M A N I T O B A	Order No. 162/11
THE PUBLIC UTILITIES BOARD ACT	
THE MANITOBA PUBLIC INSURANCE ACT	
THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT	December 2, 2011

Before: Susan Proven, P.H.Ec., Acting Chairperson
Len Evans, LLD, Member
Régis Gosselin, CGA, MBA, Member

MANITOBA PUBLIC INSURANCE: COMPULSORY 2012/13 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

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1. EXECUTIVE SUMMARY

The Public Utilities Board (Board or PUB) hereby orders Manitoba Public Insurance Corporation (MPI or the Corporation) to decrease annual written premium rates and revenue by 8%, based on 2011/12 rates and revenue; the decreases to be implemented for vehicles insured pursuant to MPI's Basic Compulsory Vehicle Insurance Plan (Basic) in the Corporation's 2011/12 insurance year, effective March 1, 2012 for 2012/13.

Included within the overall decrease of 8%, the Board approves MPI's requests to (a) increase drivers' licence premiums for Driver Safety Rating (DSR) demerit levels -2 to -20 to a maximum of $2,000; (b) there be no change in service, transaction, permit and certificate fees; and, (c) there be changes to the fleet rebate scale.

While MPI proposed that an Information Technology Optimization Fund (ITOF) be established from Basic Retained Earnings, to the extent of $65 million, this to fund an IT Optimization Project (Project), the Board determines, for rate-setting purposes, that the Project should be funded from annual operations as opposed to from Basic Retained Earnings and, as such, the ITOF will not be considered either for rate-setting purposes or for the purposes of a future further review of PUB's Rate Stabilization Reserve (RSR) target range.

The Board plans to review the RSR target range at next year's General Rate Application (GRA) hearing, and will employ three methods that have been discussed in the past, namely the Dynamic Capital Adequacy Testing (DCAT), the Minimum Capital Test (MCT), and the Risk Analysis/Value at Risk (RA/VAR), at which time it is anticipated that a thorough review and analysis will be conducted with respect to each method.

The Board will hold a technical conference in early 2012 to discuss, as between the parties to the GRA, further efforts that can and should be undertaken by the Corporation with respect to furthering road safety and loss prevention.

With respect to the Corporation's allocation of expenses between Basic and its other lines of business, the Board is still not yet prepared to implement the “Deloitte” Cost Allocation Methodology at this time.

In last year’s Order, the Board supported in principle a revised cost allocation methodology but did not approve its use for rate setting purposes, that decision was based on MPI’s refusal to file with the Board specific Corporate-wide financial information. Once again in this proceeding MPI did not provide the requested information. In the absence of being able to consider Corporate-wide financial information, including forecasts, the Board is not in a position to as effectively assess the reasonableness of the effects of the proposed methodology on Basic results, or definitively conclude on the fairness of Basic rates and the adequacy of the RSR.

Also within this Order, the Board comments on and makes directives, recommendations and suggestions with respect to a wide variety of MPI actions, plans and matters, some pertaining to directives, recommendations and suggestions of past Board Orders that MPI has yet to act on. These matters include the Corporation’s approach to rating motorists; MPI’s operating expenses and personnel levels; and, road safety. It is also the ongoing view of the Board that MPI is not transparent enough to provide the Board full confidence in its rate decisions.

2. BACKGROUND INFORMATION and EVIDENCE HIGHLIGHTS

Rate Hearing Process

In its GRA, MPI applied to the Board for approval of proposed 2012/13 premiums for compulsory vehicle insurance, driver insurance premiums and vehicle premium discounts. MPI's operations are divided into two main segments:

a) Basic, that is regulated compulsory insurance, operated as a monopoly; and
b) Unregulated and so-called "competitive" lines of business (Extension, SRE and DVL).

MPI has over 95% of the Extension market, giving the Corporation what has been described by Intervener's and the Board in prior Orders and GRA proceedings as a "near" monopoly. Although MPI's operation of non-Basic lines of business is dependent on its Basic platform, the Board's jurisdiction over rates is currently limited to Basic compulsory insurance.

The evidentiary component of the public hearing of the GRA commenced on October 4, 2011 and took place over 9 days, which were followed by closing submissions by Interveners, made on October 26, and by MPI, on November 1, 2011.

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

The Interveners of record were:

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

b) Coalition of Manitoba Motorcycle Groups (CMMG);

c) Consumers' Association of Canada, Manitoba Branch (CAC);

d) Manitoba Used Car Dealers Association (MUCDA); and

e) Insurance Brokers Association of Manitoba (IBAM).

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

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

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

Lines of Business and Corporate Goals

The operations of MPI are divided into three segments:

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

b) Extension and Special Risk Extension, not regulated; and

c) DVL, which although also unregulated by the Board is mandatory - MPI has a contract with the Government to provide services formerly provided by the Government through its former Division of Driver and Vehicle Licensing (MPI has described DVL as it being its fourth line of business).

MPI's stated broad corporate goals and objectives are to:

1. provide universally-available, mandatory protection against the cost of automobile accidents;
2. charge rates which are, on average, lower than those charged by private insurers for comparable coverage and service;
3. achieve financial self-sufficiency, with no subsidies or other assistance from general government revenues;
4. return at least 85% of Basic premium revenue to Manitobans in the form of claims benefits (this objective does not apply with respect to Extension and SRE);
5. with respect to Basic, operate at a financial break-even level over the long term;
6. be a leader in automobile insurance and vehicle and driver licensing;
7. provide Manitobans with superior products, coverage and service;
8. minimize public inconvenience in insurance claims procedures;
9. provide responsive, fair, courteous and convenient service that meets customer service standards based on customer expectations;
10. encourage investment of insurance capital in Manitoba;
11. maintain retained earnings and the RSR – the latter applicable only for Basic, within established target levels;
12. offer an environment and career opportunities that encourage employees to strive for excellence;
13. treat employees with respect and fairness and recognize their contributions;

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

15. pursue loss prevention programs.

2012/13 Rate Application

Pursuant to the GRA, MPI sought rates and premiums for compulsory driver and vehicle insurance effective March 1, 2012, based on an overall 6.85% decrease in written premium revenue (for vehicles insured during the 2011/12 insurance year).

Included within its application, MPI also applied for a change to its approach to fleet rebates, such that the maximum rebates would be 33% (increased from 25%), and, as well, an increase in driver licence premiums for DSR demerit levels -2 to -20, to a maximum of $2,000. MPI proposed no changes to fees charged for services and transactions, rates for permits and certificates, or the $40 discount provided to customers with approved after-market and manufacturer/dealer installed anti-theft devices.

Forecasted/Projected Operating Results

MPI based its premium proposal for 2012/13 upon its forecasts for Basic revenue, claims and operating expenses, which forecasts include estimates of increased revenue from both a vehicle upgrade and a volume upgrade factor. MPI projected Basic net income of $16.1 million from operations before a projected $3.3 million transfer from the Corporation's ITOF, to arrive at projected net income for Basic rate setting purposes of $19.3 million for 2011/12.

MPI also projected a net loss from Basic operations of $4.8 million for 2012/13, and a net loss for Basic rate setting purposes of $1.4 million after a projected transfer of $3.3 million from the ITOF.

MPI filed an update during the hearing that was based on an actuarial valuation prepared as of July 31, 2011 and six months of actual Basic experience in 2011/12. MPI's Basic updated operating forecast for 2011/12, based on existing rates, and both an updated projection for 2012/13 and an "outlook" projection for 2013/14, based on MPI's proposed rates, are as follows:

Statement of Operations ($ millions)	Forecast	Projected	Outlook
For the Fiscal Years Ended February 28/29	2011/12	2012/13	2013/14
Net Premiums Earned			
Motor Vehicles	$743.6	$742.9	$755.5
Drivers	22.6	26.7	33.2
Reinsurance Ceded	(11.5)	(11.9)	(12.9)
Total Net Premiums Earned	754.7	757.7	775.8
Service Fees & Other Revenues	19.7	23.4	29.5
Total Earned Revenues	774.3	781.2	805.3
Net Claims Incurred	644.8	618.5	641.9
Claims Expense	105.7	105.5	107
Road Safety/Loss Prevention	14.9	13.9	13.4
Total Claims Costs	765.4	737.8	762.3
Expenses			
Operating	53.1	64.3	64.8
Commissions	41.6	34.3	30
Premium Taxes	22.5	23.1	23.7
Regulatory/Appeal	3.4	3.6	3.7
Total Expenses	120.6	125.2	122.1
Underwriting Income (Loss)	(111.6)	(81.9)	(79)
Investment Income	109.6	78.0	83
Net Income (Loss) from Operations	(1.9)	(3.9)	3.9
Transfer ITOF	3.2	3.3	5.1
Net Income (Loss) for Rating Purposes	1.3	(0.6)	9.1
Surplus Distribution	(14.3)	-	-
Net Income (Loss) after Surplus Distribution	($12.9)	($0.6)	$9.1

MPI noted that it continues to depend upon projected investment income to achieve an approximately break-even result on annual Basic operations averaging out over the two year period (2012/13 & 2013/14), this recognizing the impact of staggered renewals. MPI forecasted a potential Basic net income “swing” of plus or minus $10 million.

MPI expects that Basic will record net losses from operations of $1.9 million in 2011/12 and $3.9 million in 2012/13, to be followed by Basic net income of $3.9 million in 2013/14.

MPI also proposed funding its planned Basic IT infrastructure projects from the ITOF, the source of which is to be Basic retained earnings. MPI’s revised Basic forecast for 2011/12 reflects a projected net income for rating purposes of $1.3 million, after a transfer of $3.2 million from the ITOF. The Corporation’s projection for 2012/13 is for a net loss for rating purposes of $0.6 million, after a projected transfer of $3.3 million from the ITOF. MPI’s outlook for 2013/14 reflects a net income for rating purposes of $9.1 million.

Program Revenue

MPI generates 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 total annual revenues are expected to continue to increase due to vehicle upgrade and volume factors. A vehicle upgrade factor reflects the Corporation’s assumption of an ongoing “renewal” of the insured vehicle fleet through the disposal of older vehicles and the purchase of newer ones. The volume factor assumes annual growth in the number of vehicles insured. MPI projected an annual vehicle upgrade factor of 2.25% and an annual volume factor of 2.5% for 2012/13 through to 2015/16.

As set out above, total earned Basic revenues for 2012/13, pursuant to the most recent forecast filed by the Corporation, are projected at $781.2 million plus $78 million for investment income – the latter being the allocation to Basic of MPI's current forecast overall investment revenue.

Program Costs

Claims experience is a major factor in determining vehicle premiums and is projected by taking into account historical data and projecting into the future to arrive at the expected cost of claims for all vehicle categories. Total claims costs (which include net claims incurred, claims expenses, and road safety loss prevention expenses) were forecast to be $737.8 million for 2012/13, while total Basic operating and administrative expenses were projected to be $125.2 million.

Net claims incurred (claims incurred less recoveries including reinsurance) are comprised of projections of both bodily injury and property damage claims and are, by far, MPI's largest annual cost. Overall, Basic net claims incurred for 2010/11 were $333.1 million, with forecasts of $644.8 million for 2011/12 and $610.3 million for 2012/13, as follows:

Cover (Millions)	**2010/11 (Actual)**	**2011/12 (Forecast)**	**2012/13 (Projection)**
No- Fault Accident Benefits			
Pre- PIPP*	$2.1	$0.3	$0.9
PIPP	$(59.7)	$239.2	$203.5
Sub-total	$(57.6)	$239.6	$204.4
Collision	$275.3	$288.2	$295.9
Comprehensive	$75.6	$74.2	$66.1
Property Damage	$35.9	$38.1	$38.4
Public Liability*	$3.8	$4.6	$5.6
Total Claims Incurred	**$333.1**	**$644.8**	**$610.3****

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

**MPI provided an update to its forecast for 2012/13 including an update to the claims costs totalling $618.5 million.

PIPP Claims Run-off

PIPP accident benefits are, with limited exceptions related to criminal acts, 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 arising from accidents in Manitoba ended March 1, 1994, when MPI converted to PIPP on a going-forward basis, the pre-existing tort claims continue to run-off (and are now at negligible levels).

During 2010/11, Basic's net incurred claims benefited from about $286.1 million of total net undiscounted favourable net runoff (i.e., when a claim is incurred an estimate of its ultimate cost to the Corporation is made, and then in subsequent years as more is learned about the likely actual cost development, as the circumstances of the claim become better understood and as claim payments are made, adjustments are made to prior forecast). Eventually, claims are settled and closed, and this process led to favourable "actual" experience of $21.0 million and a reduction in claims incurred valuation assumptions of $265.1 million.

This extremely large "positive" claims incurred run-off represents a continuation of a pattern of favourable run-off that has occurred and recurred for several years. In particular, during the five-year fiscal period from 2006/07 through 2010/11, MPI's Basic financial position benefited from about $625.3 million of cumulative Basic total net PIPP undiscounted favourable runoff. In short, the Corporation over-stated its claims incurred by $625 million over the five-year period.

Mr. Jim Christie, formerly of Ernst & Young LLP, which is MPI's external appointed actuary, testified before the Board with respect to the valuation process regarding MPI's claim liabilities. Mr. Christie advised that the process originates with MPI's internal actuarial resources assembling and providing data, and initiating analysis. MPI's external actuary then reviews MPI's internal analysis, undertaking independent analysis as needed, and works with MPI's internal actuarial resources to reach final conclusions on the valuation, for which the external actuary takes full responsibility. The data, analysis and final conclusions of the external actuary are then provided to the actuarial specialist supporting the work of the MPI's external auditors, KPMG LLP (KPMG), for its review and comment, forming an important part of the annual audit process.

Mr. Christie testified that the first evidence of the significant magnitude of fiscal year's 2010/11 favourable runoff "came to light" from the initial analysis performed by MPI's internal actuarial resources. Mr. Christie advised that the background to much of the recent favourable runoff of $286.1 million extends back to 2005, when MPI adopted a new tabular reserving system for certain PIPP coverages. The new approach establishes individual case reserves using annuity-like factors based on the characteristics of individual claimants. Previously, individual case reserves were established by MPI's claim examiners, based on their knowledge of the claim and their experience with similar claims.

The 2005 adoption of the new tabular reserving system resulted in individual case reserves <u>declining</u> by about $250 million. Because of the untested nature of this system, and the limited data then-available to do that testing, Mr. Christie's valuation at that time involved <u>increasing</u> the IBNR provision by about the same amount, in effect giving no credibility to the new tabular reserving system, ahead of experience with it, and thus maintaining overall claim liabilities at levels consistent with recent prior years.

Mr. Christie testified that he followed the same practice for about two more years, before beginning to give partial recognition to the lower IBNR estimates indicated by the experience since the implementation of the tabular reserving system. With five years of accumulated experience since the reserving system change available for his valuation of MPI's Basic Unpaid Claims as at October 31, 2010, Mr. Christie responded much more completely to the more recent experience, which in turn produced most of the $265.1 million of favourable runoff recording during fiscal year 2010/11. He advised that his approach was in accordance with accepted actuarial practice in Canada.

For each valuation over the last five years, including his latest valuation, Mr. Christie considered his valuation to have been prepared on a best estimate basis (before consideration of any provision for adverse deviations), and to be in accordance with accepted actuarial practice. Mr.

Christie described the basis for his valuations as being "*slightly conservative*", and, with respect to his latest valuations, he advised that he has no expectation of further significant favourable or adverse runoff occurring in the future.

With respect to the actuarial valuations as at October 31, 2010 and as at February 28, 2011, the report of KPMG's actuarial specialist concurred with Mr. Christie's view, stating in part:

> "*Mr. Christie's analysis is in accordance with accepted actuarial practice in Canada and conforms to the relevant Standards of Practice of the CIA.*"
>
> "*Mr. Christie's estimates of claim liabilities are within our range of reasonableness for each line reviewed as well as in aggregate. For some of the lines of business reviewed, we consider that Mr. Christie 's estimates are slightly conservative while remaining within our range of reasonableness.*"

That was also the evidence of Mr. Neil Parkinson of KPMG, who also testified before the Board, noting that KPMG's definition of a "*range of reasonableness*" for claims reserves "*would typically be about plus or minus 5 percent around a central estimate*".

The significant run-off which arose in 2010/11, discovered by the Board after the conclusion of the GRA heard in the fall of 2010, gave rise to a revision by the Board to the Order issued by the Board following that GRA, that revision providing for a 45% rebate to motorists, pursuant to Board Order No. 43/11 issued on March 31, 2011.

Claims Incurred Forecasting

In 2010/11, again the result of the $265.1 million reduction in Basic PIPP run-off, PIPP accident benefits claims incurred amounted to only $59.7 million. With no such material run-off adjustment expected for 2011/12, these claims are projected to cost $239.2 million. The projected increase is, again, largely the result of the absence of the favourable run-off of previous years that reduced the PIPP accident benefits claims incurred in 2010/11, and, for 2012/13, MPI's current projection is that such claims will cost $203.5 million.

As the following table illustrates, there have been significant variances between the initial cost projections provided at the time of GRA, the revised forecast provided one year later, and the actual results:

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[1]	190.1	210.4[1]	229.3
2004[2]	190.1	230.7[2]	229.3
2005	206.7	212.2	154.8
2006	215.1	211.2	194.5
2007	221.1	226.2	184.6
2008	237.3	231.3	167.2
2009	242.1	239.3	186.1
2010	249.8	236.2	175.0
2011	252.9	244.6	(59.7)
2012	253.3	197.3	-----
2013	203.5	-----	-----

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

For Basic collision coverage, claims incurred were $275.3 million in 2010/11, and, for the current year the updated forecast (reflecting the actual experience in the first six month of 2011/12) is for a cost of $288.2 million (up from $281.9 million), and, for the year of the current GRA, 2012/13, the current cost projection is $295.9 million.

For comprehensive coverage, claims incurred were $75.6 million in 2010/11, and, for the current year, the updated forecast is $74.2 million (up from $62.6 million, an increase of $11.6 million). MPI attributes the increase to hail damage claims incurred during the first six months of this insurance year. MPI advised that it does not expect any further hail damage claims for the current year. For the year of the Application the current cost projection is $66.1 million.

For property damage coverage, claims incurred were $35.9 million in 2010/11, and for the current year the forecast is $38.1 million. For the year of this GRA, the current projection is $38.4 million. And, for public liability coverage, claims incurred were $3.8 million in 2010/11, for the current year the current forecast is $4.6 million, and, for 2012/13 the current projection is $5.6 million.

Other Costs

MPI projects Basic program non-claims incurred expenditures as follows:

	Forecast Expenses 2011/12 ($ millions)	**Projected Expenses 2012/13 ($ millions)**
Claims Expenses (Note 1)	$105.7	$105.5
Road Safety/Loss Prevention (Note 2)	$14.9	$13.9
Operating Expenses (Note 3)	$53.1	$64.3
Commissions (Note 4)	$41.6	$34.3
Premium Taxes	$22.5	$23.1
Regulatory/Appeal Expenses (Note 5)	$3.4	$3.6
Total (Note 6)	**$241.2**	**$244.7**

Notes:

1. Overall claims handling costs are allocated between Basic and Extension based on net claims incurred before financial provisions.
2. Road safety has three main priorities: occupant restraint, impaired driving and speed. The focus is on education, assistance for traffic safety programs administered by external agencies and general community work.
3. These expenses are primarily employee compensation, technology related, telecommunications, occupancy costs and amortization of capital assets. Expenses are allocated between Basic and Extension based on direct premiums written.
4. Brokers' commissions will decline due to the implementation of a renegotiated fee arrangement with brokers which will result in a phased in reduction in commissions on Basic transactions from 5% to 2.5% by November 1, 2012.
5. Represents the aggregate of costs associated with the Board process, Court of Appeal litigation, Automobile Injury Compensation Commission, Crown Corporations Council, Claimant Advisory Office and the Rates Appeal Board.
6. Non-claim expenditures for 2010/11 were $229.8 million. Current outlook for 2015/16 is $260.5 million.

Operating expenses attributed to the Basic program have experienced significant increases and are projected to increase to $64.3 million in 2012/13 from $53.1 million in 2011/12, an increase of $11.2 million or 21%. The increase in operating expenses is partly attributable to higher amortization costs from infrastructure initiatives undertaken and increases in compensation allocated to Basic.

As noted, compensation is a major component of operating and claims expenses, projected to representing 56% of the total Basic non-claims incurred expenses in 2012/13. The compounded rate of annual growth for compensation expenses of the Corporation from 2010/11 to 2012/13 is 6.56% in excess of the rate of inflation which was under 2 % for the same period. MPI attributed the increases above inflation to be due to the Business Process Review (BPR), and various projects and operational requirements.

Supporting the increase in compensation, MPI's staffing levels have increased significantly since 2000. Prior to the merger with DVL in 2004, MPI had 1,364 full time equivalent (FTE), with DVL MPI's staffing levels increased to 1,700 FTE (with the addition of approximately 340 DVL staff). Staffing levels again increased up to 2009 due to BPR project requirements, to 1,990.7 FTE. Staff assigned to BPR projects increased from 23 FTE in 2007 to 228.9 FTE in 2009, dropped to 72.8 FTE in 2010, and are now forecast to decline to 5 FTE in 2012/13. MPI indicated that, in most cases, the staffing assigned to BPR projects was and is permanent staff to be later reassigned within MPI.

MPI's overall staffing levels declined to 1,905.8 FTE in 2010, and to 1,850.4 FTE in 2011. MPI projects FTE savings related to the BPR projects totalling 60.7 FTE, this including a reduction of

16.7 FTE related to Service Centres, 24 FTE related to the PIPP Infrastructure system, and 20 FTE related to the mainframe decommissioning project (now known by the acronym DART, which stands for Driving Ahead in Real Time).

Although MPI anticipates future savings of FTE staff related to the BPR, staffing levels for 2012 are still forecast to increase to 1,911.8 FTE, an increase of 78 FTE from the 1,833.8 FTE forecast last year. MPI attributed the projected 43.3 FTE increase in its Strategy & Innovation department and 26.6 FTE in the Community & Corporate Relations department due to “knowledge management” initiatives. In addition, MPI anticipates engaging as many as 100 to 120 external consultants over the next few years, this to assist with various projects,

Road Safety Initiatives

MPI reported that its 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.

In response to the Board’s prior directives, MPI provided statistics on impaired driving, occupant restraint and the relationship to fatalities in both urban and rural settings in Manitoba.

With respect to alcohol related fatalities, MPI reported an average 30 fatalities annually between 2003 and 2009, the majority (73%) occurring in rural areas. MPI indicated the urban/rural split was consistent with overall MPI fatality statistics, which indicated that during the years 2004 to 2008 there was an average of 106 fatalities per year, with 71% occurring in rural areas.

MPI attributed the higher proportion of rural fatalities primarily to the fact that collisions at highway speeds generally have more severe consequences for the occupants. MPI further indicated that the non-use of occupant restraints was also a contributing factor, as the percentage of unrestrained victims killed in rural crashes is higher than for crashes in urban areas. From 2003 to 2009, 42% of the victims killed in rural crashes were unrestrained at the time of the crash on average, compared to 27% of victims in urban crashes.

MPI stated that it had increased Road Watch funding to support police efforts for additional roadside check stops, including implementing funding increases for the RCMP to support additional rural enforcement from May to November, as well as to expand enforcement on northern and winter roads during January and February.

At last year's proceeding, MPI identified high risk deer/vehicle crash areas and indicated that there are on average 6,600 deer vehicle collisions annually Province-wide (400 in the City of Winnipeg), and that these accidents have resulted in 300 injured occupants annually, with annual claims costs of $30 million. Between 2005 and 2009, MPI reported that three motorists were killed as a result of wildlife collisions. MPI further indicated that, historically, the months of October and November have the highest incidence of vehicle-deer collisions.

MPI advised of implementing a wildlife collision-avoidance pilot project, one focused on two city streets with a high number of annual vehicle-deer collisions. The city roadways involved in the pilot have had on average of 92 vehicle-deer collisions annually, with average claims costs of over $265,000. The pilot project, conducted in conjunction with the Winnipeg Police Service, involves the placement of mobile signs during October and November to caution motorists as to speed and wildlife presence. MPI will be gathering data from the pilot.

While the focus of the pilot is in Winnipeg, MPI indicated that it has also attempted to raise public awareness in rural areas through news releases and other community efforts, including engaging rural law enforcement towards a focus on speed reduction during the fall. MPI confirmed that it has yet to invest in the construction of wildlife barriers in rural areas.

MPI has launched a Road Safety Visioning exercise, initially planned to have been completed in 2011, which is to include considering road users, vehicle design, safety standards, infrastructure investments and traffic law enforcement. The "visioning" exercise is to incorporate a public and stakeholder consultation process, one modelled after the DSR consultation process. A report is expected to be completed by the end of February 2012.

As part of the exercise, MPI has reviewed the practices of the Insurance Corporation of British Columbia (ICBC), which provides significant funding for road improvements, including improved intersection design towards reducing accidents, improved signage to identify road hazards and the construction of rumble strips.

An ICBC evaluation concluded that for every dollar invested, policyholders receive a “return” of 5 to 12 times the investment. MPI indicated that ICBC provides only a portion of the funding of roadway safety infrastructure projects and that MPI’s current road safety budgets do not contemplate any funding of road infrastructure projects, although it expects feedback from the consultation process on the issue.

Capital Expenditures

The Corporation's budget for capital expenditures for 2011/12 was reported as $54.8 million, an increase of $28.3 million from 2010/11 and an increase of $38 million from the initial projection of last year's GRA. Approximately $37 million of the $54.8 million was reported to relate to various “transformation” initiatives (including IT Optimization).

At last year's GRA, MPI’s Information Technology (IT) capital budget was forecast at $5 million for 2011/12 and $3.3 million for 2012/13; this contrasts with a revised budget of $44.4 million for 2011/12 and $18.8 million for 2012/13 presented this year; a variance of $51.6 million for the two years. MPI’s advised that its long-term IT budget had not reflected major IT infrastructure projects at last year's GRA, and that the need for such expenditures became evident to the Corporation only in the latter part of fiscal 2010. MPI attributed the major variance to not making a general provision for major projects last year.

In addition, this year, MPI reinstituted the practice of providing a general provision “placeholder" of $20 million for future major development projects for its budget for 2012 /13 and 2013/14.

MPI is forecasting to spend $53.2 million in 2012/13 and $46.7 million in 2013/14, primarily on business transformation office initiatives, which include IT optimization projects.

Also included in MPI's capital budget is $2 million for the development of a daycare center in Cityplace, the expenditure reportedly to be funded by the "competitive" unregulated lines of business. The facility is to be leased out to and run by a daycare organization, and MPI reported that it has reserved 60% of the spaces in the daycare for children of its employees, with the remaining spaces to be offered to the public.

Information Technology Optimization Project and Fund

In May 2010, MPI experienced a two-day outage of the insurance workstation system used by its brokers, reportedly inconveniencing 45,000 policyholders. Apparently, the outage was the result of a human error wherein a tracking data feature of the Corporation's software was inadvertently left running in "production mode" causing a major system failure.

MPI indicated that it did not experience a material change in revenues including fees as a result of the system outage, but that the outage resulted in MPI incurring consulting and staff overtime costs totalling $35,000. In addition, a portion of the effort required to recover the system was covered under a Microsoft master service agreement at no cost to the Corporation.

In response to the outage, in July 2010 MPI undertook an internal assessment of the state of its IT infrastructure. Based on that internal report, the Corporation's management recommended that MPI undertake a more detailed assessment of MPI's IT infrastructure. Subsequently, MPI's Board of Directors approved interim funding of $1 million in its July 7-8, 2010 Board of Directors meeting and MPI engaged Hewlett Packard (HP) to undertake a review.

HP provided a final report presentation on October 17, 2010 indicating a need for MPI to spend $77 million in one-time IT expenditures, with $29 million in ongoing annual expenditures also related to the proposed project. The HP report and budget was provided to MPI's Board of

Directors. MPI adopted HP's plan, though deferring the recommended implementation of Accounting software changes and the increasing of spending on data backup infrastructure -- the one-time budget expenditures expected were reduced from $77 million to $71 million.

In February 2011, MPI's Board of Directors authorized the appropriation of $75 million from retained earnings of the Corporation ($65 million from Basic and $10 million from Extension) to fund the expected costs of a number of multi-year ITO projects. The Information Technology Optimization Fund (ITOF) was reportedly established to defray the rate impacts of the development of and subsequent amortization of deferred development expenses related to the ITO projects. The allocation of the funds was made in advance of the development of any project charters related to the IT projects, or decisions on the future direction of MPI related to delivery of services to customers.

This Board was not made aware of the initial assessment work undertaken by MPI, or that MPI had engaged HP to review its IT infrastructure and that HP had submitted a final report although the fall 2010 GRA hearing was underway. This Board was apprised of the allocation of funds for the ITOF in March 2011, when the additional information required by the Board to be filed by MPI ahead of the Board giving final approval for the rebate was provided. No further details were provided at that time.

The ITO projects will reportedly include Application Optimization, IT Service Management, Security Optimization, Infrastructure Optimization and upgrades to the Disaster Recovery and Business Continuity programs, the concept being to refurbish the Corporation's information technology infrastructure so as to lower the risk of future service interruptions and to enable the development of future service improvements.

Plans include improvements to network infrastructure to support future requirements for voice, data and video transmissions, a revised business continuity plan, a revised disaster recovery plan, a new "green" data center, a more robust computer based infrastructure, and enhancements to provide MPI the ability to stay current with respect to IT matters while making future business changes.

MPI has engaged Gartner Canada Co. (Gartner) at a total cost of $2.8 million, this to assist MPI in managing the ITO projects, and, as well, to provide research and analysis services for the next five years. Martin Geffen, a Vice-President of Gartner, appeared before the Board with respect to the project.

Gartner had reviewed the assessment made by HP and agreed with the conclusions reached by HP that MPI needed to upgrade its IT infrastructure. Mr. Geffen assessed the current state of MPI’s IT infrastructure as being highly functional but at risk, the latter both from both a security standpoint and the potential for server or disk failures. Mr. Geffen indicated that MPI’s ITO project was focused on improving the underlying technology that supports its system applications. In other words, the ITO project is to be about better ensuring that MPI’s underlying IT infrastructure is in place to enable MPI's business enabled solutions to run appropriately.

While Mr. Geffen opined that a “charter” to indicate purposes, resources and scheduling was required, detailed project charters have yet to be completed for each of the ITO projects. The project charters are to be completed by the end of the current fiscal year and will include detailed costing estimates and articulate the benefits from each project. Gartner will be involved in the review of the project charters.

Business Process Review (BPR)

As the evidence reflects, MPI has completed a number of BPR projects, including DSR, SRP, PIPP infrastructure and the development of an Enterprise Data Warehouse. Projects funded by the Extension Development Fund (EDF), funded by Extension net income, retained earnings and policyholder premiums, have cost the Corporation $48.5 million through to the end of fiscal 2010/11.

The PIPP infrastructure project, funded solely by Basic, has been completed and been in use since September 2010 at a cost of $28.6 million; MPI anticipates savings to arise from the project over a period of years (through improvements in claims management). The costs of the

DSR project, also funded solely by Basic, were approximately $9.2 million. The SRP project has been allocated to Basic to the extent of 80%, or $4.6 million, the remainder charged to Extension (the Province provides funding for MPI's drivers' licensing expenditures, operated out of Extension).

In total MPI has incurred $47 million on Basic related BPR projects. Including Extension projects, MPI has spent $95.5 million as of the end of February 2011, and given the remaining balance in the EDF, has either spent or allocated approximately $138 million to be used on BPR projects. Despite the significance of these costs to the Corporation and its policyholders, the details of the costs of the BPR projects funded by the EDF, including the Enhanced Drivers' License (EDL) program, the Enhanced Identity Card (EIC) program and the Mainframe Decommissioning (now DART), have not been provided to the Board.

Investment Income

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

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

In 2010/11, MPI realized $88 million in investment income. In 2011/12, MPI is anticipating investment income of $109.6 million, and in the year of the Application, it is projecting investment income of $78 million. MPI's portfolio exceeds $2 billion, and is heavily weighted to fixed-income securities and government bonds.

Investment Portfolio

MPI has adopted various target allocations for the various asset classes within its investment portfolio. While allocation options were provided and modeled by AON Consulting, with its report filed at the 2009 GRA, AON's recommendations were not fully adopted.

MPI's investment portfolio for 2012/13 is projected to be about $2.3 billion, and to be comprised of 62.1% in long-term bonds, 22.4% in equities, 3.0% in cash and short-term investments, 9.6% in real estate, 0.3% in venture capital, and 2.6% in infrastructure investments. Within MPI's investment portfolio, due to its weighting to long-term bonds, the investment returns are materially impacted by changes in interest rates (when rates fall, market value of bonds rise, when rates increase, the market value of bonds fall).

MPI forecasts that its investment portfolio will increase to $2.7 billion by the end of fiscal 2014/15.

The size of the investment portfolio has been and is expected to increase due to two major factors:

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

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

Rebates and rate reductions reduce investment portfolio growth.

MPI re-designated its bond purchases after June 1st, 2008 to “Held for Trading”, now known as "Fair Value through Profit and Loss" (FVTPL). As a result, along with interest earnings changes in the market value of its bond portfolio, it will impact on the annual net income results of the Corporation. As a result of this designation, whether the bonds are sold or not, changes in unrealized gains and losses for FVTPL bonds will be included in the annual operating statement (income statement) as investment income. Unrealized gains and losses due to fluctuating market yields will offset to a large extent the impact of market yield changes on the discounting of the Unpaid Claim Liabilities, and this is expected to provide a degree of net income stability for the Corporation. A further step in this direction was an election made pursuant to new International Financial Reporting Standards (IFRS), that being to re-designate bond holdings previously classified as "Available for Sale" as “Held for Trading”, now FVTPL.

2010/11 Financial Results

In 2010/11, Basic realized a net loss of $31.8 million, which may be compared to the projected net income of $13.8 million at the 2010 GRA. The change is attributable, in part, to the $321.6 million rebate ordered after last year's GRA and paid out by MPI in May 2011 (recorded in the 2010/11 year), more than offsetting the $261 million drawdown of Unpaid Claims due to actuarial evaluation and a decrease from the initial estimate as to the retroactive costs of increased benefits for those catastrophically injured in motor vehicle accidents.

2011/12 Financial Results

In this GRA, Basic was forecast to have net income in 2011/12 of $3.3 million for rating purposes, compared to projected net loss of $2.5 million for the same year forecast at the 2011 GRA. The change takes into account a significant decrease in the underwriting loss forecast, as well as the additional $16 million rebate paid to Basic policyholders in 2011 pursuant to Board Order No. 86/11.

MPI provided the Board with an update of its financial results, one reflecting actual results for the first six months of 2011/12, including an update to the claims liability forecast based on an internal actuarial valuation as at July 31, 2011.

Based on the update, MPI now forecasts a net loss of $12.9 million. The $16.2 million negative change in forecast results is primarily due to a $57 million increase in claims costs, of which $42 million relates to the valuation of unpaid PIPP claims liability (that due to lower interest rates). The increase in cost was partially offset by higher than forecast investment income ($28 million) again influenced by changes in interest rates. As well, a reduction of $6.8 million from forecast operating expenses was reported.

The discount rate used for MPI's claims liabilities and the projected returns from its investment portfolio, one heavily weighted to fixed income bonds, are sensitive to changes in interest rates.

The Corporation anticipates earning $13.7 million from its Extension (which includes MPI's administration of DVL responsibilities) and SRE lines of business in fiscal 2011/12, as reflected in its 2nd Quarter 2011/12 unaudited report. Similar to its stance of the last few years, MPI refused to provide the Board with any forecasts of future annual results for Extension and SRE.

2012/13 Financial Results

MPI forecasts a Basic net loss from operations of $3.9 million, with a transfer from the ITOF of $3.3 million, such that Basic will have a net loss for rating purposes of $611,000. This forecast reflects Basic net income to be about $7.3 million less than the $6.7 million net income projected for 2012/13 at last year's GRA. The forecast includes the assumption that the Board will approve MPI's proposed premium reductions.

Outlook Period

MPI's projections for 2013/14 through 2015/16 do not assume any further overall rate changes, although both reflect a continuing expectation of annual upgrade and volume factor increases (2.25% and 2.5% respectively) for each year through the outlook period.

MPI projects Basic net income from operations of $3.9 million in 2013/14, $15.2 million in 2014/15 and $35.8 million in 2015/16. With contemplated transfers from the ITOF, MPI is proposing net income for rating purposes of $9.1 million in 2013/14, $23.8 million in 2014/15, and $43.2 million in 2015/16.

MPI's forecasts do not reflect any anticipated changes in claims incurred experience as a result of the DSR, although MPI expresses "hope", one shared by the Board, that DSR will provide a sufficient incentive to motivate better driving behaviour over time.

RSR

The stated 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. As stated in Orders 150/05, 156/06 and reiterated in subsequent Orders the Board's view of the adequacy of the RSR includes consideration of Basic retained earnings, segregated reserves and the RSR.

MPI forecasts Basic RSR balances, including the IIF and ITOF are as follows:

Basic RSR ($ Millions)

Year	RSR Balance	Other Basic Retained Earnings		Total Basic Retained Earnings
		IIF	ITOF	
2007/08 (Actual)	$127.1	17.9	-	$145.0
2008/09 (Actual)	$134.9	2.0	-	$136.9
2009/10 (Actual)	$224.7	-	-	$224.7
2010/11 (Actual)	$140.5	-	$65.0	$205.5
2011/12	$127.5	-	$61.8	$189.3
2012/13	$126.9	-	$58.5	$185.4
2013/14	$135.9	-	$53.4	$189.3
2014/15	$159.7	-	$44.7	$204.5
2015/16	$180.0	-	$37.4	$240.4

In Order 161/09, the Board established a RSR target range of 10% to 20% of net written premiums (vehicle and driver premiums). As such, the target for rate setting purposes in 2011/12 is $77.9 million to $155.7 million. Certainly, the RSR range is a major, but far from the only, determinant in both rate and rebate decision-making. Further, both MPI and the Board, assisted by interveners, have a role in protecting MPI's future financial condition.

MPI has advised the Board that it accepts the Board ordered RSR range for rate-setting purposes and based its rate application on the Board's target range as it has no immediate plans to pursue further the issue of the RSR target range, though this issue is expected to be discussed in more detail at next year's GRA. The various mechanisms under which the RSR may be set and about which the Board has heard evidence in the past are the Minimum Capital

Test, Dynamic Capital Adequacy Testing and the Risk Analysis/ Value at Risk (VAR) Analysis.

Driver Safety Rating

In 2009, the Board conducted a special DSR hearing at which MPI presented the DSR system, seeking the Board's approval. The goals of the DSR program are to:

- Strengthen the ability to reward the safest drivers;
- Encourage poor drivers to improve their driving behaviour; and
- Enhance the overall understanding among drivers of how their driving behaviour can affect how much they pay for auto insurance.

MPI advised the Board, at the DSR hearing, that it would seek to implement new and higher driver premiums on the demerit side of the DSR scale over the next number of years. At this GRA, MPI sought to revise the driver premiums payable for those individuals with between 2 and 20 demerits as follows:

DSR Level	**2011 Driver Premium**	**2012 Applied For Driver Premium**
-2	$45	$75
-3	$45	$150
-4	$100	$150
-5	$100	$200
-6	$250	$300
-7	$300	$350
-8	$300	$350
-9	$350	$400
-10	$400	$450
-11	$500	$600
-12	$500	$700
-13	$600	$800
-14	$700	$1,000

-15	$800	$1,200
-16	$1,000	$1,300
-17	$1,200	$1,500
-18	$1,200	$1,600
-19	$1,300	$1,800
-20	$1,500	$2,000

The above changes reflect the second year of a proposed three-year phase-in of the DSR's demerit levels. The third and final year of these proposed phased-in is currently planned for 2013/14.

MPI did not propose any changes to vehicle premium discounts in this application. MPI has proposed that the rate decrease it seeks in this application be applied against the overall rating classification rather than in combination with higher vehicle discounts, the approach followed in the 2011 GRA.

Vehicle premium discounts are set within a range of 33% at level 15 of the DRS scale and 5 % at DSR level 1. The complete DSR scale is found at Appendix A to this Order.

Cost Allocation Methodology

In Order 150/07, the Board ordered MPI to undertake a cost allocation review, which was filed in subsequent GRA proceedings, having been prepared by Deloitte. In last year's Order, the Board endorsed the cost allocation methodology but did not approve its use for rate setting purposes, on the basis of MPI's refusal to file with the Board specific Corporate-wide financial information. MPI did not provide the requested information in this proceeding.

MPI advised that it implemented the Deloitte-recommended cost allocation methodology for financial reporting purposes, but is utilizing the previous cost allocation methodology for rate setting purposes. MPI opined that the implementation of the new methodology, in full, would improve Basic's net income projections by approximately $3.5 million annually, representing approximately one half of 1% of present rates.

International Financial Reporting Standards (IFRS)

MPI has adopted IFRS for 2011/12 as required, and made a series of policy decisions and transitional elections flowing from that transition. This stage in the adoption of IFRS does not impact the 2011/12 income statement but does have a one-time impact on the RSR, that being of $21.1 million in the 1st quarter of 2011/12 (arising from a transfer from AOCI due to the permitted transitional election to re-designate bonds from Available for Sale to FVTPL.) Changes in unrealized gains and losses on investments designated as FVTPL are included on the income statement.

In addition, MPI adopted changes that impacted employee benefits. Under IFRS, MPI is to accrue short-term employee sick leave benefits that are non-vesting. This resulted in an accrual of $2.4 million for sick leave entitlement. On a net basis, the two accounting election changes increased retained earnings by $18.6 million.

MPI has also changed how it accounts for credit card merchant fees, including them now as an operating expense. Previously, these fees were netted against service fee revenues. The reclassification change has no impact on net income. MPI's IFRS adjustments were reviewed by KPMG, and it agreed that the policy decisions of the Corporation are in compliance with IFRS.

DVL

MPI treats DVL as a fourth, non-insurance line of business since the merger into MPI in 2004. The funding that MPI receives for DVL is set out in a master agreement with the Province of Manitoba, and historically, was set at $21 million annually, giving rise to a shortfall over the years, which has been absorbed in the Extension line of business.

Cumulative losses for the last seven years from DVL, based on MPI's annual reports, have totalled over $110 million, which is not expected to be recovered from the Province.

While the funding for DVL was increased by the Province to $28 million per year as of April 2011, the additional revenue to the Corporation was offset by a concurrent increase in the healthcare costs assigned to MPI by the Province – the former benefitting Extension, the latter reducing Basic net income.

The increased DVL payment by the Province was reported to be intended to cover off on-going annual DVL operating costs, and, as well, reimburse MPI for start-up costs relating to the enhanced driver's licence and Manitoba identification card. The overall cost from the date of transfer of DVL to MPI, that estimated to exceed $100 million, has not been recovered from the Province.

Another major DVL project that will be executed is DART.

Broker Commissions and Streamlined Renewal Process (SRP)

The percentage commission paid to brokers for Basic transactions has declined from 5% and is currently at 4%. It is slated to decline to 3% on November 1, 2011 and to 2.5 % effective November 1, 2012, pursuant to a commission agreement negotiated between MPI and the brokers through Insurance Brokers Association of Manitoba (IBAM).

Pursuant to the SRP, each insured has a broker of record, who processes the first renewal of a five (5) year term, and will then receive the commissions for all of the five (5) years that that policy is in place if there are no changes to the policy. As reflected in MPI's 2010 Annual Report, total commission expenses in 2010/11 were $78.5 million for the corporation as a whole, $46 million of which was paid from Basic. Commissions attributable to Basic are forecast to decline to $37.4 million in 2011/12 and further decline to $30.2 million in 2012/13.

Pursuant to the agreement with IBAM, broker commissions paid for Extension products were increased and are now at 18.5%; the evidence reflects that MPI has about 96% of the Extension insurance market in Manitoba. Essentially, Extension policyholders are also Basic policyholders.

In conjunction with the transfer of DVL to Basic in 2004, the Province cancelled a broker commission cost sharing arrangement under which Basic was reimbursed for commissions paid for services undertaken by Brokers for DVL. The arrangement was an acknowledgement of the work undertaken by brokers (whose commissions are based on premiums written) and the benefit derived by Government from the Brokers collection of registration fees and issuance of licence plates. The cost sharing arrangement, representing approximately 1% of premium, provided around $5.7 million to Basic annually. On a cumulative basis, if the arrangement had not been cancelled, Basic would have collected approximately $46 million since 2004.

Family Transfers

In response to Board direction (Order 98/09), at last year's GRA MPI presented the results of an analysis to determine the number of family transfers taking place within a household (where vehicles were transferred from one individual to another), the transferee potentially having a lower vehicle discount than the previous owner of the vehicle.

MPI reviewed all vehicle transfers over the ten-year period from 2000 through 2010, to determine how many family transfers are actually taking place and the costs to the Corporation of these transfers (costs in the sense that absent the transfer the discount would be lower). MPI’s analysis disclosed that there are approximately 5,000 of these types of instances of vehicle transfers within a household annually that result in the new owner receiving a higher vehicle discount than the previous owner would have.

MPI estimated that the premium loss to the Corporation is approximately $1.2 million per year. However, since on average it takes the average driver five years to regain their full vehicle discount, the premium loss carries forward (in a decreasing amount) for five years. MPI determined that the maximum premium lost to the Corporation, and on annual basis, to be approximately $5.4 million.

In Board Order 145/10, the Board accepted that there can be “legitimate” (i.e. not related to vehicle discount levels) reasons for motorists to transfer the ownership among family members, noting, however, that the system allows for manipulation where a motorist with a poor DSR rating, relative to that of their spouse or other family member, seeks to save insurance premium by transferring ownership of their vehicle to the “lower-risk” spouse or family member (a "Family Transfer"). The Board commented that manipulation in this way is neither actuarially sound nor statistically driven, and that it constitutes a currently permitted and continuing abuse of the goal of the DSR classification system (to provide incentives for good driving behavior).

The Board recommended that MPI first research and then provide an opinion on a different approach, one wherein the principal driver of each vehicle is identified, and the at-fault accident experience of that individual is compared to that of the named owner of the vehicle and affects the DSR status of the owner. The Board further recommended that MPI develop and implement an approach to counter the risk and opportunity for an undue financial benefit to accrue to owners experiencing an at-fault accident and who then make a Family Transfer.

At this year's hearing MPI once again advised that “Family Transfers” happen for many reasons and that those individuals who have made a Family Transfer cannot “escape” increased driver premiums on the DSR scale. MPI acknowledged that an individual with an at-fault accident would take five years to attain their pre-accident DSR level and level of discount, and stated that the financial impact on vehicle premiums would differ depending on the DSR level.

MPI stated that in most jurisdictions with privately operated insurers, owners of vehicles are required to tell the insurance company who is going to operate the vehicle. Under this approach, there could be instances where an individual starts driving a vehicle and forgets to tell the insurer, which may put the coverage at risk. MPI does not follow this approach, with the result being that those households without another person to transfer a vehicle to are unable to retain discounts despite an at-fault accident or demerits through infractions while households with other drivers with better records can make transfers to gain premium benefits.

3. INTERVENERS AND PRESENTERS

<u>Interveners</u>

<u>CAA</u>

Road Safety

Distracted driving, specifically talking and texting on cell phones behind the wheel, is the most troubling road safety issue in Canada. CAA recommended that this road safety issue be a priority for the Corporation to address in the years ahead, in addition to maintaining current spending on campaigns for impaired driving, seatbelts, and speeding.

As for the Corporation's role in providing financial support to address specific road safety issues, CAA has concerns that ratepayers will perceive such funding as meaning that they've paid twice (once through taxes and once through rates) for a job that should be done by government. CAA stated that more work can always be done to work more efficiently through partners.

Cost Allocation

CAA indicated that the intermingling of resources between various lines of business continues to be a concern, especially in the absence of the decisions from the Manitoba Court of Appeal (MCA). Over the years, benefits from the Basic line of business have flowed to the other lines. CAA disagrees that despite adamant claims by the Corporation, other lines of business, like Extension, would be able to exist in their current state without the Basic mandatory line of business.

CAA expressed concerns that the market share of Extension insurance held by the Corporation will inch closer to a complete monopoly in the coming years. CAA recommended that the Board issue an interim order contingent upon more information coming to light. CAA stated that the

Board would have just cause to delay its Order to allow for an examination of the new information if the MCA decision is released before the Board Order is finalized.

Operating Expenses /Benchmarking

CAA expressed confusion with regard to the fact that during the economic downturn, when most other organizations were tightening their belts and watching the bottom line, MPI was doing the exact opposite. CAA believes that the fact that the Corporation made no thought of restricting travel, freezing or leaving staff positions unfilled, reducing overtime costs, capping vacation time payouts, freezing salaries based on achievement of results, etc., goes to illustrate how comfortable MPI's economic position really is, and paves the way for this application to go further than proposed.

CAA believes the Corporation employs too many people and is spending far too much money. Overall, the Corporation's explanations for these expenditures have been unsatisfactory to CAA. There seem to be few ground rules, a clear lack of plans, goals, or even reporting mechanisms in the Corporation's processes. CAA further stated that the apparent lack of ability to compare MPI on a variety of fronts to other similar organizations is concerning. Saskatchewan and BC have similar systems that are, either in part or completely, controlled by government.

CAA recommended that the Corporation benchmark its operations with other organizations prior to next year's GRA.

Forecasting Accuracy

CAA stated that it has supported MPI's conservative approach to any and all rates and rebates, but the fact remains that this conservative approach contributed to a very large surplus that built up for far too long. For CAA, that is evidenced by the fact that last year the Corporation's external auditor (commenting on the external actuary’s valuation) said retaining earnings was reasonable, but it was later learned that they were anything but.

Rate Decrease

In regards to the rate reduction, CAA recommended that PUB should not grant a 6.85% rate decrease, but, rather, go further to 9%. CAA believes that the Board should consider a larger rebate so as to ensure ratepayers “get back” what should not have been collected from them in the first place, so as to reduce the risk of further unforeseen rate fluctuations in the coming years.

CAA also stated that if the Board proceeds with a rate reduction, it should be applied fairly and equitably, based on premiums paid by each motorist. CAA indicated that while there is some benefit to rewarding good drivers, it questions whether the use of the DSR scale to implement the rate reduction would provide an incentive for bad drivers to strive to be safer.

CAA stated that the unequal division of reduced rates could create a hostile environment among ratepayers towards the Corporation.

RSR

CAA disagreed with the use of the RSR to fund the IT Optimization projects and stated that the RSR should be used only for its true purpose. CAA stated that the IT Optimization project expenses should be funded from operations.

Corporation’s Credibility

Considering the historic large rebate provided earlier this spring, CAA's opined that the Corporation's credibility was damaged, first by withholding critical information from PUB related to rate setting, then when interveners, including CAA and CAC, began fielding calls from countless members complaining about the size of their rebate cheques.

CAA stated that there is cause to question MPI's credibility because for several weeks the Corporation stood by the legitimacy of the first rebate while, in the end, MPI admitted it was anything but legitimate. For CAA, a rebate of this magnitude raised many red flags about the Corporation's financial accounting.

Rebate methodology

CAA advised that if there is a rebate granted, a cheque should be written to each ratepayer. CAA believes that an upfront rebate process to return unnecessary rates will help increase the credibility of the Corporation. The way ratepayers' money is managed and spent is the highest concern to CAA Manitoba and they believe it should be the Board's top priority when determining the appropriate Board Order.

<u>CAC</u>

Operating Expenditures

CAC stated that MPI had aggressively increased expenditures during an economic slowdown and had not demonstrated any control over the growth in operating expenses. CAC noted that general inflation in 2009/10 was only 0.63% yet MPI operating expenses between 2008/09 and 2009/10 increased by more than 13%, and that operating expenses between 2009/10 and 2010/11 rose more than 13.6% compared to Manitoba's CPI of 1%.

CAC stated that MPI's Basic's operating expenses are out of line with the economic slow-down and public service pronouncements towards controlling costs. CAC suggested that MPI is a service driven organization that has struggled with cost containment, with the Corporation's management not focused on cost containment and budgetary controls. CAC stated that a commitment to quality of service and efficiency could go hand in hand.

CAC noted that almost 60% of Basic's operating and claims costs are staff compensation with 80% of those costs subject to the Manitoba Government and General Employees' Union (MGEU) collective bargaining agreement. CAC stated that there are two significant opportunities to control costs, the first being negotiation of a new collective agreement with the MGEU (the current agreement is set to expire in 2012). This provides an opportunity for MPI to bring wage increases in line with inflation. The second opportunity is to negotiate a new agreement with Manitoba Motor Dealers Association/Automobile Trades Association, the current arrangement set to expire in December 2013.

CAC also noted an inconsistency between the drop in overall corporate FTE levels and an increase in those assigned to Basic. While corporate FTEs have declined by 130 FTE in 2010/11 versus the prior year, CAC noted that Basic compensation expenses have risen sharply.

CAC recommended that the Board put the Corporation on notice that the prudence and reasonableness of MPI’s costs will be viewed on the basis of how well MPI negotiates labour and other agreements in line with the CPI.

CAC also recommended the Board require the Corporation present recommended baselines for performance indicators for the next year.

Cost Allocation

CAC stated that it has no confidence that the above-noted changes in staffing levels and compensation will be resolved satisfactorily with the application of MPI's proposed cost allocation approach. Given the integrated nature of the Corporation, and MPI’s refusal to share overall corporate information, CAC was challenged in exploring the growth in compensation (given that Basic EFT are backed out from Corporate FTE’s).

Further, CAC does not believe that the current mechanism for assigning and allocating costs is the best mechanism in which to assist the regulatory process.

CAC recommends the Board make a finding that the Board is unable to conclude that the assignment and allocation of costs between Basic and other lines of business is appropriate given the information provided in support of the application. However, CAC preferred the use of the Deloitte cost allocation methodology rather than the historic methodology employed in the application.

CAC recommended the Board find that the proposed Deloitte model for assigning and allocating costs is preferable to the historic approach, and provide a determination that it be adopted as an interim measure, pending the determination of an appropriate model for the allocation of costs in the next GRA.

Actuarial Valuation

With respect to the actuarial valuation, which resulted in the $265 million IBNR downward adjustment, CAC stated that the Board should consider two central questions. What happened? And what can be done to ensure it does not happen again?

CAC stated that the root of the massive IBNR adjustment is found in the 2005 change to the tabular claims reserving model and the actuarial decisions of Mr. Christie, the External Actuary, coloured by his Ontario experience. The change to tabular reserving reduced case reserves by about $250 million in 2005, which led to about the same amount being put back into IBNR by using “conservative” factors and assumptions, which in turn resulted in a systemic upward bias in the claims forecast for the last five years.

CAC stated there were two plausible conclusions as to why the Corporation took the step to dramatically reduce the IBNR in 2010/11. One conclusion would be an acknowledgement from the external actuary of the empirical evidence. Alternatively, the Board could conclude that the decision to reduce the IBNR was influenced by heightened vigilance by the Board on this issue, and the public filing of internal actuarial documentation at last year's proceeding.

CAC stated that such circumstances can lead the Board to conclude that MPI's ability to aggressively increase expenditures in a time of global recession and a Manitoba economic slowdown is a function of excess revenues compared to costs supported by particularly conservative estimates of claims liabilities.

CAC noted that in response to direct questioning from MPI counsel to explain the consequences of being slightly conservative in the estimation of unpaid claim liabilities, Mr. Christie responded "the result is that the balance sheet liabilities are, in most cases, likely to be overstated when the final results are known. That overstatement will flow through the income statement and appear as a favourable or a reduction in claims incurred in the year that the release happens".

CAC questioned whether the legacy of conservatism has endured. CAC claims that conservatism remains in the estimated liabilities for Accident Benefits Weekly Indemnity (AB-WI) and Accident Benefits Other (AB-O), due to:

- selection of Loss Development Factors;
- selection of a Tail Factor with little or no weight given to post 2005 experience; and
- selection of the actuarial methodology chosen.

CAC demonstrated that the change in the selection of the methodology from one year to the next resulted in a potential redundancy of $29.3 million for AB-WI and $42.1 million for AB-O, for a potential redundancy of $71.4 million related to the change in the selection of methodology.

CAC also stated the Tail Factor has a highly leveraged impact, with a 1% overstatement of the Tail Factor equating to a $5 million overstatement of the IBNR. The Tail Factor employed by MPI was based on a 2005 analysis, which at that time indicated an upward development pattern. CAC noted that actual experience since 2005 indicates predominantly downward development in the actual Tail experience for the last five years.

With respect to the Loss Development Factors employed, CAC stated that there appears to be a disconnection between the loss development factors selected and the observed development, and that if average loss development factors were utilized rather those selected by MPI, this would result in a potential IBNR redundancy of $17 million.

CAC stated that what is portrayed as best estimates by MPI's external actuary has been demonstrated to be an exercise in actuarial judgment grounded in cumulative conservatism, and that the differences arising from the conservative actuarial forecasts are not insignificant to ratepayers. CAC recommended the Board make a finding that the external actuary's estimate of unpaid claims with regard to the Basic program is not a best estimate but a conservative estimate.

Transparency

CAC questioned the level of actuarial transparency employed by MPI around the $250 million IBNR adjustment made in 2005. To ensure that such a situation does not happen again, CAC suggested, will require an acknowledgement by all of the limits on the checks and balances for external audit and external actuary, and the recognition of the material impact of the use of judgment by the Actuary.

CAC called for heightened regulatory vigilance and improved transparency in the reporting of actuarial evidence and recommended that the Board direct MPI to make recommendations to improve the accessibility of its actuarial evidence presented at the GRA, this to improve transparency.

Operating and Capital Budgets

The timing of the rate setting process is in advance of the finalization of corporate budgets. In light of the significant variances in the capital and operating budgets presented last year versus this year, CAC expressed concerns that the budgets presented at the application may not be the best estimate of the Corporation and that the Board does not have an opportunity to assess reasonableness/prudency of expenditures.

CAC also noted that MPI does not employ productivity framework or productivity targets and standards to measure efficiency to the same extent that it has established customer service targets.

Given the lack of such a cost control framework CAC expressed concern when it reviewed the Gartner IT benchmarking report which indicated among other things that MPI's IT spending as a percentage of operating expenses was higher than the peer average and that IT spending per employee also exceeded peer group comparisons by a significant margin. Gartner also found that MPI had a higher proportion of IT employees as a percentage of total employees at 18.4%, significantly higher than the peer average of 8.4%. CAC noted that the timing of the Gartner analysis was done when MPI's IT spending was ramping down in 2009.

IT Optimization Projects and Fund

CAC questioned the timing of the establishment of the ITOF, noting that the allocation of $65 million of Basic RSR was done in middle of the debate related excess funds and, put most charitably, was propitious.

CAC noted that project charters related the IT Optimization projects have yet to be prepared and none are available for the Board to review. It is not clear that the Board will have any opportunity to review the rate implications before MPI has committed to the projects.

CAC stated that unless the IT Optimization projects are put in the context of a charter to allow for a critical assessment of the benefits, the strengths, expenditures, and contingencies, it is premature to pronounce judgment upon the projects. CAC recommends that the Board reserve judgment on IT Optimization until project charters have been reviewed, and that the Board reserve the right to exclude certain imprudent expenditures from the revenue requirement.

CAC stated that the use of the RSR for capital projects is not consistent with the stated purpose of the RSR and that allowing for such a draw on the RSR would set a precedent for further drawdowns of retained earnings in anticipation of potential further rate rebates. All prior IT projects have been funded through operations and CAC recommended that general revenues fund the IT Optimization project expenditures, not retained earnings.

CAC stated that funding the projects from retained earnings rather than revenues lessens the efficiency signal and that funding from general revenue would provide a deterrent effect on the efficiency signal, whereby if projects do run over budget MPI will be required to justify more money for the projects, rather than drawing down the RSR.

CAC also noted the issue of intergenerational equity and stated that those who contributed to the excess retained earnings should have them returned to them. CAC urged the Board to find that the ITOF not be accepted for rate setting purposes and that any IT optimization expenditures determined to be reasonable and prudent be recovered through the revenue requirement.

Road Safety

CAC is supportive of the process and objective of road safety visioning and applauds the Corporation's willingness to consider broader cost effective investments, not typically within its sphere of business. However, caution and careful cost benefit assessments must be exercised. CAC also strongly believes that more rigour must be applied to road safety budgeting both between investment alternatives and within lines of expenditures. MPI should make a major priority of addressing the disproportionate social cost of accidents in rural areas related to impaired driving and lack of occupant restraint as well as among First Nations persons.

Pay As You Drive (PAYD)

CAC stated it was not that confident that a Pay As You Drive (PAYD) insurance scheme (premiums based on distance driven) would lead to statistically driven and actuarially sound rates. CAC wondered who would make up for revenue deficiencies attributable to lower premiums for certain “low mileage” drivers, especially in the event that PAYD did not have a demonstrated loss reduction impact.

Uniform Rates

CAC stated that it recognizes the social policy drive to uniform rates, but that in terms of actuarial principles and in terms of the fairness of getting to statistically sound and actuarially driven rates, uniform rates would be a step backwards.

RSR Target and Rebate

CAC recommended that the Board retain the current Board established RSR target and revisit the issue of the RSR target at the next GRA. CAC stated that little weight should be given to the DCAT analysis as it was filed late in the proceeding and not tested to any degree. CAC also believes that the DCAT is not a tool that the Board should be utilizing as demonstrated in prior proceedings because it is vulnerable to influence by unrealistic or counterintuitive stress test assumptions.

CAC recommended that a review of the RSR target should look beyond the DCAT, and that MPI should be considering the use of more modern risk analyses based on stochastic tools. CAC recommended that a technical conference be held on the issue.

CAC noted that the Basic retained earnings at February 28, 2012 have been forecast to be in the range of $189 million, that being above the upper limit of the RSR target Range of the Board (of $155 million).

CAC believes that the hearing has demonstrated that MPI has material opportunities for cost efficiency that are not reflected in the current estimates. The existence of retained earnings above the approved level of the Board serve as an incentive for the Corporation to engage in inefficient practices with the confidence that it has additional backing over and above the revenue requirement.

CAC recommended that the Board issue an RSR rebate in the range of $40 million, aimed at reducing the amount of Basic retained earnings to the upper level of the Board ordered RSR target range.

Interim Order

CAC stated that an interim Order raises a material risk of consumer inconvenience and confusion. The Board should set rates based upon its determination of the appropriate rate given its understanding of its current jurisdiction. The public interest would not be well served by an interim Order in this context.

In the event of a ruling on the Stated Case in November, CAC was open to either an oral or written process to follow up new issues raised by the Stated Case. CAC accepted that the proceeding should be completed before December 1, 2011. CAC would be supportive of an expedited transparent process.

Rates

Given concerns about expenditure control and conservatism in claims estimates, CAC believed that it would be a disservice to ratepayers and the rate setting process to approve the rate application as presented.

Approving the rate decrease as applied for, given the lack of expenditure controls, would be the wrong signal to send.

CAC stated that a higher rate reduction at 8% is supported versus a smaller rate decrease due to conservative actuarial estimates, a lack of cost controls and the employment of the Deloitte methodology for assigning and allocating costs.

<u>CMMG</u>

Jurisdiction

CMMG stated that there are serious impediments and challenges presented by the delay of the MCA decisions regarding jurisdictional issues, compounded by MPI's refusal to provide evidence as to non-Basic lines and the issue of exempt vehicles.

With respect to the Corporation's refusal to answer a number of interrogatories, some would blame the Board for the fact that MPI was able to hide behind a Board approval even though those approvals may have been obtained based upon incomplete evidence produced by MPI.

CMMG recommended that the Board conditionally accept the GRA as applied for, the condition being that it be reviewed after the Court of Appeal decision is received with the possibility of a re-hearing depending on the result of those decisions. CMMG also recommended that the costs relating to exempt vehicles be disallowed from the Basic line of business.

Actuarial Valuation

CMMG expressed concern with the external actuary watching an aberration in claims development year after year for five years, allowing the surplus to grow to $286 million, without sounding any alarm. CMMG stated that this type of conservatism is rampant in the empire building that MPI employs and that the negative implications of this attitude include a possessive, territorial, and defensive approach to managing the Corporation and its assets. That tendency results in over-collection of premium revenue to build war chests and a rationalization to maintain those surpluses.

CMMG states that MPI knew that PIPP expenses made up 86% of motorcycle claims costs and that as a result of its change in the methodology the required rate for motorcyclists would be a 24% percent reduction in the required rate.

CMMG asserted that MPI should not “sit on” information as the Corporation did in terms of both the past rebate issue and when defending their own agenda; CMMG seeks from the Corporation even-handed, transparent, and open responses.

IT Optimization

CMMG did not oppose the IT Optimization project stating that it recognizes the challenges that any large corporation faces in these very advanced times, and that it is to the benefit of Manitobans to have MPI with the software and hardware it needs to do its job.

Road Safety

CMMG indicated that Manitoba has the highest rates for motorcycle insurance in Canada and MPI won't spend any funds or resources to come up with new initiatives to try and reduce motorcycle accidents. MPI spends a pittance on motorcycle-related road safety.

CMMG stated that there is an annual $30 million in wildlife claims costs but only now is there a small-scale urban pilot study that primarily involves slowing speeds in a commuter area whereas the Corporation has had this problem since its inception since 1972.

<u>Presenters</u>

The Board heard from five presenters at the hearing of the Application, namely, Mr. Bruce Zeemel, Ms. Jill Ruth, Mr. Robyn Gray, Mr. Farren Paradis and Mr. Adrian Halpert. The presenters are not sworn witnesses and were not cross-examined. As such, although the content of the presentations is not evidence, the Board, MPI and the interveners received the information presented for consideration.

Mr. Bruce Zeemel, a senior citizen of the City of Winnipeg, presented with respect to the cost for a driver’s license and the allocation of the revenues derived therefrom.

Ms. Jill Ruth, President of Headingley Sport Shop Limited and Chairperson of the Powersports Committee (part of Mid-Canada Marine and Powersports Theatre Association), presented with respect to a variety of issues relating to motorcycle use, including the lack of discount rating available to motorcyclists and, for Ms. Ruth, the high premiums charged with respect to motorcycle use in Manitoba. In so doing, Ms. Ruth spoke about the challenges that these matters present to both the motorcycle industry and the overall economy in Manitoba.

Mr. Robyn Gray presented to the Board as a representative of the Manitoba Motorcycles for Fairness (MMFF), an organization recently initiated by him. Mr. Gray presented to the Board with respect to a variety of issues affecting motorcyclists and requested a review by the Board of the process involved with motorcycle repairs following accidents and the rates paid by MPI for such repairs.

Mr. Farren Paradis, an insured who was injured as a pedestrian by a motor vehicle in 2008, presented to the Board with respect to the injuries that he sustained and his experience dealing with MPI in that regard.

Mr. Adrian Halpert presented as a representative of the Motor Vehicle Accident Support Group as well as an insured injured in a motor vehicle accident in 2008, on his experience in dealing with MPI following his accident.

4. BOARD FINDINGS

Rates

The Board denies MPI's 2012/13 rate application for a 6.85% decrease and, instead, orders a decrease of 8% in overall vehicle and driver rates and premium revenue for its Basic Compulsory Vehicle Insurance Plan (for vehicles insured in fiscal 2011/12, to be effective March 1, 2012).

PUB notes that this latest rate decrease is the largest decrease ever approved by the Board and follows an overall (with DSR adjustments included) 4% rate reduction implemented last year and a historic $330 million rate rebate (paid out in two instalments in 2011).

MPI advised that its "expected" claims costs have changed materially, and that the Corporation is now confident that its current claims forecasts are both realistic and reasonable. In particular, MPI advised that PIPP costs are now expected to represent 35% of total annual claims incurred, representing a reduction of 25% from previous expectations.

The larger than proposed rate decrease is to be applied, as proposed by MPI, through rate classifications. As argued by CAC, the potential to implement part or all of the overall decrease through alterations to the DSR scale was not canvassed in sufficient detail in the GRA proceeding to allow the Board to make such an order.

Rather, the potential for increased vehicle premium discounts at the high end of the DSR merit scale should be tested and canvassed in a future year's GRA, after additional data has been gathered. At present, experience with the DSR scale is not sufficiently mature; and future claims experience may reflect a need for further changes to the scale, a matter which can be addressed at a future GRA hearing.

The Board has considered a number of factors and events in setting rates pursuant to this Order, including, but not limited to:

(a) the Corporation's actual results for the first 6 months of the current year;

(b) revised year-end forecasts of net income for Basic;

(c) plans to review the Board's RSR target range at next year's GRA hearing;

(d) the potential for ongoing conservatism in the establishing of the Corporation's unpaid claims liabilities;

(e) last year's results for Extension and SRE;

(f) the investment portfolio's make-up, results and forecast results;

(g) present and forecast inflation;

(h) no indication provided by the Corporation of any plans for further benefit or coverage changes;

(i) IFRS accounting changes;

(j) potential financial factor changes;

(k) take-downs or build-ups of claims reserves; and

(l) the Corporation's operating expenses.

Both CAC and CAA requested that the Board implement a more significant rate decrease than that applied for by MPI. In particular, CAC requested an 8% rate decrease while CAA called for a 9% rate decrease.

The Board concludes that a higher rate decrease than sought by MPI is warranted and, accordingly, will approve an 8% decrease in rates. The Board holds the view that MPI has not demonstrated sufficient cost control measures and, by providing a larger decrease than that sought by MPI, hopes to instil some fiscal discipline in MPI's operations (which should extend to its planned IT optimization project). The Board also suspects an undue level of "conservatism" may remain within MPI's actuarial evaluation, further warranting the higher than proposed rate decrease.

Forecasting

The Corporation's recent past claims incurred forecasts have been persistently overstated due to what is now known to have been significant undue conservatism in successive actuarial valuations of fiscal year end claim liabilities, valuations accepted both by MPI and its external auditor.

It appears that much of this undue conservatism arose from a 2005 change in case reserving practices and in the Corporation's response to that change in ensuing valuations as experience with the new approach developed. In 2005, the change in practice reduced case reserves by about $250 million, a reduction that was approximately fully offset through the use of what has now been described by MPI as overly conservative valuation assumptions.

Since the change in reserving practices, MPI advised that there has been increasing recognition in successive valuations of actual and differing experience, occurring in particular during the Corporation's 2010/11 fiscal year. For example, the Corporation confirmed that the cumulative Basic Total Net PIPP undiscounted claims runoff for fiscal years 2006/07 to 2010/11 was favourable for each insurance year, aggregating to about $625.3 million, with approximately $265.1 million arising in MPI's 2010/11 fiscal year alone.

Both the Corporation's external actuary and its external auditor's actuary have described the assumptions underlying MPI's Unpaid Claims liability that are "now" present as being "slightly conservative", such that there still is potential for additional favourable run-off going forward, though adverse run-off is also possible.

MPI's long-serving external actuary, Mr. Christie, has now retired, and is in the process of being replaced with a new external actuary. Mr. Christie testified before the Board at this year's hearing that MPI's valuations are "best estimates" (there is no certainty), with each valuation made at a distinct point in time.

CAC proposed that revisions be made to the Corporation's valuation assumptions, but the Board concludes that such revisions have not been analyzed sufficiently to justify implementing them. In keeping with the Board's mandate to set rates that are actuarially sound and statistically driven, a more extensive analysis will need to be done prior to considering making further actuarially-based adjustments.

The Board heard evidence with respect to a number of factors included within the valuation process, including the selection of loss development factors, a "tail" factor and actuarial methodologies, and it was asserted by interveners that these factors, as employed by the Corporation, remain excessively conservative. The Board agrees and finds that the assumptions are slightly conservative, but also that they are within the range of reasonableness, and that slight conservatism is acceptable if not preferable.

That said, the conservatism within the assumptions supports the granting of a greater rate decrease than that sought by MPI. Certainly, the Board views the slight conservatism as a mitigating factor in the event of future adverse development.

In addition, the Board supports "slight" conservatism in its "best estimates" on the basis of MPI's evidence that a sudden and material increase in annual claims incurred due to a major hail storm is always possible, and, if such occurred, could have a significant resultant impact on MPI's net income. (As discussed herein, at next year's GRA proceeding the RSR target range will again be reviewed.)

On the basis of the slight conservatism within the assumptions, the Board accepts that the likelihood of favourable run-off in the current year and the year of the application is more likely than adverse run-off. The Board does not anticipate run-off in either direction anywhere near the magnitude of that experienced in recent years, and particularly that experience in fiscal 2010/11.

However, the Board is also mindful of pending personnel changes, both internal and external to MPI, in terms of the external actuary and the internal Chief Financial Officer. New individuals may or may not bring a somewhat different perspective to MPI's assumptions in future years.

IT Optimization Project and Fund

As set out above, included in MPI's GRA was a projection by MPI that it would spend $71 million in one-time costs and $29 million in ongoing costs over the next 5 years for IT Optimization work. The report surprised the Board as at last year's GRA hearing MPI forecast a relatively low level of capital expenditures for the forward forecast period.

In particular, MPI now envisions a project targeted towards improving current IT infrastructure, an infrastructure that had already been assisted through large capital expenditures in previous years. MPI goals for its current plans relate to system reliability, business continuity, disaster recovery and largely undefined future service delivery enhancements. The anticipated project costs for these plans, pursuant to the evidence of MPI's external IT consultant (Gartner), may, given the scope and details remain to be finalized, prove “conservative”.

That said, the Board, with no evidence to the contrary, accepts that MPI and its external consultants hold that there are significant and troublesome issues with various aspects of MPI's IT systems requiring a major system upgrading, to avoid or lessen the risk of a future breakdown in MPI's operations.

Of course, and accepting MPI's contentions at face value, the Board prefers that MPI identify serious IT issues prior to undertaking costly (to MPI and its policyholders) upgrades towards avoiding service disruptions -- apparently a serious service disruption occurred in the spring of 2010, although it was not revealed at last year's GRA.

While MPI has apparently spent more on information technology (IT) than its peer group, the evidence put before the Board by MPI is that its system requires further material improvement and expenditures. As the expected improvements are forecast to be costly, MPI would best demonstrate to the Board and its policyholders the net benefit to motorists expected to be realized through these additional capital expenditures. The Board will be monitoring closely the progress, costs and benefits of the projects as they proceed over time.

In particular, the Board notes that, despite MPI's segregation of Basic retained earnings of funds to meet the projected new system costs, "project charters" have not yet been completed for the projects, and the Board understands they are to be prepared internally before being reviewed by Gartner.

The Board directs MPI to file the project charters for the IT optimization projects as they become available. These "charters" should clearly outline the costs as well as the anticipated qualitative and quantifiable benefits, related to each project. Where productivity improvements are expected, reductions to the personnel complement allocated to Basic are to be outlined. Monies should not be spent on the projects without a clearly defined project charter and a positive cost-benefit expectation.

And, with respect to the funding of the latest IT Optimization project, the Board has carefully considered MPI's proposal that $65 million of Basic retained earnings be set aside to fund the projects going forward; funds that would otherwise form part of the RSR (the Board generally considers segregations of Basic retained earnings to be a component, for rate setting purposes, of the RSR).

The purpose of the RSR has not changed over the years, a purpose accepted by all parties to the annual rate hearings. The purpose is to protect motorists from the risk of large premium increases that may otherwise be necessary as the result of unexpected events and losses arising from non-recurring events (or factors).

These events or factors could be, for example, hailstorms resulting in widespread physical damage claims or significant and retroactive changes to PIPP benefits directed by government, or significant reductions to net income as the result of negative investment income experience. With this view, a range has been established for Basic RSR, one that includes Basic retained earnings, and, historically, “excess” RSR has been rebated to ratepayers to avoid intergenerational inequity (rebates have been withheld when PUB has concerns or is uncertain as to material facts).

The Board agrees with CAC and CAA that the funding of an IT Optimization project is not an appropriate use of Basic retained earnings. Given the apparent overall financial “wellness” of the Corporation, which includes Basic, it is the view of the Board that the IT Optimization project should be funded out of annual operations as project expenses are incurred, this consistent with other Basic IT projects.

This approach is in keeping with the general accounting matching principle that has expenses of a given year linked to revenues of that year. MPI agreed at the hearing that this approach, the funding of the expenses out of annual revenue, was a viable option to one of segregating Basic retained earnings to “place-mark” funds that may be required over time with respect to the IT Optimization project.

As such, and for rate-setting purposes, and pursuant to MPI Exhibit 10, filed at the hearing, which “treats” Basic IT expenses as expenses in the year incurred, the Board accepts MPI’s alternate forecast for 2011/12 of a net loss from operations of $1.9 million, to be followed by a forecast loss from operations of $3.9 million for 2012/13, to be followed by net income of $3.9 million for 2013/14. This alternate portrayal of MPI’s forecasts is, for this Board, more consistent with (a) the matching of costs and revenues, and (b) the objective of MPI’s Basic operations “breaking even” over the next two fiscal years.

The Board also directs MPI to provide in next year's GRA filing, and on an ongoing basis, a detailed accounting of Basic IT Optimization project expenses, tracked specifically to project budgets as a baseline, as such budgets are put in place. The Board wants to track funds expended for Basic IT Optimization, much as it did with respect to funds expended for the Immobilizer Incentive Program.

Also, MPI should clearly articulate both the qualitative and quantifiable benefits related to each project, and contrast same with the costs. Where benefits are to be realized, the Board will require that MPI, as with its project costs, establish a baseline against which the realization of benefits can be measured in future proceedings.

The Board is concerned about MPI getting on an IT "treadmill", an environment in which more and more expenses are required to be incurred to upgrade and maintain systems, while productivity gains, some of which evidenced through complement shrinkage, fail to materialize. This concern is particularly so given the content of the Gartner benchmarking study filed with the Board regarding MPI's past IT expenditures; namely that MPI's spending has already been above its peer group.

Rate Stabilization Reserve and Rebate

For Basic rate setting purposes, the Board considers Basic RSR, Basic retained earnings and segregated balances within Basic retained earnings to comprise, in total, and for rate setting purposes, the overall RSR balance. As of MPI's last audited fiscal year financial statements, that balance, comprised as indicated above, was in excess of the Board's RSR range, a condition that in "normal" circumstances would suggest yet another rebate to Basic ratepayers.

Nevertheless, the Board, being uncertain as to several factors which may or may not negatively impact on future MPI Basic results, will not direct a further rebate be paid at this time.

Pursuant to Board Order 161/09, the Corporation was required to prepare and file an updated Dynamic Capital Adequacy Testing (DCAT) report, an updated Minimum Capital Test and an updated Risk Analysis/Value at Risk study (RA/VAR) on a tri-annual basis. The Board will require MPI to file each of those updated documents with its GRA next year to allow for a fulsome review of MPI's financial situation, prospects and risks.

An updated DCAT and Risk Analysis were filed in this proceeding, and the Board notes that the DCAT suggested an increase in risk was present, an increase that could warrant an increase in the RSR target range of $25 million if DCAT results alone were to drive RSR range changes. The main reasons articulated by the recent DCAT for the increase in the Corporation's risk profile were the higher balance of equity investments and the possibility of increased hail claims. The Risk Analysis also suggested an increase in the Corporation's risk profile this associated with the major IBNR claims adjustments. As well, the Board is mindful of the unusually low yields on government bonds, yields below the current annualized rate of inflation, and the risks to capital values that rests with the risk of interest rate increases (which are generally expected in the market once the economic recovery is considered sustainable).

Despite indicators of an increase in the Corporation's risk profile, MPI did not challenge the existing Board-determined RSR range for 2012/13 of $76 to $152 million.

At next year's GRA, the Board will reassess the Corporation’s updated results, updated forecast of future results, and risks, and consider whether the methodology that sets the RSR range should be adjusted going forward. At present, the existing Board-determined RSR range for 2012/13 will continue. For next year’s GRA, the Corporation should articulate the pros and cons of amending the methodology presently utilized to determine the Board’s RSR range.

Given the Board's concerns over MPI’s risk factors; its decision that the methodology establishing the RSR range be revisited next year; the large reduction to Basic rates that will be implemented; and, the Corporation’s plans to embark upon significant capital expenditures with respect to IT Optimization (capital expenditures have a tendency to exceed initial budgets and could further test the relatively meagre forecasts of Basic net income going forward now in place); the Board has determined that no rebate be ordered at this time.

The large reduction in overall Basic rates directed herein will result in a significant reduction to revenues from MPI’s otherwise higher annual premium revenue, and the Board is not prepared to compound that historically large, and presumably ongoing, annual revenue reduction by directing another rebate at this time.

There are simply too many questions yet to be answered and conditions to be updated for the Board to be sufficiently confident to direct another rebate, now.

<u>Fleet Rebates</u>

The Board has considered MPI's proposed change to fleet rebates and accepts the Corporation’s proposal.

Given that, by regulation, the Government has already expanded the fleet rebate scale from one based on a 45% or lower loss ratio to one based on a 37% or lower loss ratio, it follows that changes to fleet rebates should be made. As well, the Board concludes that MPI's goal of matching loss ratios as between fleet and other customers is reasonable (the goal with respect to fleets being the return of approximately 80% of premiums through rebates and claims, and the loss ratio target for Basic products, of 85% of premiums through claims).

The Board finds less compelling a matching of the maximum fleet rebate to the maximum vehicle premium discount under the DSR scale, given the underwriting differences that exist between fleet customers and individual customers using the DSR scale. In particular, fleet loss ratios are determined only by accident frequency and severity, whereas drivers' placement on the DSR scale is affected by accident frequency, but not severity, and traffic related convictions.

CLEAR

The Insurance Bureau of Canada (IBC) administers the Canadian Loss Experience Automobile Rating (CLEAR) system. MPI receives CLEAR rating groups from IBC each year, which MPI adjusts to fit its rating approach. CLEAR provides separate rate groups for collision, comprehensive and injury coverage, which MPI combines to reflect Basic rate groups.

This year, MPI advised the Board that it has changed the weighting of the collision and comprehensive CLEAR rate groups, from a 72/28 weighting to an 80/20 weighting. This change was prompted by a decrease in comprehensive claims costs, this resulting from the success of the anti-theft initiative.

The Board supports both the weighting change and the Corporation's stated intention to review and update annually, as necessary, the CLEAR rate groups' weightings. The Board looks forward to discussing the results of that review process next year.

Driver Safety Rating (DSR)

This is the second year of a planned three-year phase-in of DSR demerit levels. The Board accepts the Corporation's proposal in this regard, which is in keeping with the past approach of gradualism in terms of the implementation of and changes to the DSR scale. Such an approach affords motorists an opportunity, in particular, to revise their driving behaviour prior to the implementation of more significant driver premiums on the demerit side of the scale.

The Board anticipates that at next year's GRA hearing, MPI will finalize the phase-in of the demerit side of the scale, in accordance with what was initially presented at the DSR hearing.

As time progresses, the Board looks forward to monitoring how the DSR system has, hopefully, resulted in reductions in accident counts and claims incurred. Certainly, the purpose of the DSR is to incent good driving behaviour and discourage unsafe driving behaviours. The setting of driver premiums and vehicle premium discounts on the DSR scale is an important part of the incentive and disincentive system. In particular, the Board anticipates that the increases in driver premiums on the demerit side of the scale will act, over time, as an important incentive for safer driving.

It is unfortunate that the DSR phase-in was not accompanied by changes to prevent the manipulation of discounts through the transfer of vehicle ownership between members of a household. While the number and “cost” of the so-called family transfer “loop-hole” may not be “overly” material, as suggested by MPI, the availability of the transfer in multi-driver households is contradictory to the concept of the DSR and discriminatory against the interests of single-driver households.

<u>Road Safety and Loss Prevention</u>

The Corporation has advised the Board that its Road Safety Visioning exercise (at last year’s GRA hearing, MPI reported that it would complete the exercise in 2011) is now underway and involves several stakeholders.

The Board is pleased with the report of progress and, as well, with the Wildlife Collision Pilot Study (which began in October 2011 and is expected to continue through November). In addition, the Board notes MPI’s reported efforts to assist the police, through limited funding, to enforce traffic laws, and continues to “hope” that future traffic enforcement statistics will reflect continued increases in convictions over the experience of recent years.

The Board looks forward to receiving updates with respect to the Road Safety Visioning exercise and, as well, the results of the Wildlife Collision Pilot Study. With respect to the latter, the Board notes that the pilot is now limited to two stretches of urban roadway. MPI's road safety visioning exercise will hopefully develop actionable options to deal with wildlife collisions and the still excessive level of collisions, injuries and roadway deaths in the Province.

Last year the Board suggested that MPI segregate an amount out of Basic RSR and establish a Road Safety Fund, from which road safety initiatives could be funded. In fact, the Board initially directed a 10% rebate to motorists instead of the 12.9% rebate it was considering. As the saying goes, "an ounce of prevention is worth a pound of cure".

MPI declined to establish such a fund, in the absence of identified initiatives that have an expected, measurable impact on claims costs. MPI differentiates between road safety and loss prevention and the Board generally agrees with that distinction. An effective loss prevention initiative may be anticipated to result in tangible, measurable claims costs reductions, which should be able to be projected. On the other hand, the claims cost reductions from road safety initiatives, while equally important, may be more difficult to project. As MPI has testified, it is hard to know when an accident has been prevented.

It is exactly for that reason that the Board sought to have a Road Safety Fund established out of RSR.

Nonetheless, the Board is of the view that more tangible and measurable results can be gleaned from MPI's expenses on road safety and loss prevention. In other words, more "bang for the buck" can be obtained, and hopefully more loss prevention strategies can be identified and pilots "stretched" into ongoing and extended programs when returns become evident.

The Board is of the view that there is significantly more that can be done with respect to both loss prevention and road safety and that all involved parties, including the Board, MPI, the Government and interveners should do their part to be heard and work co-operatively.

To that end, the Board directs a technical conference to take place with respect to road safety issues by the summer of 2012, at which place and time the varied stakeholders expected to take an interest in the topic, including the Interveners, will discuss the following significant issues, in addition to other relevant matters:

- rural versus urban differences in occupant restraint usage;
- rural versus urban differences in collision fatalities;
- the operation of off-road vehicles by minors in rural areas, including what guidelines or rules can be implemented with respect to the use and operation of ORVs by minors;
- wildlife claims costs;
- motorcycle safety issues;
- traffic enforcement in rural and urban areas;
- targeting "problem" intersections or roadways;
- the possible role PAYD approaches could play in reducing traffic density;
- red light cameras and photo radar – linkages between incidents and accidents; and
- the use of wireless devices while driving, whether hand-held or hands-free.

Red Light Cameras/photo radar present a significant issue for the Board, not unlike the Family Transfers raised above and discussed below, because the effect of the current system is that individuals are permitted to fly "under the radar" of the DSR system and are escaping financial consequences of their poor driving behaviour.

The same may be said about the so-called "truckers' subsidy" and accident "buy-backs". Basic exempts long-haul trucks and buses, which produce no Basic policy revenue for MPI although MPI must absorb PIPP claims related to the exempt vehicles, and truckers, in the course of their employment, may access either MPI or WCB benefits – these inter-related issues result in some trucking firms avoiding WCB assessment increases, meaning an incentive for good driving behaviour is lost as well as resulting in Basic ratepayers, such as the owners of passenger vehicles, paying for the costs of PIPP benefits for the trucking industry.

With respect to "accident buy-backs", MPI's practice of allowing motorists to "buy back" claims, which, if acted on allows for an at-fault driver to potentially regain vehicle and driver "discounts"

Is questionable. The Board has previously held that the practice of buy-backs is another example of being contradictory to the DSR approach. In its Order that followed last year's GRA hearing, the Board recommended that MPI end the practice, particularly with respect to accidents where injuries were incurred.

The Board believes that as significant matters of road safety, all of these matters should be discussed and addressed. To-date, no action has been taken and no serious discussions have taken place, despite repeated recommendations having been made by the Board, including in last year's Order.

In anticipation of the upcoming technical conference, the Board asks that MPI gather information from other jurisdictions with respect to Red Light Cameras, Photo Radar, buy-backs and the treatment of interprovincial trucks and buses.

With respect to the use of handheld communication devices while driving, the Board agrees with CAA that distracted driving constitutes a serious road safety issue, and the Board repeats its recommendation from last year that the Corporation develop an option for the review of the Government pursuant to which demerits be assigned for convictions arising from the use of handheld communication devices while driving. The Board also suspects that even "hands-free" communication represents a distraction for the driver. The Board again asks that the Corporation join the recommendation for action with respect to these serious road safety issues.

Operating Expenses and Efficiency Benchmarks

The Board heard a significant volume of evidence with respect to the Corporation's operating expenses at the hearing, and accepts that the control and restraint of operating expenses are a significant issue for MPI, given the year-over-year growth observed in recent years. The Board, in conjunction with the fulfillment of its mandate, has a keen interest in reviewing the Corporation's operating expenses and assessing them for prudence and reasonableness.

The Board notes the argument by CAC and the evidence, which reflects that the Government has called for costs restraint within all arms of Government, which the Board understands to include Crown corporations. For example, the Government has imposed wage freezes on civil servants, yet MPI proceeded with cost of living increases for even its non-union staff.

Basic personnel compensation expenses increased by 12.2% in 2010/11 over the prior year, and staffing levels remain high, with a reduction of only 50 FTEs in 2011, to be followed by projected increases in 2012 and 2013. MPI has about double the number of staff that it had 20 years ago. While this, in part, is due to the integration of DVL, which increased the personnel complement by over 300, and the conversion to total no fault in 1994, the Board notes the large expenditures on IT and Business Process initiatives that have not seemingly brought about personnel productivity gains.

Control of costs, including personnel costs should be a priority for MPI. MPI cites service delivery as its focus, and makes the argument that if costs are to be restrained, services will be reduced. The Board is of the view that both service delivery and cost containment can co-exist.

Certainly, in the current financial climate it is the view of the Board that costs restraint is imperative. Pursuant to the evidence before the Board, it is apparent that MPI has not taken significant steps to restrain costs and in fact has not only increased its costs in some areas but plans for further complement increases. MPI's operating and personnel compensation costs are increasing well in excess of inflation, which causes the Board concern, particularly given the restraints being implemented in other areas of public service.

Despite the Board’s direction year after year that MPI benchmark its operating expenses and personnel levels with other similar entities, be it other monopoly auto insurance providers (such as Insurance Corporation of British Columbia and SGI Canada), other no-fault insurers (such as the Workers' Compensation Board of Manitoba, similar bodies in other provinces and société de l’assurance automobile Québec - SAAQ), and private insurers, MPI has still not “delivered”.

The Board appreciates that there may be no entity which is exactly comparable to MPI against which its operating expenses can be compared, but benchmarking should be done, even with the difficulties that may be encountered in that process. Not to do benchmarking is to leave the distinct impression that MPI’s operating costs and personnel complement levels are starkly “out of line”.

The Board is also concerned by MPI's evidence as presented at the hearing that it considers itself to be in a time frame wherein "there is more uncertainty than there has been in the past and there will be again in the future". The uncertainties that apparently face MPI must be even more serious for private insurers, which do not have the benefit of a captive policyholder base.

Having heard the evidence in this matter, it is the Board's view that the Corporation does not have close controls on its operating expenses. In fact, it does not appear that cost control is a significant priority for the Corporation. The Board would like to be assured that the Corporation is doing everything possible to ensure efficiencies within its operation, and benchmarking is an important part of that. Benchmarking can and should provide a basis for establishing a cost control framework.

Going forward, the Board wants to see “movement” on these fronts, and accordingly the Board will again direct MPI conduct a benchmarking study with respect to operating expenses and staffing. It is apparent that the Corporation is not without the resources, including financial and personnel resources, to conduct such a study, which the Corporation is to file with next year's GRA.

Cost Allocation Methodology

The Board is still not prepared to implement the “Deloitte” Cost Allocation Methodology for rate-setting purposes, at least in the absence of the corporate-wide information that it has requested previously and which the Corporation has refused to provide.

Certainly, cost allocation matters are of large importance to Basic rates given the commingling of many expenses, including overhead and staffing as well as the intertwined nature of the Corporation's lines of business. The close relationships between the lines of business underscore the need for an appropriate cost allocation methodology, to avoid any cross-subsidization within MPI.

The prudency of corporate wide expenditures and spending trends need to be reviewed to ensure that the costs that flow through the cost allocation methodology are prudent and support the establishment of just and reasonable rates. Without being able to conduct a thorough review of the prudence of underlying corporate transactions the Board cannot be as confident that the rates, either as proposed by MPI or as set by this Board, are fair and reasonable.

The delivery of service within the Basic line of business is the reason that the Corporation exists, and the Board is mindful that non-Basic lines of business should never be subsidized by Basic.

Capital Expenditures

Over the last number of years, leaving aside the purchase of CityPlace, the Corporation has expended significant sums on capital projects, with respect to the Business Process Review (for which MPI has spent approximately $96 million to date, with plans to spend $138 million in total).

The Corporation plan to spend an additional $36.7 million on Business Transformation initiatives, as well as a further $20 million in each of the years through to and including 2013/14 for future projects, yet unidentified.

MPI advises that it cannot align its capital budgeting process to coincide with the GRA process and that its budgets are more uncertain now than they may be in the future, due to the uncertainty of timing of capital spending on major projects. There appears to be some support for this assertion as, as indicated above, at last year's GRA hearing MPI's forecasts for IT and capital spending for this and future years were much lower than MPI now projects.

The Board shares the concerns expressed by interveners with respect to capital expenditures, and is concerned that the Corporation does not have a better handle on what its capital projects and expenses will be within the next number of years.

As reported on above, a detailed IT budget was reviewed at last year's GRA hearing and it did not provide any indication of the major IT initiatives being considered in this year's MPI's budget. Rates are established based on the cost consequences from both operating and capital budgets, so it is vitally important that budgets are well founded with some precision.

The Board is of the view that MPI needs more specific, tangible and credible long-term planning for capital expenses and, as such, the Board directs that MPI file with the Board for next year's GRA the details of its plans for the year of the application, including a list of planned and potential capital projects.

Board's Jurisdiction/Extension Issues

The Board has, in past Orders, expressed its view that its jurisdiction should be expanded to include non-Basic lines of business.

As the evidence reflects, MPI has approximately 96% of the Extension insurance market, making its Extension operation as close to a monopoly than ever before. In the economic lexicon, such situations are described as “near monopolies”, with the firm enjoying such a position capable of charging what the market will bear, with no competitive threat. The Board notes that the ratio of claims to premiums for Extension is considerably lower than Basic's ratio, suggesting that Basic ratepayers may be being over-charged on an overall basis even when Basic itself has a ratio of 85% or more.

The Board continues to hold the view the non-Basic lines of business within MPI should be regulated, on the basis that the average Manitoban is completely unaware that the Extension coverage being purchased through MPI is not a regulated insurance product. MPI prides itself on being the insurance provider for the people of Manitoba, and, the Board believes, should recognize that Basic ratepayers and Extension ratepayers are virtually "one and the same”, more so with each year that ensues.

The Board notes, as well, that in recent years MPI has used excess retained earnings from Extension and SRE as, in effect, a "kitty" for projects, despite the fact that the ratepayers who contributed to those projects are, in essence, one and the same as Basic ratepayers.

Investment Income

As has been discussed in past Orders and hearings, investment income is crucial to MPI, as it is the receipt of investment income that offsets MPI's ongoing underwriting losses on an annual basis. As a result, investment income also has a significant impact on the RSR. As the evidence reflects, MPI's extensive investment portfolio is managed by the Department of Finance, pursuant to legislation, though MPI does have input into investment policy and actions.

A number of years ago, the asset mix of the Corporation's investment portfolio was reviewed by the Board in detail in that year's GRA proceeding. The Board notes that some investment diversification has occurred, and that diversification may be expanded on in the future. MPI should constantly review its asset mix and act to avoid both wide fluctuations and inadequate yields arising out of its portfolio.

Last year the Board recommended that the Corporation engage only in those real estate and infrastructure investments that involve commercial terms, meaning commercially reasonable and arm's length investments. The Board repeats this recommendation this year, and in particular does so in the context of the expressions of interest that the Corporation intends to seek with respect to the development of the parking lots surrounding the True North Centre.

The Board looks forward to continuing to review the performance of the portfolio as against benchmarks of a broader portfolio, in order that the Board is able to measure the portfolio's performance. Certainly, the investment income to be earned in the next few years will be heavily dependent upon interest rates given the significant weighting of bonds within the Corporation's investment portfolio.

In other words, an increase in interest rates could have a large impact upon MPI's financial results.

IFRS

The 2011/12 fiscal year, yet to be completed, is the first year wherein MPI is required to comply with IFRS. Pursuant to the transitional adjustments that MPI was required to make, Basic RSR increased by a net amount of $18 million. Transitional matters were canvassed in significant detail at last year's GRA hearing.

Stage 2 of IFRS 4 is the next phase of IFRS expected to be implemented, however, at this stage the details of what will be included therein are not known. Mr. Christie testified that he did not expect major differences in MPI's accounting going forward as a result of IFRS 4, though the evidence reflects that the final standard of IFRS 4 stage 2 will likely not be released until the second quarter of 2012, for implementation in 2014.

The Board awaits further developments with respect to IFRS 4 and as to how the Corporation will be affected by its implementation. When the standard is finalized, the Board will expect MPI to provide a position paper on the accounting issues for the Corporation related to the changed standard.

Inter-Provincial Trucking Costs

Pursuant to the orders flowing from last year's GRA, the Board required that MPI charge to a non-Basic line of business the PIPP costs incurred in connection with claims incurred by inter-provincial truckers.

The Corporation has recently been granted leave to appeal the Board's direction by the Manitoba Court of Appeal. The Board will await the decision with respect to the appeal before commenting further on this issue, save and except to state that the Corporation is directed to continue to track the costs relevant to this issue going forward.

Family Transfers

The Board continues to be of the view that individuals that make “Family Transfers” after an accident or the incurrence of demerits are flying "under the radar" of the DSR system, and are escaping the consequences of their driving behaviour. Such a loophole allows for the “gaming” of the system, making the DSR system less effective.

The Board directs MPI to provide, in next year's GRA filing, a discussion of the pros and cons of the status quo (permitting Family Transfers), together with options on how this loophole can be closed, and the pros and cons of those options.

The Board requests that MPI include in its analysis a review of the option of requiring a principal operator to be declared for each vehicle, and of the implementation of an approach that would establish, at least, a post at-fault accident time period in which a Family Transfer cannot be made to effect a larger vehicle discount than would occur if the family transfer had not occurred.

Anti-Theft Initiatives

With respect to the anti-theft initiatives undertaken by the Corporation in recent years, the statistics speak for themselves. The Corporation has done a commendable job with respect to this loss prevention issue, and did so working together with the Board, the police and the Government. The insured vehicle “fleet” is becoming increasingly "immobilized" given the efforts of the Corporation and those of automobile manufacturers, all vehicles manufactured in 2008 or later must have factory-installed immobilizers.

King Street Donation

In Order 122/10 the Board ordered that the cost of the King Street property donation ($1.1 million) should not be allocated to Basic for the purposes of rate setting.

The Board notes that the property was transferred to a community group on March 8, 2011 for a nominal cost of $1. The Board understands that MPI has complied with the Board Order and the cost consequences of the transfer have not impacted Basic.

It is important that the cost consequence of transactions initiated by the Corporation that have no relation to providing Basic insurance related services should not negatively impact Basic ratepayers.

The Board notes that while Basic ratepayers have been "saved harmless" by the transfer, the policyholders of non-regulated lines will be absorbing the cost, and those policyholders are, largely, also Basic ratepayers.

Board Recommendations

In past years the Board has made a significant number of recommendations to MPI, many of which have been, in large part, ignored by the Corporation. Some of the Board's past recommendations have been addressed in this Order with respect to particular subject areas.

With respect to the remaining recommendations of past Orders, the Board comments as follows:

Health Cost Payment Agreement

Last year the Board recommended that MPI file evidence to support increases to its hospital related PIPP costs and seek to "negotiate" a binding contract with the Government with respect to these costs.

In response to that recommendation, MPI pointed to evidence filed at last year's hearing that constituted a scan of what other auto insurers pay for health costs in other jurisdictions across the country.

MPI also advised that a new Health Cost Payment Agreement with the Government was pending and would be made public once it was completed. No such agreement was filed with the Board, and, accordingly, the Board asks that the agreement be filed in next year's GRA, at which hearing the issue will be revisited.

When a contract is entered into between the Corporation and its sole shareholder, the Province, it is important for the public interest that the contract be supportable by cost and other analyses.

Basic Coverage

Last year the Board recommended that the Corporation 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 this year's GRA.

The Corporation did not do so; on the basis that the Province is solely responsible for benefit changes in Manitoba.

The Board now asks that the Corporation perform a benchmarking study on auto insurance coverage in other jurisdictions, and conduct a comparison between those coverages and the Corporation’s current Basic coverage.

Clearly it is important that the Corporation's coverage be competitive with that offered by other insurers, such as the monopoly insurer in Saskatchewan. The Board notes that the retroactive changes to Basic made since PIPP was implemented by legislation in 1994, both the introduction of a Retirement Income Benefit ten years ago and enhancements to those catastrophically injured in vehicle accidents in 2010 have been beneficial to claimants. These two changes may well have been made much earlier if a regular review of Basic benefits was a component of the annual GRA hearing.

In that event, the problems associated with “unduly waiting” for claimants and “no premiums having been paid for retroactive benefits” for current Basic policyholders would have been avoided.

WCB

Last year the Board asked that MPI conduct a comparison between PIPP benefits and WCB coverage, which has not been done. A comparison of the two “no fault” programs in Manitoba, programs that have some “inter-play” between them in the case of long-haul trucks and PIPP benefits – where an injured truck driver can opt for WCB or MPI no fault benefits, may provide an indication of the possible future direction of PIPP.

The Board repeats this request and asks that the comparison be filed together with next year's GRA.

Buy-backs

Last year the Board recommended that MPI permit no further "buy backs" of accident costs with respect to private passenger vehicles, from the date of implementation of the DSR, except for situations wherein the buyback was for an accident for which no injuries or fatalities occurred, and for which the total claims costs did not exceed $1000.

The Board takes issue with a practice which currently allows for a motorist to improve his or her otherwise DSR scale position for financial gain, as the practice undermines the purpose of the system, which is to encourage good driver behaviour.

The Board views the accuracy of the DSR scale as of extreme importance, and the buying back of claims as negatively impacting the accuracy of that scale. The Board therefore asks, again, that the Corporation seriously consider the effect of claim buy backs.

Environmental Matters

Last year the Board made two recommendations relative to environmental matters. The first was that MPI seek direction from Government concerning the potential use of the rate-making model to further the Government's environmental objectives. The second recommendation was that MPI consider further the Government's objective of reducing greenhouse gas emissions.

The Corporation responded by advising the Board that PAYD relates to social policy matters to be determined by Government, and that, in any event, there is no evidence that extending discounts to high-efficiency vehicles or hybrid vehicles is actuarially sound. The Corporation also stated that it is committed to and engages in options to reduce greenhouse gas emissions with respect to its internal corporate activities.

The Board asks that MPI, at next year's GRA hearing, provide an updated report with respect to PAYD. The last report with respect to PAYD was provided at the 2008 GRA. In particular, the Board asks that MPI consider how PAYD could be designed to work in Manitoba, and to provide gains to MPI.

For example, could a pilot project of PAYD be conducted in Territory 1? Are there other jurisdictions wherein PAYD has been attempted, with similar population density to Manitoba? In addition, much has changed since 2008 with advancements in claims savings technologies.
The Board commends MPI for those “internal” environmental initiatives that it has pursued, and cannot stress enough the importance of environmental matters being considered seriously. The Board looks forward to receiving more information next year with respect to the Corporation's sustainable development initiatives and progress, including new ideas or approaches being taken.

Other Comments

The credibility and transparency of the Board's review process is of the utmost importance given the Board's crucial role with respect to Basic, mandatory insurance rates. Both the Board and MPI are accountable to Manitobans for the Corporation's operations, together with the

Government, as stated by MPI at the GRA hearing. Each of these three entities play a very important role in the delivery of auto insurance to Manitobans, and as well in the service of the broader public interest.

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

5. BOARD DIRECTIVES:

BE IT ORDERED THAT:

1. An overall 8% decrease in 2012/13 of written vehicle and driver rates and premium revenues is approved;

2. The DSR schedule shall be varied as proposed by MPI, to be implemented as of March 1, 2012, for the 2012/13 insurance year;

3. For rate-setting purposes, the IT Optimization Project shall not be funded from Basic Retained Earnings;

4. The proposed changes to fleet rebates are approved, to be implemented as of March 1, 2012, for the 2012/13 insurance year;

5. MPI file with the Board the project charters for the IT Optimization projects as the same become available;

6. MPI file with the Board at the next GRA ongoing IT Optimization project expenses, as tracked to baseline budgets;

7. MPI file with the Board together with next year's GRA an updated DCAT, MCT and RA/VAR, together with the pros and cons of each approach and MPI's position on what methodology would best develop an appropriate RSR target range;

8. A technical conference to be planned jointly by the Board and MPI, be convened by the summer of 2012 to discuss road safety and loss prevention matters, with stakeholders to include the parties to the GRA proceedings and, as well, other agencies and associations within the Province with an interest in road safety and accident reduction;

9. MPI file with the Board the details of its plans for capital expenditures for 2012/13, including a list of planned and potential capital projects;

10. MPI continue to track PIPP costs incurred in connection with claims by inter-provincial truckers; and

11. MPI file with next year's GRA the Health Cost Payment Agreement reached with Government, together with supporting documentation.

IT IS RECOMMENDED THAT:

1. MPI develop an option for the review by Government pursuant to which demerits are assigned for convictions arising from the use of handheld communication devices while driving, and consider the merits of extending the ban, and the assignment of demerits, for hands-free communication devices as well;

2. The Board's jurisdiction be extended to include non-Basic lines of business, including rates and retained earnings;

3. MPI engage only in those real estate and infrastructure investments that involve commercial terms, meaning commercially reasonable and arm's length transactions;

4. MPI gather information from other jurisdictions with respect to Red Light Cameras and Photo Radar, as to how demerits are handled in those jurisdictions and provide the information to the Board in next year's GRA filing;

5. MPI conduct a benchmarking study with respect to operating expenses and staffing levels, and file the result in next year's GRA;

6. MPI file, with next year's GRA, a discussion of the pros and cons of permitting Family Transfers together with options on how Family Transfers can be better managed;

7. MPI perform a benchmarking study on auto insurance coverages within other provinces and conduct a comparison between those coverages and Basic coverage;

8. MPI conduct a comparison between PIPP benefits and WCB coverage and file the results at next year's GRA;

9. MPI consider the effect of claim buy backs upon the accuracy of the DSR scale and report the result to the Board at next year's GRA; and

10. MPI provide an updated report with respect to PAYD.

THE PUBLIC UTILITIES BOARD

"SUSAN PROVEN, P.H.Ec."
Acting Chairperson

"HOLLIS SINGH"
Secretary

Certified a true copy of Order No. 162/11 issued by
The Public Utilities Board

Secretary

APPENDIX "A"

Driver Safety Rating Vehicle Premium Discounts and Driver Premiums Effective March 1, 2012		
DSR level	Vehicle Premium Discount	Driver's Premium
15	33%	$15
14	30%	$20
13	29%	$20
12	28%	$20
11	27%	$20
10	26%	$20
9	25%	$25
8	25%	$30
7	25%	$30
6	20%	$30
5	15%	$30
4	15%	$30
3	10%	$35
2	10%	$35
1	5%	$40
0	0%	$45
-1	0%	$45
-2	0%	$75
-3	0%	$150
-4	0%	$150
-5	0%	$200
-6	0%	$300
-7	0%	$350
-8	0%	$350
-9	0%	$400
-10	0%	$450
-11	0%	$600
-12	0%	$700
-13	0%	$800
-14	0%	$1,000
-15	0%	$1,200
-16	0%	$1,300
-17	0%	$1,500
-18	0%	$1,600
-19	0%	$1,800
-20	0%	$2,000

Appendix B

Glossary of Acronyms and Terms

Application	2011/12 General Rate Application
AOCI	Accumulated Other Comprehensive Income
Basic	Compulsory motor vehicle insurance
Board	Public Utilities Board
Bonus/Malus	Incentives/penalties to encourage good driving
BPR	Business Process Review
CAA	Canadian Automobile Association
CAC	Consumers' Association of Canada
CLEAR	Canadian Loss Experience Automobile Rating
CMMG	Coalition of Manitoba Motorcycle Groups
Corporation	Manitoba Public Insurance Corporation
DART	Driving Ahead in Real Time – Mainframe Decommissioning Project
DCAT	Dynamic Capital Adequacy Testing
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
ITOF	Information Technology Optimization Fund
MBA	Manitoba Bar Association
MCA	Manitoba Court of Appeal
MCT	Minimum Capital Test
Monopoly	Policies that can only be sold by one corporation (MPI)

MPI	Manitoba Public Insurance Corporation
MUCDA	Manitoba Used Car Dealers Association
Near monopoly	Description of market domination in a competitive market due to distribution and other advantages by an insurer (MPI)
No-fault	Accident benefits not related to the fault of the driver
OECD	Organisation for Economic Co-operation and Development
OSFI	Office of the Superintendent of Financial Institutions Canada (federal)
PfAD	Provision for Adverse Deviation (an element of Unpaid Claims)
PIPP	Personal Injury Protection Plan
Province	Government of Manitoba
RA	Risk Analysis
RIB	Retirement Income Benefit
RSR	Rate Stabilization Reserve
SRE	Optional Special Risk Extension motor vehicle insurance
SRP	Streamlined Renewal Process
Stochastic	Involving a random variable process such as a probability distribution or pattern that may be analyzed statistically but may not be predicted.
Tort system	Benefits paid take into account the allocation of fault
Total no-fault	Benefit approach that does not account for the fault of the driver
VAR	Value at Risk
WATSS	Winnipeg Auto Theft Suppression Strategy
WPS	Winnipeg Police Service

Appendix C
Appearances

Candace Grammond Nicole Hamilton	Counsel for The Manitoba Public Utilities Board
Kathy Kalinowsky	Counsel for Manitoba Public Insurance Corporation
Liz Peters Gerry Kruk	Representing the Canadian Automobile Association (Manitoba Division)
Raymond Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups
Byron Williams	Counsel for the Consumers' Association of Canada, Manitoba Branch
Dave Schioler	Insurance Brokers Association of Manitoba

Appendix D
Witnesses

For MPI

Marilyn McLaren	President and Chief Executive Officer
Don Palmer	Vice-President Finance and Chief Financial Officer
James Christie	Ernst & Young LLP (retired)
Neil Parkinson	KPMG LLP
Rob Kowalchuk	KPMG LLP
Martin Geffen	Gartner Canada Co.

Appendix E
Interveners

Canadian Automobile Association - Manitoba Division (CAA)

Coalition of Manitoba Motorcycle Groups (CMMG)

Consumers’ Association of Canada, Manitoba Branch (CAC)

Insurance Brokers Association of Manitoba (IBAM)

Manitoba Used Car Dealers Association (MUCDA)

Presenters

Bruce Zeemel
Jill Ruth
Robyn Gray
Farren Paradis
Adrian Halpert