRA hearings, that the profits earned in Extension should be taken into account by the Board when setting both Basic rates and the RSR range. CAA recommended that the Board continue to challenge the validity of Extension as a competitive line and seek an extended mandate.

CAA advocated strongly on behalf of Manitoba ratepayers that Extension be "put under the watchful eye" of the Board to ensure transparency.

Red Light Cameras

CAA endorsed the continued use of red light cameras with the following conditions:

- Demerit points should not be applied unless or until the identity of the driver is known;
- The investment in and frequency of usage of photo radar technology should be sufficient to create a credible deterrent effect without demerits being assigned;
- Cameras should be used strictly as a tool to reduce the severity and frequency of collisions, not to generate revenue;
- Law enforcement agencies should employ radar primarily in areas of high collision frequency or where there are other safety concerns;
- Enforcement agencies should cooperate in the development of effective and consistent public relations and education program for photo radar;
- Technology should be used to enforce speed limits that are reasonable; and

- A full and complete traffic study should be completed in Winnipeg and other major centers in the province so that speed limits can be set properly.

CAA stated that red light camera infractions should not be used as part of the DSR system, in other words, red light camera infractions should have no affect on DSR placements.

Transparency

CAA stated that the opportunity for all stakeholders to meet in a public hearing process for the purpose of discussing auto insurance rates and the RSR is critical, given that MPI is a monopoly.

CAA observed that over the last four or five years MPI has developed a culture that is “long on rhetoric and short on transparency”, and that there are too many questions asked of MPI that are responded to with simply, "this is not part of the hearing".

CAA stated that diminished transparency has significantly impacted the level of trust of MPI held by motorists and, as a result, the public is at risk of being “short-changed” and, in many instances, of not being fully aware of where their money is being spent.

CAA stated that it is time for MPI to embrace a culture of transparency and openness.

3.1.2 CAC/MSOS

RSR Target

CAC/MSOS recommended that the purpose of the RSR be restated to protect motorists from unacceptably large year over year rate increases that arise from events outside the control of MPI and having a low probability of occurring in any given year.

CAC/MSOS stated that the DCAT is a good tool for certain purposes, but cannot be primarily, and certainly not solely, relied upon for the purpose of setting the RSR range. CAC/MSOS

noted that in the view of Drs. Hum and Simpson, the DCAT is not based on statistically-sound methodology and does not establish justified true belief in its scenarios.

CAC/MSOS relied upon Dr. Simpson's characterization of the scenarios utilized in the DCAT as outliers, or scenarios that if properly evaluated in statistical terms would be found in the tail of the distribution and would be very hard to characterize relative to their probability. Drs. Hum and Simpson further stated there was no sound basis for grounding the calculation of an RSR solely on the basis of a set of hypothetical outliers.

CAC/MSOS also noted that Dr. Hum expressed particular concern with a scenario, utilized in the DCAT, of a combination of sustained low interest rates and a decline in equity returns, noting that the scenario was counterintuitive both to theory and empirical evidence. Dr. Hum noted that the scenario was not consistent with economic theory, where one would expect an inverse relationship between low interest rates and equity returns.

CAC/MSOS also referenced Dr. Simpson's questioning of the use of 90 years of TSX economic data, to develop this scenario, noting that the Canadian economy had changed over time and that looking back to the period of the Great Depression as support for the scenario and macro-economic policy considerations is problematic. Dr. Simpson noted that policy decisions made at that time had been studied and that it is widely acknowledged now that they are very unlikely to be repeated.

CAC/MSOS further noted that the DCAT was designed for another purpose, namely satisfactory financial condition, and was designed for another context, namely the competitive market; and stated, therefore, that it is not the best tool for setting the RSR target range.

CAC/MSOS recommended that the DCAT not be used as either the sole or the primary mechanism for setting the RSR. CAC/MSOS suggested that the DCAT could conceivably be used as a limited secondary check on an RA-like methodology, although it would be preferable for stress-testing purposes, to employ probability-based stress testing.

CAC/MSOS expressed concerns with the purpose and credibility of the MCT. It stated that similar to the DCAT, the MCT tool was developed for a different purpose and a different context

than the RA. CAC/MSOS indicated that there was no satisfactory explanation on how to translate the MCT analysis into an RSR range.

CAC/MSOS stated that setting the RSR range based on 10% or 20% of prospective annual overall Basic expenditures would be arbitrary in a statistical sense and preferred the use of the RA approach.

CAC/MSOS recommended to the Board that the RA approach (with modifications) should continue to be the primary tool by which the RSR is set. Drs. Hum & Simpson noted that the RA is a statistical analysis in a parametric form which expressly addresses the potential risks and identifies the relationship between them using historical data and standard statistical techniques.

CAC/MSOS recommended two potential changes to the VAR. With respect to the use of a notional 25% equity investment target, CAC/MSOS stated that there is currently only 13.4% equity in MPI's portfolio, and that the use of a 25% equity percentage results in a material overstatement of the RSR target range. CAC/MSOS noted that use of the 25% equity ratio had skewed the results flowing from the RA resulting in an RSR range of \$97 million to \$245 million versus a range of \$68 million to \$139 million when the actual equity ratio was utilized. CAC/MSOS recommended that the Board utilize the actual equity ratio in the determination of the VAR for determining the RSR range.

Secondly, CAC/MSOS did not endorse the use of the 1 year time frame as appropriate versus the 2.5 year time frame currently employed in the RSR target analysis; however, as a consensus-building compromise, recommended that the Board take the midpoints of the RSR ranges determined (based on actual equity) for the 1 and 2.5 year time frames to establish the RSR range for 2010/11. On this basis, CAC/MSOS recommended that the Board establish a range for the RSR of between \$104 million and \$147 million.

CAC/MSOS also recommended that consideration be given to improving both the operating risk and the VAR component of the RA. CAC/MSOS also suggested that strong consideration be given to incorporating a second check in the form of a statistical probability-based stress test.

CAC/MSOS suggested that improvements could be made to the VAR, noting that Dr Hum indicated that the VAR should be modified to look at the changes in the predictable flows of what can be received from the portfolio, rather than changes in the market value of the portfolio for RSR target determination. Dr. Simpson suggested that the operating RA could be expanded to take into account more than 15 years of data, recognizing the structural break with the introduction of no-fault.

RSR Mechanism

CAC/MSOS recommended that the Board maintain the RSR range and a rules-based approach for setting the RSR target, requiring a surcharge when below the range and a dividend paid to ratepayers when the range is exceeded.

CAC/MSOS took issue with the Corporation maintaining rates at the current level to rebuild the RSR but not expressly noting that approach in the Application or Public Notice of Hearing. CAC/MSOS noted that consumers have the right to understand how the RSR target is calculated, the impact that the RSR is having on their rates and also the purpose for which the RSR is established.

CAC/MSOS recommended that the Board expressly direct that any future surcharges and incremental revenue from those surcharges will be expressly identified in the application, prehearing notice and pre-filed materials of MPI.

Forecasting Methodology

CAC/MSOS brought to the attention of the Board statistical testing of forecasted results and recommended that future statistical testing of MPI's forecasting be included in the material filed for the 2011 GRA, including testing for auto correlation and heteroscedasticity (a statistical characterization of variables), and that MPI report back to the Board with reasons on whether it continues to be of the view that linear regression is the preferred methodology for forecasting purposes.

Road Safety

With respect to road safety, CAC/MSOS noted Manitoba's continued poor ranking relative to other Canadian jurisdictions in Transport Canada's 2006 fatality, serious injury and occupant restraint usage data, noting in particular the high and disproportionate incidence of fatalities in rural Manitoba.

CAC/MSOS recommended that the Board direct MPI to conduct a review of Canadian and North American best practices related to integration of public information and enforcement in the areas of occupant restraint, unsafe speed and impaired driving and compare it to its own practices. In addition, CAC/MSOS requested that MPI be directed to report on any changes to its current approach resulting from the review.

Cost Controls

CAC/MSOS expressed frustration in trying to test the productivity of Basic within the Corporation as they were unable to use standard performance measures such as claims expenses per claim for Basic, claims expenses for claims employee for Basic, and claims per claims employee for Basic due to challenges in disentangling Basic from the rest of the Corporation.

CAC/MSOS noted that the Corporation believes that proxies can be developed for the next GRA. CAC/MSOS recommended the Board direct MPI to provide and justify recommended matrices and targets to measure the productivity of Basic.

CAC/MSOS further noted emerging issues related to the BPR and the increasingly-integrated nature of the Corporation. CAC/MSOS indicated that there have been significant costs incurred on the PIPP infrastructure project and that it will be important to test whether the projected cost savings over the next seven years from the project are realized. CAC/MSOS further recommended that the Board direct MPI to provide ongoing updates on BPR projects from the Gartner Group as well as an updated PIPP Infrastructure business case demonstrating benefits compared to costs.

Cost Allocation Methodology

CAC/MSOS expressed concern with the cost allocation methodology changes being proposed by Deloitte at level D, noting that Deloitte had not tested the use of claims incurred from the concept of stability. Noting the recent history of the Corporation, which has seen major changes in forecasted claims incurred, CAC/MSOS stated a preference for premiums earned as the basis of allocation rather than claims incurred. CAC/MSOS also noted that Deloitte had accepted the concept of a built-in profit margin in SRE and Extension, but there was no analysis of the materiality of those profit margins.

CAC/MSOS also expressed concern that there was no analysis of the allocation of revenues or acknowledgment of the integral relationship between the Basic and Extension insurance programs. CAC/MSOS noted that Mr. Olfert acknowledged that the potential for Extension to obtain revenue is materially enhanced by its relationship with Basic.

CAC/MSOS recommended that the Board acknowledge the good work and the directional progress made by MPI in terms of the Deloitte cost allocation review, that the concept of stability be expressly incorporated in assessing allocators and that MPI be directed to conduct additional analysis in terms of a mechanism to improve the level D allocator and to specifically consider both claims incurred and premiums earned in that analysis.

CAC/MSOS further recommended that the Board direct MPI to report back in terms of revenue allocation, taking into account the benefits flowing to Extension through its relationship with Basic, and that consideration be given to recommending a workshop on these issues to address them in the greatest degree possible prior to the next GRA.

Jurisdiction

CAC/MSOS stated that there is strong and compelling evidence in this proceeding about the increasingly interwoven nature of this Corporation including Basic, Extension and DVL. CAC/MSOS asserted that this “reality” is providing growing challenges in terms of the regulation of Basic.

CAC/MSOS noted challenges experienced during the hearing, including the calculation of full-time equivalent staff for the Basic program, the determination of the RSR and the impact on the rollout of important Basic programs such as DSR, as well as a number of overlays of this interaction in the cost allocation review process. CAC/MSOS further noted that there is strong evidence that the Extension element of the program is essentially operating as a monopoly.

CAC/MSOS suggested that the Board recommend that section 26.4 of *The Crown Corporations Public Review and Accountability Act* be amended to allow the Board, in setting Basic rates, to consider expressly the overall well-being of the Corporation, its existing reserves, the projected income of Extension and SRE and the effects of the integrated nature of the Corporation upon Basic's costs and revenues.

Rates

CAC/MSOS recommended no change in rates as proposed in the Application due to continued uncertainty in the investment market and concerns with respect to IFRS.

3.1.3 CMMG

Rates

CMMG stated that pursuant to the Application, 34.7% of motorcyclists will receive an increase of more than \$100, and questioned these increases viewed against the backdrop of a low inflation environment in Canada and Manitoba, noting that the premium increases, in some cases, range up to 15% to 20%, particularly in Territory 2.

CMMG noted that MPI was seeking motorcycle rate increases that would represent more than a 6% overall increase and provide MPI with \$13.1 million of additional annual revenue.

CMMG noted that for two out of the last five years, motorcycle claims experience represented losses of only 1/3 to 1/4 of the premium sought for motorcyclists. CMMG stated that 40% of the last five years' motorcycle claims experience has been at a low level, yet premiums remain unchanged or increased for motorcyclists.

CMMG stated that no one vehicle, based on the type of fluctuations in loss experience, should be subject to 20% increases, only to have the next year result in loss costs that are a fraction of what the Corporation had been forecasting. CMMG further stated that the hugely variable experience results in “these knee-jerk reactions of the Corporation to instituting increases that are tenfold over the inflation rate”.

CMMG submitted the current economic environment suggests that individual increases be held down to something far less than 15% to 20%.

Wildlife Claims

CMMG further stated that single vehicle accidents are a very large percentage of the claims experience for motorcyclists, and that the vast majority of claims due to interactions with wildlife and livestock are not the fault of motorcyclists.

CMMG drew a comparison with other types of claims interactions such as: pedestrians darting out in traffic, bicyclists falling off their bicycles in front of an oncoming vehicle, or making a turn immediately in front of them. In the case of these interactions and the resulting claims, MPI spreads the loss costs across the entire pool of vehicles. CMMG recommended that the Board adopt the same methodology for pooling of loss costs for wildlife claims.

CMMG noted that a pooling of wildlife claims would result in an average 6.3% rate reduction for motorcycle owners, without costing the private passenger major class of vehicles more than \$1.

CMMG opined that unless the Corporation makes a significant effort to reduce wildlife interactions, then motorcyclists should not be penalized for a claim when they are not at fault.

Road Safety

With respect to Motorcycle Road Safety initiatives, CMMG suggested that the record of MPI's efforts is poor. CMMG noted that the Corporation is only spending \$91,000 per year on motorcycle road safety, while motorcycle safety is a problematic area. CMMG suggested that motorcyclist-focused safety initiatives should not be the road safety category that receives the

least amount of annual investment.

CMMG further noted that the Corporation based its goals and focus on Transport Canada Road Safety 2010 visions and targets, which, according to Transport Canada, includes motorcyclists as a vulnerable road user. However, MPI doesn't consider this in its investment for road safety for vulnerable road users.

CMMG stated that it would be monitoring specifically what the Corporation will be doing to achieve its stated compliance with Transport Canada's Road Safety vision, which calls for a 30% decrease in the numbers killed or seriously injured, with respect to vulnerable road users.

CMMG noted that the Corporation does not currently spend any monies on motorcycle safety research, and advocated for more effort in this area due to both losses and premium escalation faced by motorcyclists.

3.1.4 MBA

Transparency

MBA noted that MPI has agreed that the public interest is best served by PUB's oversight, with the Board functioning as an independent proxy for competition. To effectively fulfill this role, MBA held that the Board requires sufficient information to understand fully MPI's overall financial position.

MBA noted that barriers were encountered during the hearing process in collecting information, and cited examples where information was not provided. MBA held that every time MPI refuses to answer a question, whether in an information request or during cross-examination, the Board is being denied information.

MBA observed that the Board, in its annual orders, has commented on how the lack of relevant information can impede its ability to discharge its statutory duty of oversight and regulation. With respect to the PIPP benefit enhancements, known to the Corporation at the DSR hearing, MBA quoted from Order 98/09 wherein the Board stated:

The Corporation did not inform the Board at the DSR Hearing of pending enhancements to coverage pursuant to the Basic Personal Injury Protection Plan for those individuals who have suffered catastrophic injuries, nor did the Corporation provide the Board with an estimate of the financial implications of the planned enhancements.

MBA took issue with MPI's rationale for not disclosing the financial implications of the PIPP enhancements, namely confidentiality, and the Corporation's assessment that in its view the costs of the enhanced benefits from Bill 36 combined with other factors left the Corporation with very strong confidence that its finances would remain sound.

MBA stated that it is a usurpation of the statutory delegated regulatory function of the Board when an Applicant substitutes its own opinions for the findings of the Board.

MBA further stated that information that the Board thinks is relevant and necessary clearly has to be put before the Board. When such information is hidden or suppressed, MBA suggested the Board will not have all relevant information to fulfill its regulatory role and will proceed to issue its Orders without all the relevant considerations before it, through no fault of its own.

MBA recommended that the Board consider procedures to ensure that sufficient information is before it to fulfill its regulatory role, including the following:

1. That the Board implement generally-accepted ways of handling confidential information and to the extent necessary amend and publish new rules of procedure;
2. That the Board incorporate relevant sections of *The Manitoba Evidence Act* relating the disclosure of Crown confidences into its rules of procedure; and
3. That the Board further express its concerns, shared by many of the other intervenors, that the existing jurisdiction of the Board is inadequate to all the Board to discharge its regulatory obligations.

MBA stated that the goal of these efforts is to increase the effectiveness of the Board as a regulator functioning as an independent proxy for competition.

3.2 Presenters

The Board heard from three presenters at the hearing of the Application, namely Mr. David Gurvey, Mr. Eduard Hiebert and Mr. Doug Houghton. Presenters are not sworn witnesses, and were not cross-examined. As such, the content of the presentations is not evidence, though the Board, MPI and the interveners received the information presented for consideration.

Mr. David Gurvey presented to the Board relative to delays on the part of MPI to respond to client needs, and also raised questions with respect to the quality of service provided by MPI.

Mr. Eduard Hiebert presented to the Board with respect to the treatment of farmers with passenger vehicles and farm trucks.

Mr. Doug Houghton, current president of the CMMG, and a presenter at previous hearings, brought to the Board's attention a number of perceived anomalies and his concerns related to MPI's service to motorcyclists.

4.0 BOARD FINDINGS

4.1 Investment Portfolio

MPI's investment portfolio is critically important to the Corporation's financial stability and prospects, and premiums charged to motorists. With a portfolio of \$2 billion, expected to increase significantly in the years ahead, the rate of return to be gained from the portfolio is important, as are the liquidity and security of value of the investments. Each additional 1% of investment return on a portfolio of \$2 billion is representative of a 4% decrease in the average Basic premium.

As set out above, MPI's investment income in 2008/09 was much lower than anticipated, which is understandable given market conditions. MPI's projected annual returns through its extended

forecast period are modest, at best, and considerably lower than the expectations of most investors, including large diversified pension plans.

The Board's difficulty with the manner in which MPI's investments are handled stems from the apparent lack of accountability of any one party for either the investment asset mix or investment results.

While MPI has an investment sub-committee that reviews the investment portfolio and results, an in-house investment department that analyzes investment performance and options, and while MPI participates in the ICWG, the Corporation has made it clear that it considers the Department of Finance to be in control of the investment portfolio.

As such, it would appear that there is no party, whether it be the Board of MPI or the Department of Finance, that the Board can look to when it assesses the issues of investment diversification and returns. These are significant matters, as MPI relies on investment income to achieve a "break-even" position on Basic operations (unlike private insurers that seek to "break-even" on underwriting and earn a return for their shareholders from the investment portfolio).

In addition, it has been ten years since MPI advised the Board of its plan to hold 25% of its investment portfolio in equities, yet its most recent report to the Board was that 13.6% of the portfolio is invested in equities. After having reached an approximately 20% allocation to equities, MPI did not rebalance its portfolio's allocation to the various asset classes at its 2008/09 year-end, or since, and thus the reduced values that resulted from the market melt-down were not recovered in the subsequent market revival. As intervener CAC/MSOS' expert witnesses testified at the hearing, there is no experience in "modern times" of a decline in equities of 20% or more lasting for more than two years when interest rates are held low.

With interest rates on government bonds at "historic lows", with an equity portfolio still representative of only approximately one-half the level suggested to be achieved by MPI a decade ago, and with inflation and reduced bond values a reasonable future risk with the level of quantitative and qualitative easing by central banks and the deficits being recorded and expected in the Organisation for Economic Co-operation and Development (OECD), the Board continues to have serious concerns about MPI's investment portfolio, both as to the

management of the portfolio and as to the results achieved and forecast to be achieved with the current asset mix and practices.

As such, the Board is recommending that MPI amend its investment policy to provide for regular consideration of re-balancing the allocation of investments amongst permitted asset classes toward the policy's intended allocation in permitted asset classes, to reduce the risk of undue and yield-risking, market-timing actions.

And, the Board also again recommends that the investment policy be amended to prohibit the selling of securities for the sole purpose of generating period investment gains, only to repurchase the identical securities.

Finally, and in particular, the Board seeks an environment in which MPI takes full responsibility for its investments and the annual results of its investments, which are so important to its results and policyholder premium levels.

The Board intends to explore these issues further at the 2011 GRA, and that exploration may include a request that MPI produce as a witness a representative from the Department of Finance to speak to these matters.

4.2 RSR Target

The Board finds it fortunate, for motorists, that MPI has abandoned its pursuit of an MCT -based RSR range (PUB has long rejected reliance on MCT), given that if the former MCT-based approach and range proffered by MPI in the Application had been continued, the public hearing recently concluded would most definitely have included a debate over a potentially large rate increase for Basic.

PUB is of the opinion that MPI abandoned MCT because, as at February 28, 2009, Basic had allocated net assets representative of only 7% of the MCT-required RSR level. (MCT takes AOCI into account, which had moved from a "positive" position as of the previous year-end to a negative one as of the end of 2008/09.) The Board notes, however, that MPI has not amended its retained earnings targets for Extension and SRE, which remain MCT-based.

MPI now seeks to rely upon DCAT for the RSR, and suggests a “single number” be selected as an RSR target point, that being \$185 million. The DCAT is based on the identification and quantification of a limited number of “adverse scenarios” (i.e. events that could occur, and, if realized, materially drive down MPI’s net assets). The Board shares Professors Hum and Simpson’s concerns as to the appropriateness and plausibility of the selected adverse scenarios.

The Board notes that the adverse scenarios selected by MPI’s external actuary are pursuant to required actuarial standards. The Board accepts that the selection of even somewhat implausible scenarios makes sense when the actuary is providing an opinion in the case of a private insurer, whose policyholders’ benefits depend upon the insurer’s continued solvency. Insolvency is not a plausible risk for MPI, a Crown corporation, incorporated and supported by the Government and legislation.

The Board further notes that the external actuary did not consider a legislated change to benefits, with retroactive effect, as an adverse scenario, yet that scenario is a “risk” faced in the case of a Crown-owned insurer where benefits are established by legislation and regulations, and where there have been very material changes to benefits, affecting claims arising both in the past and the future, with negative impacts on MPI’s financial position.

While there is no “law” requiring MPI to have any RSR, or any retained earnings for that matter, in the absence of same there is a more exacerbated risk of extreme rate volatility, and therefore maintenance of the RSR has been held to be in the public interest.

Professors Hum and Simpson’s evidence is of value; they clearly discredited reliance on DCAT, or, perhaps more fairly, reliance on the assumptions used in the DCAT proffered by MPI. At the same time, the professors pointed out the deficiencies associated with the RA/VaR approach, an approach that supported the past views of RSR range requirements of both MPI and PUB, and opined that bringing about a consensus may not be a likely outcome. MPI has also now rejected reliance on a RA/VaR-based RSR range.

Therefore, it is the Board's view that a change to the approach to one that can be clearly understood by all parties is justified. It is open to the Board to return to the "Kopstein" approach, and set the RSR range based on net written premiums (vehicle and driver premiums).

While investment income is now a basic staple of MPI's annual revenue, together with driver and vehicle premiums and fees, and utilized to determine premium rates, what motorists focus on is vehicle and driver premium levels.

With the Board's present RSR range opposed by MPI, and with both the RA/VaR and DCAT approaches challenged by interveners and the Board, and with the RA/VaR approach, though once sought and supported by MPI, now rejected by MPI, the Board concludes that an RSR range of 10% to 20% of net written premiums, (vehicle and driver premiums), will represent an adequate and "working basis" for establishing MPI's RSR target range.

That said, the Board will, as well, require MPI to, on no less than a tri-annual basis, prepare DCAT, MCT and RA/VaR analyses for consideration by the Board at a GRA, to test against the RSR range methodology as ordered herein.

In establishing rates and considering rebates and surcharges, the Board will focus on whether the RSR is, and is projected to remain, within a range of 10% and 20% of net written premiums.

If the RSR was or was projected to fall below 10% of net written premiums, then the Board would strongly consider a premium surcharge to rebuild RSR. Conversely, if the RSR was or was projected to climb above 20% of net written premiums, then the Board would consider a rebate.

Consider means consider; the balance of RSR at MPI's last year-end is only one factor that will be considered by the Board in deciding whether to direct a rebate or a surcharge, or, for that matter, an overall premium increase or decrease. As set out in previous GRA orders, PUB will continue to assess MPI's overall financial position and prospects, and will take into account all significant factors related to MPI's situation and prospects.

It is the Board's view that a range of 10% to 20% of net written premiums, to serve as the anticipated normal range of MPI's RSR balance, is adequate, because neither MPI nor the Board is likely to ever propose, let alone agree to, an overall increase in average premiums of more than 10% in any one year.

Given that MPI has \$2 billion in investments, has a mandatory monopoly with respect to Basic, which also supports its "competitive" lines of business, records properly established Unpaid Claims liabilities [including a Provision for Adverse Deviation (PfAD), established in accordance with actuarial standards], holds reinsurance against the risk of catastrophic claims events, and has the ultimate fall-back of legislative amendments to restrain claim payouts, the Board is confident that both MPI and the Board would have "time" to adjust to shocks greater than 10% of net written premiums.

If MPI were to carry a RSR balance in excess of 20% of net written premiums there would be a very strong argument for a reduction in overall average premiums and/or a reduction in premiums and a premium rebate, and/or further benefit enhancements (preferably without a retroactive effect).

Accordingly, the RSR range for 2010/11 will be established as \$77 million to \$154 million, since net written premiums are projected to be \$766.5 million. In determining whether MPI's RSR balance is adequate at a given point in time, the Board will consider AOCI, taking into account market changes since the past-year end, changes in MPI's financial forecasts, and other factors (including MPI's overall financial strength and prospects and any plans to amend benefits).

4.3 Cost Allocation Methodology

The Board found both the Deloitte cost allocation methodology report and the evidence of Richard Olfert to be valuable and credible with respect to the development of a revised cost allocation formula for MPI.

The Board is not comfortable, however, in spite of the Deloitte evidence, with concluding its review of MPI's cost allocation methodology at this stage in its development.

The Board awaits MPI's further research into Deloitte's proposed cost allocation methodology, and the extension of that methodology to include the BPR, and, accordingly, will not approve the implementation of a revised methodology until, assuming the Board is satisfied with the results of the further research, following the 2011 GRA.

It is unfortunate that the Board is not in a position to be assured that the costs subject to allocation are prudent and efficacious and that all of the costs allocated to Basic should be taken into account in setting Basic premiums. As matters now stand, with its limited jurisdiction and MPI's lack of transparency as to the details of its overall costs, costs that are then allocated by way of formulae, the Board cannot be assured that the costs being allocated to Basic are fair and reasonable or even, though the Board is comforted by MPI's pledge, that costs incurred for non-insurance purposes are or will be billed to Government.

The Board further orders that no allocations from DVL to Basic are to be made until such time as the Board has reviewed the source expenditures that form the subject of the proposed transfer. The Board also directs that premiums written, rather than claims incurred as proposed by Deloitte's study, shall form the basis for allocation at Level D of the allocation methodology.

4.4 Wildlife/Livestock Claims and Road Safety

The Board heard evidence suggesting that MPI's overall annual claims costs related to collisions involving wildlife and livestock may well exceed \$30 million, a very significant annual amount.

Based on the evidence at the hearing, the impact of such claims on the premiums of motorcyclists is significantly greater than on other major vehicle classes (motorcyclists have less "protection" than those in a passenger vehicle), with a change to "spreading" the costs of such claims across all vehicle classes expected to reduce the average premium of a motorcycle by \$65 at an increased premium cost to a passenger vehicle of only \$1. This is a matter worth considering. The Board accepts the premise that "an accident is an accident", and that the essence of the problem is wildlife/livestock on the road, but is not yet ready to extend "loss transfer" to such claims.

In any case, the frequency and severity of wildlife/livestock related claims is so significant that it is worthy of increased research and discussion. At an annual level of claims costs in the range of \$30 million, wildlife/livestock related claims are in the same “ballpark” as claims related to impaired driving, speeding, failure to use seatbelts and auto-theft, and represent the equivalent of 4% of overall written premiums. Wildlife/livestock related accidents may be part of the puzzle as to why Manitoba continues to rate poorly nationally with respect to per capita accidents, fatalities and injuries.

The Board recommends that MPI undertake research, including a full jurisdictional review of both public and private insurance jurisdictions, with respect to strategies to reduce wildlife/livestock related claims and the treatment of same with respect to the setting of premiums for consideration at the 2011 GRA.

MPI, in conducting its research, should develop a geographic analysis of wildlife/livestock collision sites (problem areas), as well as the availability and cost of prevention strategies (such as the installation of fences and deterrent emitters on vehicles, etc.). To the extent that MPI experiences claims involving domestic livestock permitted to roam on to the roadway, the Board also seeks a review from MPI with respect to the subrogation of claims (in particular, why MPI does not pursue subrogation), also for consideration at the 2011 GRA.

Going further, the Board will support CAC/MSOS’ and CMMG’s calls for MPI increasing its research into accident causation and prevention, and will direct that MPI benchmark its loss prevention measures against those of other insurers and reconsider the amount of its road safety investment targeted for motorcyclists – with motorcyclists clearly more likely to be injured as a result of a motor vehicle accident than a driver of a car or truck.

4.5 Traffic Enforcement

As noted by CAC/MSOS, Manitoba has experienced a poor ranking relative to other Canadian jurisdictions in Transport Canada’s 2006 fatality, serious injury and occupant restraint usage data, though MPI has reported that, recently, traffic enforcement has increased. The Board continues to be troubled, however, by reliance upon red light cameras and photo radar, given that no demerits are assessed as a result. Therefore, these convictions may not be motivating

safer driving practices (which, to the Board, is more important than whether a driver is assessed a financial penalty for a red light/photo radar infraction).

The Board recommends, therefore, that MPI continue to consult with, and encourage, policing agencies and the Province with respect to enhancing levels of traffic law enforcement, recognizing that Manitoba's toll of fatalities and injuries due to motor vehicle collisions remains unacceptably high, and high in comparison with other Canadian jurisdictions (proportionate to population).

In addition, the Board recommends that MPI take more of an interest in the levels and locations of red light and photo radar infractions, and that it undertake research to determine whether or not red light and photo radar are helpful to road safety, and, if helpful, to what degree. If any body should have an interest in researching the experience and implications of red light cameras and photo radar, it should be MPI.

4.6 Accounting Entries

As set out above, substantial, non-recurring adjustments of an accounting nature took place in the Corporation's 2008/09 fiscal year, and were reported on in its 2008/09 audited financial statements. In particular, adjustments were made to the Unpaid Claims liability, consisting of:

- a) a downward revision to Unpaid Claims of \$149 million, reflecting MPI's external actuary's opinion on expected and discounted future payments to claimants with respect to PIPP coverage; and
- b) an upward revision to Unpaid Claims of \$90.8 million, reflecting MPI's internal actuary's projection of then-planned increases in future payments to then-current claimants, this with respect to proposed enhancements to benefits related to catastrophic injuries.

The Board has several issues with the transparency of these two major events, both not disclosed to it until the hearing of the Application, which was filed in late June 2009 and heard in October 2009, although the Board was asked to approve an overall reduction in drivers' premiums related to the transition to DSR at the DSR hearing conducted in April, 2009.

The Board should have been fully and specifically informed of all major accounting adjustments affecting MPI's financial position and prospects, whether they offset each other or not, at the DSR hearing, particularly when the nature and amounts were both significant as to amount and noteworthy as to the circumstances.

In the absence of that information, the Board regrettably concludes that its decision with respect to DSR was not based on full knowledge of MPI's financial position and prospects.

In short, the Board should have been informed of:

- a) the \$149 million downward revision to the Unpaid Claims liability as at February 28, 2009, no later than at the DSR hearing, and if the potential for a substantial reduction was known to the Corporation or expected by the Corporation at the time of the GRA hearing, which did not conclude until October 2008, the same should have been disclosed to the Board at that time; and
- b) the \$90.8 million upward revision to the Unpaid Claims liability, representing the projected effect of benefit enhancements encapsulated in Bill 36.

Clearly, any \$90.8 million Basic expense necessarily has a significant impact upon Basic's financial position. In particular, the \$90.8 million in benefits will and has likely already reduced MPI's investment portfolio and future investment income prospects representative of an estimated 1% premium increase. In addition, the projected \$7 million of new, annual ongoing benefit costs arising from the enhanced benefits is the approximate equivalent to a further 1% premium increase. There is no "free lunch"; all actions affecting benefits, particularly material ones, affect rates, whether by requiring an increase or preventing a decrease.

In the absence of the PIPP enhancements, overall Basic premium levels would have been subject to consideration of a 2% decrease, rather than the decision made herein to leave the overall premium level as it was last year (for vehicles registered in 2009/10 and still in the insured fleet in 2010/11).

The Board notes that MPI incurred a net loss in 2008/09 (not including the deterioration in MPI's AOCI from February 2008 to February 2009, of approximately \$141 million), and has revised its

forecast for Basic financial results for 2009/10 and 2010/11, and now forecasts a deficit for the 2009/10 fiscal year for Basic operations and projects a small surplus for 2010/11 (\$3.5 million).

The change in the forecasts, from the forecasts provided at the October 2008 GRA hearing, are driven in part by the expected and ongoing costs of the PIPP benefit enhancements (which includes the reduction in investment income). Excepting for MPI's forecasts of rapidly rising annual Basic net income from 2011/12 through to and including 2013/14, and in the absence of the improvement in AOCI which was reported in MPI's 2nd quarter 2009/10 unaudited financial results, there would be a strong argument that Basic rates should be increased at this time.

MPI should at all times be transparent with the Board with respect to its accounting and operating intentions; not to do so is to risk Board decisions that could fail to reflect the actual conditions of the time. Related to the general issue of transparency, the Board recommends that MPI, in all future unaudited quarterly statements, include a note as to the possibility of an actuarially-driven adjustment to Unpaid Claims Liability as of fiscal year-end. Such an indication is likely to be able to be provided in, at least, the 3rd and 4th quarter unaudited statements.

The foregoing must not be interpreted in any way as a criticism of the merits of the PIPP enhancements. The Board has consistently supported a review of Basic benefits, and supports the policy decision to enhance benefits for the catastrophically injured.

The Board's issue with the PIPP enhancements lies with the accounting treatment of the \$90.8 million, which was booked within the 2008/09 fiscal year (while first reading did not take place until late May 2009, three months later), and MPI's failure to advise the Board of the "proposal" at the DSR hearing, even though MPI was asked a question that should have been responded to in the circumstances.

The Board also notes, and has principled concerns, that the PIPP enhancements include benefits that have been enhanced on a retroactive basis. These retroactive benefits represent costs for which premiums were not received, as premiums established and paid in prior periods were with respect to policies that did not include the enhanced benefits.

When premiums paid are reflective of coverage then in place, not only is premium revenue generated but investment income is earned as well, not only on deferred premiums for each fiscal year but also on the balance of the Unpaid Claims liability. Unlike private insurers, MPI relies on investment income, as well as earned premiums, to achieve a "break-even" position on annual Basic operations.

When retroactive benefits are extended, the cost is charged against the revenues earned in the year in which the extension is made. Those revenues had been set and/or earned without the expectation of having to meet the cost of retroactive benefits. Accordingly, the net income of the Corporation, the balance of the RSR and the value of RSR analyses (including the DCAT review – where legislative action involving retroactive benefits is not considered within the list of adverse events considered), are negatively impacted by retroactive benefits.

In this case, the cost of the retroactive benefits, made law in the fiscal year following the fiscal year in which the retroactive benefits were recorded, resulted in Basic reporting a net loss of \$8.1 million for 2008/09 rather than a profit of \$82.7 million that would otherwise have been reported as net income for that year (if the retroactive benefits reflected in Bill 36 were not estimated and booked).

By "booking" the retroactive cost of \$90.8 million in 2008/09, which was judged permissible pursuant to GAAP by MPI and its external auditor, even though the legislation had not been introduced or gone through the legislative process, the current forecast for Basic net income for 2009/10, the year in which Bill 36 was passed – which is now forecast to be a loss, was "improved" by the same amount, i.e. \$90.8 million, over what it otherwise would have been.

As well, MPI's 2008/09 audited financial statements reported a Basic RSR balance of \$136.9 million as at February 28, 2009, instead of the \$227.7 million that would have been reported if the effect of Bill 36 had been reflected in the accounts of 2009/10, the year the Bill was introduced, passed and proclaimed.

Although the RSR balance of \$136.9 million as at 2008/09 exceeded the Board's RSR range for the year of \$72 - \$109 million, when the negative balance of \$101.5 million in AOCI is taken into

account, the result is a MCT ratio of only 7.26% compared to the 100% required pursuant to MPI's then-preferred, MCT-based RSR target.

At the hearing of the Application, MPI, as set out above, discarded its support for an RSR target based on MCT and, by so doing, avoided having to consider seeking a rate increase for 2010/11, which would have been suggested strongly given an MCT ratio of only 7.26%.

Pursuant to s. 26(5) of *The Crown Corporations Public Review and Accountability Act*, the Board may take into consideration, in setting rates, all elements of insurance coverage affecting insurance rates. Clearly, PIPP enhancements affect insurance rates, and as such the Board recommends that MPI list and consider potential improvements to Basic coverage, with comparisons to coverage in other jurisdictions, and develop analyses providing the premium and cost implications of options, and the potential impact on Extension and SRE, for discussion at the 2011 GRA.

Such a thorough annual review, to be conducted as a regular feature of the GRA hearing, would lessen the risk that inadequate benefits would be provided to injured policyholders and also, that retroactive benefit enhancements would be enacted, which risk the financial stability of an insurer and reduce the assurance that the regulator and the public should have with respect to the prospects of rate stability.

For all of the foregoing reasons, it is the view of the Board that retroactive benefits should best be avoided, and that the best way to achieve such a goal would be annual benefit reviews within the framework of the annual GRA proceeding.

The Board notes that it has commented in past Orders that benefits be reviewed, which has not yet occurred, and as such the Board is now again recommending that it be done.

4.7 Expansion of Board's Jurisdiction

As reflected above, in 2004 MPI chose to situate DVL within Extension and has refused to relocate it to Basic despite repeated recommendations from the Board to do so.

Both the operations of Extension and SRE are tied closely to Basic given that:

- a) there is a common Board of Directors, common management, common staff and common agents;
- b) all operations are founded on and supported by the Basic;
- c) all operations share a common investment pool;
- d) Basic's liabilities are, to an extent, commingled with the liabilities of the other lines of business;
- e) almost all customers of Basic are also customer of Extension and *vice versa*; and
- f) it is in the financial interests of brokers, and is technologically simple, through Autopac on-line, for brokers to sell Extension coverage to motorists.

The Board has concluded previously that Extension is a near monopoly and that finding continues to be supported by the evidence. If anything, the Board's position has been strengthened by MPI's recent revised agreement with its brokers, an agreement that provides, in part, for a policyholder's visit to a broker to be reduced to as infrequently as once each five years. The technology link between MPI and its brokers and the streamlined renewal process, together with the organization framework that Basic provides MPI, combines to make MPI beyond the "dominant player" in the Extension market. As well, with Extension unregulated, an unnecessary conflict of interest exists- MPI may "profit" by restricting Basic benefits, which drive more and more policyholders to buy Extension policies, where the rates are unregulated and not subject to the Board's oversight. What gain is there to the Basic policyholder if Basic rates are controlled while Extension rates are not subject to so much as an overall "revenue requirement" test.

That said, while the Board prefers that its jurisdiction be extended to all lines of business, it does not necessarily seek the jurisdiction to mandate Extension and SRE rates, but rather the Board requires access to financial information and forecasts related to all aspects of MPI's operations, and without such access, finds it increasingly difficult to properly assess and set Basic rates. An extension of jurisdiction to allow the Board to determine the overall premium revenue requirement for Extension and SRE would be in the public interest as it would allow the Board to assure policyholders that the overall premiums earned by MPI for those classes are neither

excessive nor too low. Though there are differences, generally, the same policyholders are found in Basic and Extension.

The Board is troubled in the extreme by the fact that there is a large and financially significant part of MPI's financial operations (Extension, SRE and DVL) that it has been unable to review due to MPI's refusal to provide particulars thereof. The Board's function is to provide a proxy for the lack of competition with MPI, and the Board does not feel that it is in a position to carry out its public duty, or the public duty which it is perceived to have, in the stalemate in which it finds itself.

In last year's GRA Order the Board invited the involvement of the Crown Corporations Council to review MPI's operations and expenditures with the objective of allowing the Board to examine, through a proxy, overall expenditures rather than having to rely on out-dated cost allocation formulae, to no avail.

The result of all of the foregoing is that the Board is charged with the task of regulating Basic in a vacuum; without always being aware of major changes (such as the draw-down on Basic PIPP liabilities and the significant enhancement of Basic benefits) and even knowledge of the prudence of expenditures, including operating and capital (affecting not only Basic operations but also the other lines of business), or whether those expenditures are proper as the first qualification, the next being the allocation itself.

Given this lack of transparency, the Board has to question the usefulness of its mandate as far as MPI is concerned; and in particular queries whether its regulation of Basic should continue in the absence of an expansion of the Board's jurisdiction and a direction from Government to MPI to exhibit transparency in its actions as well as its claims.

Over the now more than 20 years of the Board's oversight, albeit limited, of MPI, and with the assistance of interveners and the Corporation, the Board and its annual hearing process has contributed to significant changes to the operations of MPI, for the benefit of policyholders.

Included in these contributions are the establishment of reasonable RSR ranges (leading to over \$250 million in rebates to policyholders); action for and support for MPI's anti-theft

initiative; direction to expand the Corporation's loss transfer approach, improving the fairness of the rate-setting methodology; action for and support of the new DSR approach; action for the current PIPP infrastructure project; action for and support of the investment asset class review; support for the transfer of DVL operations to MPI; action for and support of updated cost allocation formulae towards ensuring fair rates for Basic policyholders; action for and support of the review of PIPP claims development factors; support for the allocation of government-initiated non-insurance costs to government; support for further research into environmental matters and toward an improvement in understanding of the links between costs and premiums related to matters such as premiums for retired seniors and the allocation of claims incurred in the case of wildlife-caused accidents; and direction to MPI to provide information on the Corporation's operating costs in comparison with similar costs incurred by other public motor vehicle insurance programs.

Regulation is a proxy for competition, but if the regulation is so restricted that the regulator is unable to fully understand and review the regulated firm's overall operation, the benefits of regulation are, at least in part, lost. The annual cost of the Board's oversight to the Corporation, and through the Corporation's rates to its policyholders, is likely in the range of \$1 million when MPI's internal costs are taken into account.

For an expenditure of that magnitude, it makes sense that the regulator be placed in a position such that the regulator can provide effective regulation for the public interest.

Accordingly, the Board, once again, recommends that MPI support its recommendation to Government that Extension and SRE, and MPI's administration of its DVL contract with Government, be brought within the Board's regulatory oversight, with the objective of enhancing the value to policyholders of Board oversight and transparent processes.

4.8 Rates

The Board accepts MPI's 2010/11 Application as to rates and premiums for compulsory vehicle insurance effective March 1, 2010, which will result in no overall change in premium revenue with respect to vehicles registered in 2009/10.

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

- (a) the Corporation's actual results for the first 6 months of the current year;
- (b) the revised year-end forecasts of net income for Basic out to the end of the Corporation's forecast horizon;
- (c) the results and prospects (as know to PUB) for Extension and SRE;
- (d) general investment market conditions;
- (e) plans for benefit or coverage changes (as known to PUB);
- (f) IFRS accounting changes;
- (g) anticipated changes arising from DSR;
- (h) changes and potential changes in Pfad margin changes; and
- (i) take-downs or build-ups of claims reserves.

In other words, the Board considers both financial and operational factors in determining rates. In the case of the Application, as a result of the retroactive benefit change neither external nor internal conditions favour a rate reduction. AOCI as at February, 2009 was negative, and the RSR balance is well under the 20% of net written premiums projected for 2010/11.

Basic's results for the first six months of 2009/10 were not as expected, and Basic is now forecast to incur a loss of approximately \$11.5 million for 2009/10. Investment markets are still unsettled, and with a preponderance of bonds in MPI's portfolio, an upward tick in interest rates would negatively impact AOCI.

While MPI forecasts net income for Basic for 2011/12 and subsequent years, despite projections of reductions in driver premiums due to the transition to DSR, the forecasts do not take into account the risks associated with the upcoming implementation of IFRS and the potential that, after six straight years of claims incurred forecasts being higher than actual claims incurred, the scales may "tip" the other way, generating higher levels of claims incurred than forecast.

While the AOCI balance has swung to the positive as at the end of the second quarter of 2009/10, from a large negative balance as at the end of fiscal 2008/09, with MPI's preponderance of bonds characterized as Held for Trading in its portfolio, any significant increase in interest rates would have a major negative impact on MPI's AOCI position.

In addition, further spending on the BPR continues, primarily funded by Extension, and the Board cannot be certain of the level of retained earnings that will remain in the competitive lines once that process is over. It is also conceivable that MPI may reduce premium levels in Extension and SRE, reducing the long-term experience of large annual surpluses being recorded in those lines, leaving aside DVL-based losses.

The Board is also not comfortable increasing rates given the lack of information before it as set out herein. As such, in all of the circumstances, and in particular with respect to the limits on the Board's jurisdiction, the Board is of the view that it has no real option but to accept the rates as filed in the Application.

The Board also approves of MPI's proposal for a gradual, multi-year transition to incorporate IBC's new accident benefit CLEAR categories.

MPI also sought a change to late payment fees; namely that these fees be client-based rather than vehicle-based. The Board approves this request as it applies only to four vehicle classes – private passenger vehicles, motorcycles, trailers and off-road vehicles. The Board is of the view that with respect to the remaining vehicle classes, late payment fees should continue to be vehicle-based. Commercial and public utility vehicles generally involve fleets, and a late payment may well involve multiple vehicles. A single late payment fee does not seem adequate in such cases.

4.9 Other

The Board continues to look forward to receipt of the following from MPI, in the 2011 GRA, as required by Board Order 98/09:

- (a) a study with respect to the "family transfer" issue, (described in Orders 98/09 and 89/09);
- (b) research on the issue of the division of premiums between drivers and vehicles; and
- (c) research into wildlife/livestock related claims and claims prevention.

With respect to general road safety, the Board accepts and will reiterate in its directions CAC/MSOS' recommendation that the Board direct MPI to conduct a review of Canadian and North American best practices related to integration of public information and enforcement in the areas of occupant restraint, unsafe speed and impaired driving, and compare it to its own practice. In addition, the Board will, as CAC/MSOS requested, direct that MPI report on any changes to its current approach resulting from the review.

With respect to CMMG's recommendations with respect to MPI's road safety program, the Board concurs that motorcyclists are a vulnerable road user, and will recommend that MPI reconsider its approach to road safety matters for motorcycles, given that motorcyclists are vulnerable road users and the number of registered motorcycles is rising faster than any other major vehicle class.

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 deemed absolutely necessary in the public interest) with the Board such information on non-Basic operations that 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, as shared by interveners, while providing safeguards for information deemed competitively-sensitive by Government).
- 5.1.2 Direct Crown Corporations Council to conduct an operational review of MPI's operating costs and staff complement levels, looking back to the levels and expenditures 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, including cost and operational projections for future years, while comparing to and taking into account the experience of ICBC and SGI from the 1990s forward, and share the review with the Board at the 2011 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 that are of interest to and subject to testing by 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 amending the vehicle premium model such that premiums for private passenger vehicles registered by retired seniors be discounted sufficiently to reflect the fact that such motorists are not eligible to receive PIPP weekly indemnity benefits, and direct MPI to share that perspective and/or direction with the Board, for consideration at the 2011 GRA.

- 5.1.4 Provide MPI with its perspective and/or direction on the potential employment of the premium rate model to further the Government's environmental objectives, and direct MPI to share that perspective and/or direction with the Board, for consideration at the 2011 GRA.
- 5.1.5 Provide MPI with its perspective and/or direction on the potential loss transfer of claims costs incurred from collisions involving animals and vehicles, whereby such claims costs would be allocated across the major vehicle classes of private passenger vehicles, commercial vehicles, public vehicles and motorcycles, and direct MPI to share that perspective and/or direction with the Board, for consideration at the 2011 GRA.
- 5.1.6 Direct MPI to annually transfer to the RSR, from SRE retained earnings, an amount representative of the cost to Basic of PIPP benefits paid to inter-provincial truckers. Premium levels for inter-provincial trucks do not include the costs of such benefits.

5.2 THAT MPI

- 5.2.1 Support the Board's recommendation to Government that Extension and SRE, and MPI's administration of its DVL contract with Government, be brought within the Board's regulatory oversight, with the objective of enhancing the value to policyholders of Board oversight and processes.
- 5.2.2 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 attributable 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.

- 5.2.3 Amend the investment policy to provide for the consideration of regular re-balancing of the allocation of investments amongst permitted asset classes towards the policy's intended allocation in permitted asset classes, to reduce the risk of undue and yield-risking market-timing actions.
- 5.2.4 Amend the investment policy to prohibit the selling of securities for the sole purpose of generating current-period investment gains, only to repurchase the identical securities.
- 5.2.5 Seek direction from Government concerning the potential use of the rate-setting model to further the government's environmental objectives.
- 5.2.6 List and consider potential improvements to Basic coverage, with comparisons to coverage in other jurisdictions, and develop analyses providing the premium and cost implications of options, and the potential impact on Extension and SRE, for discussion at the 2011 GRA. The Basic segment of MPI is intended to provide what is deemed to be necessary "basic" coverage, and MPI should regularly compare basic coverage with the expressed general needs of basic policyholders, as demonstrated by their purchases of Extension coverage. This review should be done on a strictly prospective basis.
- 5.2.7 Permit no further "buybacks" of accident costs with respect to private passenger vehicles, from the date of the implementation of the DSR, except for situations where the buyback is for an accident for which no injuries or fatalities occurred, and for which the total claims costs did not exceed \$1000 – with respect to commercial fleets no buybacks should be permitted, excepting in cases that involve neither an injury nor a fatality.
- 5.2.8 Continue to consult with, and encourage, policing agencies and the Province with respect to enhancing current levels of traffic law enforcement, recognizing that Manitoba's toll of fatalities and injuries due to motor vehicle collisions remains unacceptably high, particularly in comparison with other Canadian jurisdictions (proportionate to population).
- 5.2.9 Review the perspective and/or direction received from Government on the potential loss transfer of claims costs caused by collisions involving animals and vehicles, whereby

such claims costs would be allocated across the major vehicle classes of private passenger vehicles, commercial vehicles, public vehicles and motorcycles, and share that perspective and/or direction with the Board, for consideration at the 2011 GRA.

- 5.2.10 Undertake research (including a full jurisdictional review of both public and private insurance jurisdictions) with respect to strategies to reduce wildlife-related claims, for consideration at the 2011 GRA.
- 5.2.11 Provide a review with respect to subrogation of claims, including the reasons why MPI does not pursue the same, for consideration at the 2011 GRA.
- 5.2.12 MPI should take more interest in the levels and locations of red light and photo radar infractions, and undertake research to determine whether or not red light and photo radar are helpful to road safety, and, if helpful, to what degree.
- 5.2.13 Reconsider its approach to road safety matters for motorcycles, given that motorcyclists are vulnerable road users and the numbers of registered motorcycles are rising faster than any other major vehicle class.
- 5.2.14 Include, in all future unaudited quarterly financial statements, a note as to the possibility of an actuarially-driven adjustment to Unpaid Claims Liability as of the fiscal year-end.

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, 2011 BE AND ARE HEREBY approved, with the exception of the proposed change to a client-based from vehicle-based late fee;
2. MPI's proposal for a change to a client-based (rather than vehicle-based) late fee be amended to apply only to four classes – private passenger vehicles, motorcycles, trailers and off-road vehicles;
3. MPI's proposed gradual transition to incorporating accident benefit severity claims within the CLEAR rating approach be and is hereby approved;
4. MPI further its research into Deloitte's proposed cost allocation methodology, and extend that methodology to include the BPR, but not implement the methodology until following the 2011 GRA;
5. No cost allocations from DVL to Basic are to be made until such time as the Board has reviewed the source expenditures which form the basis of the proposed transfer;
6. Premiums written, rather than claims incurred, shall form the basis for allocation at Level D of the cost allocation methodology;
7. MPI is to conduct a review of Canadian and North American best practices related to integration of public information and enforcement in the areas of occupant restraint, unsafe speed and impaired driving, and compare it to its own practices. In addition, MPI is to report on any changes to its current approach resulting from the review at the next GRA;

8. The RSR range for Basic Insurance for rate-setting purposes be and is hereby reset at \$77 million to \$154 million for the 2009/10 and 2010/11 fiscal years, the range reflective of 10% to 20% of written premiums, and MPI is to, on no less than a tri-annual basis, prepare a DCAT, MCT and RA/VaR for consideration at the GRA, to test against the RSR as established herein;

9. MPI provide an update to the Board, on or before June 30, 2010, on:
 - a) the continuing BPR projects, including the PIPP Infrastructure Project, and including a full accounting of costs incurred on behalf of and/or to be recovered from the Province;
 - b) in addition to directives and recommendations herein, the directives and recommendations of Order 89/09 as varied by order 98/09; and
 - c) IFRS recommendations received from MPI's external consultant, together with the analysis and rationale for those recommendations, as well as MPI's preliminary decisions with respect to IFRS elections.

6. MPI submit to the Board for review and approval its proposed asset and liability allocation methodology, in writing, by January 31, 2010. The Board further directs MPI to ensure that the opening RSR balance for 2010/11 remains unaffected by the new allocation methodology.

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

THE PUBLIC UTILITIES BOARD

"GRAHAM LANE, CA"
Chairman

"GERRY GAUDREAU, CMA"
Secretary

Certified a true copy of order No. 161/09 issued by
The Public Utilities Board

Secretary

Appendix A
Glossary of Acronyms and Terms

Application	2010/11 General Rate Application
AOCI	Accumulated Other Comprehensive Income (an accounting concept that reports the difference between the fair market value of certain of a corporation's investments and the cost of those investments)
Basic	Compulsory motor vehicle insurance
Board	Public Utilities Board
Bonus/Malus	Incentives/penalties to encourage good driving
BPR	Business Process Review
CAA	Canadian Automobile Association
CAC/MSOS	Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors
CLEAR	Canadian Loss Experience Automobile Rating
CMMG	Coalition of Manitoba Motorcycle Groups
Corporation	Manitoba Public Insurance Corporation
DCAT	Dynamic Capital Adequacy Test (a stress test employed to determine what level of capital is required to be held by an insurer to assure that present and future obligations to policyholders are met and the insurer is solvent)
DSR	Driver Safety Rating (intended replacement for the Bonus/malus program)
DVL	Driver and Vehicle Licensing
Extension	Optional motor vehicle insurance
GAAP	Generally accepted accounting principles
Government	Government of Manitoba
GRA	General Rate Application
IBC	Insurance Bureau of Canada
ICWG	Investment Committee Working Group (MPI)
IFRS	International Financial Reporting Standards
IIF	Immobilizer Incentive Fund
MBA	Manitoba Bar Association

MCT	Minimum Capital Test (a capital adequacy test required of federally-regulated insurance companies)
Monopoly	Policies that can only be sold by one corporation (MPI)
MPI	Manitoba Public Insurance Corporation
MUCDA	Manitoba Used Car Dealers Association
Near monopoly	Description of market domination in a competitive market due to distribution and other advantages by an insurer (MPI)
No-fault	Accident benefits not related to the fault of the driver
OECD	Organisation for Economic Co-operation and Development
Onerous contract	An 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
Province	Government of Manitoba
RA	Risk Analysis
RIB	Retirement Income Benefit
RSR	Rate Stabilization Reserve
SRE	Optional Special Risk Extension motor vehicle insurance
SRP	Streamlined Renewal Process
Tort system	Benefits paid take into account the allocation of fault by the legal process
Total no-fault	Benefit approach that does not account for the fault of the driver
TSX	Toronto Stock Exchange
VaR	Value at Risk (a measure of the risk of loss on an investment portfolio. For a given portfolio, probability and time horizon, VaR is defined as a threshold value such that the probability that the mark-to-market loss on the portfolio over the given time horizon exceeds this value, assuming normal markets and no trading, is the given probability level.)
WATSS	Winnipeg Auto Theft Suppression Strategy
WPS	Winnipeg Police Service

Appendix B
Appearances

Candace Everard Walter Saranchuk, Q.C.	Counsel for The Manitoba Public Utilities Board
Kathy Kalinowsky	Counsel for Manitoba Public Insurance Corporation
Samantha Charron 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
Don Palmer	Vice-President Finance and Chief Financial Officer
Ottmar Kramer	Director of Finance & Controller
Richard Olfert	Deloitte 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

David Gurvey

Eduard Hiebert

Doug Houghton