M A N I T O B A	Order No. 89/09
THE PUBLIC UTILITIES BOARD ACT	
THE MANITOBA PUBLIC INSURANCE ACT	
THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT	May 28, 2009

BEFORE: Graham Lane, CA, Chairman
Leonard Evans, LL.D., Member

MANITOBA PUBLIC INSURANCE: APPROVAL OF COMPULSORY DRIVER INSURANCE PREMIUMS AND VEHICLE PREMIUM DISCOUNTS UNDER THE PROPOSED DRIVER SAFETY RATING PROGRAM

Table of Contents

Page

Appendices

EXECUTIVE SUMMARY

By this Order, the Public Utilities Board (Board) varies an application filed by Manitoba Public Insurance (MPI *or* the Corporation) for approval of compulsory driver insurance premiums and vehicle premium discounts under the proposed Driver Safety Rating (DSR) program. The varied DSR proposal is to be implemented March 1, 2010, the start of MPI's next insurance and fiscal year.

In varying the application, the Board accepts that the Corporation's proposed DSR program represents an improvement over the current bonus/malus approach, with the DSR approach considerably superior to the current approach both with respect to matching risk with premium levels and (in the Board's opinion) furthering the prospect of effectively motivating improved driving behaviour.

Besides varying the implementation date of DSR to March 1, 2010 to coincide with the start of the Corporation's next fiscal and insurance year, the variances restrict the initial lower driver and vehicle premiums (to be available pursuant to the DSR) to drivers and vehicle owners with fifteen years of neither an at-fault accident nor a driving infraction. As well, while MPI proposed transitional reductions in premiums for some drivers and vehicle owners with less than fifteen years of an at-fault accident and/or varied driving infraction experience, the Board variances do not provide for those initial savings, but require a "clear" record in 2010/11 for the benefits of DSR to apply to additional vehicle and/or driver premiums.

The Board also directs that until such time as research is conducted into the 'family transfer" issue, a driver with two or more vehicles that does not transfer one or more of those vehicles to someone within his/her household subsequent to an at-fault accident shall not lose the discount on the vehicle(s) that was (were) not involved in the at-fault accident, unless that driver has had one or more other at-fault accidents in the previous five years.

Finally, the Board, as it can not direct given its limited jurisdiction, recommends varying the application to restrict drivers newly registered in Manitoba from the highest levels of the DSR merit schedule, on the basis that Manitoba's climate and related winter road conditions are such that new Manitobans, regardless of "meritorious" driving records in other jurisdictions, should have at least two or three years of Manitoba driving experiences before MPI should consider them in the category of "safest" Manitoba drivers, and thus provide them with the highest level of driver and vehicle premium reductions.

The rationale behind some of the variances is the Board's concern that MPI's proposed transition involved a too significant overall premium reduction than is warranted given the Board's current understanding of the Corporation's financial situation.

The Board also makes a number of other recommendations, including calling on MPI to a) research the predictive virtues of red light and photo radar infractions, b) consider the potential "gaming" of the system through transfers of vehicle ownership within family households, c) further the Corporation's efforts to enlist the City of Winnipeg Police Service and the RCMP in increasing their level of traffic enforcement, d) establish measurable benchmarks, trends and targets to monitor and measure DSR success relative not only to the Corporation's three stated goals for DSR, but also for a broader goal, that of bringing down accidents and related motor vehicle injuries and deaths, and e) that no further "buybacks" with respect to passenger vehicles should occur from the date of implementation of the DSR, except for situations where the buyback is for an accident for which no injuries or fatalities occurred, and for which the total claim did not exceed $1000 – with respect to commercial fleets no buy backs should be permitted excepting in the case that neither an injury nor a fatality was involved.

The Board recognizes that neither the utilization of red light camera and photo radar infractions as input into DSR level placement, nor the steps proposed to end the risk of “gaming the system” with respect to the transfer of vehicles within a household to avoid reduced vehicle insurance discounts, will be “popular” with many motorists. However, despite MPI’s understandable focus on achieving “public acceptability” of DSR, the Board’s primary concern is not public acceptability but the creation of strong incentives to “drive safely”, as the human and financial toll of motor vehicle accidents in Manitoba remains unacceptably high.

The Board also calls on MPI to research the appropriateness of the current division of revenue requirement between vehicle and driver premiums, and to examine CMMG’s proposed alternative approach to DSR, which would have vehicle premiums “reset” to across-the-board levels and the incentives/rewards and penalties for “good” and “poor” driving experience resting with driver premiums.

Although, when the full transition to DSR is complete, the ratio may not have changed much, the current ratio is highly suggestive of an inappropriate division between vehicle and driver premiums, and a case may be made for a higher proportion of total earned premiums coming from drivers as opposed to “vehicles”. MPI’s evidence supported this contention in its report disclosing a high number and proportion of drivers without registered vehicles but with demerits on their driving record.

MPI’s application for approval of a proposed DSR program was reviewed at a public hearing held over seven days in April 2009. While the Board has jurisdiction over the rates for service of MPI’s compulsory Basic motor vehicle insurance program (Basic), and no jurisdiction over the competitive lines of Extension, Special Risk Extension (SRE) and MPI's driver and vehicle licensing (DVL) functions, (notwithstanding the linkages between Basic, Extension, SRE and DVL), the Board, in assessing and reaching conclusions with respect to MPI's DSR application, considered the overall financial position and projections of MPI.

While significant areas of MPI operations remain outside the Board's purview, the Board was asked to approve the introduction of DSR, which will have significant financial implications for MPI overall, without being able to gain a full understanding of the financial well being of the Corporation as a whole. The Board was not provided sufficient information on the Extension, SRE and DVL functions, and thus, has made its decisions without complete information.

While the Board has been sufficiently assured (by the evidence presented at the DSR proceeding) that the introduction of DSR will not harm the Corporation financially in the long-term, and may hopefully benefit it, the Board continues to recommend to government that, to allow for effective regulation for the protection of the public interest, the Board's jurisdiction be expanded to include all MPI operating segments.

As before, the Board is prepared to work with the Corporation to ensure that an extension of the Board's oversight is designed in a way conducive to an improvement in the public interest, and does not lead to excessive intervention in non-Basic areas of operations (the Board may be satisfied if its jurisdiction with respect to Extension and SRE is extended to allow for the receipt of financial and statistical information, both as to actual and forecast results).

1.0 INTRODUCTION

Rate Hearing Process

MPI sought Board approval of amended compulsory driver insurance premiums and vehicle premium discounts pursuant to a proposed Driver Safety Rating (DSR) program, for implementation on November 1, 2009.

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

The Interveners to the process were:

- Canadian Automobile Association – Manitoba Division (CAA);
- Coalition of Manitoba Motorcycle Groups (CMMG); and
- Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors (CAC/MSOS).

In addition to the interveners, two individual presentations were made, each expressing particular concerns and providing recommendations. As presentations are not evidence, and the views expressed are not subject to cross-examination, presenters can only provide the Board with different perspectives, often providing background context for further research or examination. MPI is expected to provide a response to each presenter, with copies to the Board.

This Order provides the Board's findings, recommendations and directions on matters of interest arising in the course of the hearing process, as referenced through oral testimony or filed documentary evidence.

Hearing transcripts are posted on the Board's website, www.pub.gov.mb.ca, and, together with the Board's files of evidence presented as exhibits, provide public access to the full record of the hearing, including cross-examination of MPI witnesses by the Board and by interveners, as well as previous Board Orders.

2.0 APPLICATION

As indicated, MPI sought approval of amended compulsory driver insurance premiums and vehicle premium discounts pursuant to a proposed DSR program, for an initial implementation on November 1, 2009. During the hearing, the Corporation advised that due to delays related to the complexities of developing and communicating DSR details to drivers and vehicle owners, implementation of the new system would be, at the earliest, delayed to February 1, 2010. With this revision, the application therefore extended over an initial thirteen-month period of operation.

The Corporation did not apply for changes to previously approved 2009/10 compulsory vehicle rates.

The Driver Safety Rating Program was designed by MPI with three primary goals:

1. To provide higher rewards (via reduced premiums) for the safest drivers;
2. To provide stronger incentives for higher risk drivers to improve their driving behaviour; and
3. To improve drivers' understanding of how their driving behaviour can affect the amount they pay for auto insurance.

At the hearing, MPI reported that while the Corporation “hoped” that DSR would result in reduced accident experience (without any actuarial basis for predicting success in that respect), it chose not to list accident reduction as a specific objective.

In implementing the new system, which will replace the current bonus/malus system and is intended to affect and motivate every Manitoba driver and vehicle owner, the Corporation stated that it was essential to proceed cautiously to ensure that the DSR is fair, equitable, and provides strong incentives for safe driving behaviour.

MPI indicated its intention to introduce the new program in a way to gain public acceptance, and proposed the avoidance of immediate rate increases for drivers considered to be "high risk", providing an opportunity for such drivers to adjust their driving behaviour before being assessed higher penalties.

MPI also stated that it is equally important to immediately reward long-term safe driving behaviour with lower rates, so as to increase the initial motivational impact of the new program. The rewards proposed for the transition period were predicated on the fact that, in the absence of significant reductions to total premium income during the DSR implementation, MPI's current forecasts for 2010/11 and 2011/12, updated from the forecasts provided at the last General Rate Application (GRA), suggest that an overall 2% rate level decrease is warranted and would otherwise have been proposed at the upcoming GRA to be filed in June 2009.

So, as a result of the transition to the new driver safety rating scale, and in lieu of applying for a 2% rate decrease in the 2010 GRA, MPI incorporated premium decreases for many drivers in its DSR transition strategy and proposal.

MPI's proposed initial placement rules, which assign drivers with specific merit or demerit points particular discounts and penalties, were developed by the Corporation through statistical modelling, with the model employing (in part) existing approved 2009/10 driver and vehicle premium rates.

MPI forecast the impact on the Corporation's annual income of its proposed transition to the new DSR scale. MPI forecast that if its DSR proposal was implemented, the initial transition year would result in an overall Basic revenue decrease of 2.6% or approximately $18 million (driver premiums, forecast to decrease by 31.3% or $11.3 million; vehicle premiums, forecast to decrease by 1% or $6.8 million).

MPI projected that, if its DSR proposal were implemented, in the first year of the transition 85.9% of drivers would receive lower overall driver and vehicle premiums, albeit modest on an individual basis.

While MPI's proposal was initially only for the first 16 months (since revised to 13 months) of the transition, the Corporation provided projections indicating its plans for transitioning the DSR premium schedule over a four-year period, eventually providing significant benefits for "good" drivers and significantly higher penalties for drivers with poor records (at-fault accidents and/or driving infractions).

The proposed initial Basic drivers licence premiums and associated vehicle premium discounts in MPI's proposed transition for the DSR were:

	DSR Level	Driver Premium	Vehicle Premium Discount
Merits	10	*$0 or $5	25%
	9	*$0 or $5	25%
	8	*$0 or $5	25%
	7	$20	25%
	6	$25	20%
	5	$30	15%
	4	$30	15%
	3	$35	10%
	2	$35	10%
	1	$40	5%
Base	0	$45	0%
Demerits	-1	$45	0%
	-2	$45	0%
	-3	$45	0%
	-4	$45	0%
	-5	$45	0%
	-6	$245	0%
	-7	$270	0%
	-8	$295	0%
	-9	$320	0%
	-10	$345	0%
	-11	$395	0%
	-12	$445	0%
	-13	$495	0%
	-14	$545	0%
	-15	$595	0%
	-16	$670	0%
	-17	$745	0%
	-18	$820	0%
	-19	$895	0%
	-20	$1,044	0%

* Drivers with 8, 9 or 10 merits who also register a vehicle will not pay any driver premium.
Drivers who do not register a vehicle will be charged $5.

The proposed DSR will replace the complicated four-tiered bonus/malus system and was cited by the Corporation to be more understandable and much more predictive of future experience than the current approach.

To summarize, under MPI's transition proposal, modest immediate benefits would be provided, mainly to the "safest" drivers, and very few would pay more on the transition to the new system than under the current bonus/malus system.

Transitional Impacts on Drivers

As a result of MPI's proposed transition to DSR, certain drivers would immediately benefit:

For example:

- Drivers with five current system merits and five claims-free years of driving would be transitioned to DSR level 10 (this represents 46.49% of drivers), the top of the scale. Upon transition, their driver premium, $20.00 under the existing system, would be reduced to either zero (if they have a registered vehicle) or $5.00 (if they do not). There would be no immediate change in the vehicle premium discount, currently at 25%.
- Drivers with four current system merits and five years claims-free driving would be transitioned to DSR level nine (representing 6.52% of drivers). Upon transition, the driver premium, $25 under the existing system, would be reduced to either zero or $5.00. Again, there would be no change in the vehicle premium discount, the maximum being 25%.
- Drivers with three current system merits and five years claims-free driving would be transitioned to DSR level 8 (5.11% of drivers). Upon transition, the driver

premium, now $30, would be reduced to either zero or $5.00. Again, there would be no change in the vehicle premium discount, currently at 25%.

- Drivers with zero current system merits and between one and five years of claims-free driving would be transitioned to DSR level 5. Based on the number of claims-free years, drivers would benefit to varying degrees, potentially through both lower driver premiums and higher vehicle premium discounts than under the existing system.
- Drivers with 20 or more demerits would be placed at DSR demerit level 20, and, under the DSR system, would receive an immediate driver licence rate increase of $74.

Under the Corporation's proposed transition, an individual with five years of claims free driving and zero current system merits would be placed at DSR level 5. The rationale for the proposed beneficial treatment was that such an individual, if they remained incident-free, would otherwise soon attain a current system "merit" at which point they would be entitled to a 25% vehicle premium discount.

By placing the individual at DSR level 5 rather than DSR level 0 (where no vehicle premium discount was proposed), the individual would thus receive a 15% vehicle premium discount, as well as a reduction of $5.00 in the driver licence premium.

With two additional incident-free years under the new system, that same individual would attain the 25% vehicle premium discount. If the individual was placed at DSR level 0 (a rejected option), the Corporation indicated it would take that individual seven years to attain the 25% vehicle premium discount, even though that same individual would have attained that 25% discount under the old system in a much shorter time period.

MPI indicated that the transition adjustments made for those individuals (moving from level zero to five) were to address fairness.

The following tables summarize MPI's proposed transition to DSR, with the corresponding distribution of drivers, for all possible combinations of current system merits/demerits and the number of claims free years:

Merits / Demerits	Claims-Free Years	DSR Level	Old Driver Premium	DSR Driver Premium	Old Vehicle Premium Discount	DSR Vehicle Premium Discount	Percentage of Drivers
5	5	10	$20	$0 or $5	25%	25%	46.49%
5	4	6	$20	$25	20%	20%	1.08%
5	3	5	$20	$30	15%	15%	0.66%
5	2	5	$20	$30	10%	15%	0.71%
5	1	5	$20	$30	5%	15%	0.68%
5	0	5	$20	$30	0%	15%	0.97%
4	5	9	$25	$0 or $5	25%	25%	6.52%
4	4	6	$25	$25	20%	20%	0.30%
4	3	4	$25	$30	15%	15%	0.24%
4	2	4	$25	$30	10%	15%	0.27%
4	1	4	$25	$30	5%	15%	0.35%
4	0	4	$25	$30	0%	15%	0.44%
3	5	8	$30	$0 or $5	25%	25%	5.11%
3	4	6	$30	$25	20%	20%	0.42%
3	3	4	$30	$30	15%	15%	0.32%
3	2	3	$30	$35	10%	10%	0.32%
3	1	3	$30	$35	5%	10%	0.36%
3	0	3	$30	$35	0%	10%	0.48%
2	5	7	$35	$20	25%	25%	4.46%
2	4	6	$35	$25	20%	20%	0.96%
2	3	4	$35	$30	15%	15%	0.70%
2	2	2	$35	$35	10%	10%	0.62%
2	1	2	$35	$35	5%	10%	0.55%
2	0	2	$35	$35	0%	10%	0.72%
1	5	7	$40	$20	25%	25%	2.45%
1	4	6	$40	$25	20%	20%	0.86%
1	3	4	$40	$30	15%	15%	1.24%
1	2	2	$40	$35	10%	10%	0.82%
1	1	1	$40	$40	5%	5%	0.76%
1	0	1	$40	$40	0%	5%	2.78%
0	5	5	$45	$30	0%	15%	2.89%
0	4	4	$45	$30	0%	15%	0.84%
0	3	3	$45	$35	0%	10%	1.08%
0	2	2	$45	$35	0%	10%	2.22%
0	1	1	$45	$40	0%	5%	3.31%
0	0	0	$45	$45	0%	0%	3.86%
-1	n/a	-1	$45	$45	0%	0%	0.42%
-2	n/a	-2	$45	$45	0%	0%	1.22%
-3	n/a	-3	$45	$45	0%	0%	0.27%
-4	n/a	-4	$45	$45	0%	0%	0.48%
-5	n/a	-5	$45	$45	0%	0%	0.10%
-6	n/a	-6	$245	$245	0%	0%	0.21%
-7	n/a	-7	$270	$270	0%	0%	0.07%
-8	n/a	-8	$295	$295	0%	0%	0.11%
-9	n/a	-9	$320	$320	0%	0%	0.04%
-10	n/a	-10	$345	$345	0%	0%	0.07%
-11	n/a	-11	$395	$395	0%	0%	0.02%
-12	n/a	-12	$445	$445	0%	0%	0.04%
-13	n/a	-13	$495	$495	0%	0%	0.01%
-14	n/a	-14	$545	$545	0%	0%	0.02%
-15	n/a	-15	$595	$595	0%	0%	0.01%
-16	n/a	-16	$670	$670	0%	0%	0.02%
-17	n/a	-17	$745	$745	0%	0%	0.01%
-18	n/a	-18	$820	$820	0%	0%	0.01%
-19	n/a	-19	$895	$895	0%	0%	0.00%
-20	n/a	-20	$970	$1,044	0%	0%	0.01%
-21 or more	n/a	-20	$1,044	$1,044	0%	0%	0.02%
							100.00%

MPI suggested that if the Board was inclined to change the proposed rates, it would best leave the transition adjustments intact with respect to vehicle premium discounts, and restrict any changes to the benefits proposed for drivers in DSR levels 8, 9 and 10.

MPI also provided an alternative to its proposal of the application for the Board's consideration that would remove the modest driver premium reductions provided for DSR levels 8, 9 and 10 under the proposal, which was projected to result in an estimated loss of revenue of $10 million.

Scale Movement Rules

In advance of MPI's filing of its application and the recent PUB hearing, the government enacted a regulation providing for the implementation of DSR effective November 1, 2009. The regulation, which may be amended by government, in its current form allows for individuals "on the positive side of the scale" to move up one level for each "clean" year, i.e. an incident-free year (no at-fault accident, and no driving infractions). Under MPI's proposal, individuals placed in the demerit end of the scale would move towards the merit schedule on an accelerated basis with each year of incident-free driving.

An individual with an inactive licence, would be placed on one of the demerit steps in the proposed scale, and would move up towards the merit end of the scale at an accelerated (compared to the current system) yet slower pace than an individual with an active licence.

The movement rules set out in the regulation are as follows:

At this point on the scale:	A clean year with an ACTIVE licence moves the driver up:	A clean year with an INACTIVE licence moves the driver up:
Anywhere in the Merit Zone	1 step	0 steps
0	1 step	0 steps
-1	1 step	0 steps
-2 to -7	2 steps	1 step
-7 to -3	3 steps	2 steps
-11 to -8	4 steps	2 steps
-15 to -12	5 steps	3 steps
-18 to -16	6 steps	3 steps
-20 to -19	7 steps	4 steps

New Manitobans

MPI proposed that new Manitobans with a driver's licence be placed at DSR level 0, but, if they can provide a satisfactory driver abstract from their former jurisdiction, it may allow that individual to be placed on the DSR scale up to as high as DSR level 10.

There are ongoing inter-jurisdictional record exchanges between Canadian provinces and territories, with driver abstracts regularly provided to MPI. However, MPI indicated that many other jurisdictions outside Canada do not have a reciprocal agreement with Manitoba for sharing of drivers' abstracts.

Information on a driver's abstract, if provided, would be entered into the driver's record and, pursuant to MPI's plans, dictate the driver's placement on the scale. Any driving convictions included as input into the proposed DSR program would be assigned the appropriate number of demerits pursuant to Manitoba/MPI rules, and the applicable rating year noted. For each year where no driving convictions are incurred, the driver would move up the DSR scale and receive any discounts provided on the scale.

Transfer of Vehicle Ownership

The new DSR program will not eliminate the risk (some would even say the every-day practice) of high-risk drivers transferring ownership of vehicles to other family members in order to take advantage of higher vehicle premium discounts available if the transfer recipient has one or more merits.

MPI suggested that the new program will make this practice less attractive, since drivers would not always drop from a full 25% discount down to no discount on all of their policies. The Corporation opined that if a customer expected to lose only 5% or 10% of their discount, they may not consider it worthwhile to transfer ownership which, potentially, could lead to back and forth transfers ("gaming the system").

In response to concerns raised by the Board and Interveners, which were heightened when MPI noted that it was not aware of how many transfers took place in a year, MPI indicated that its current Enterprise Data Warehouse system, given programming changes, could be utilized to study this phenomenon and track vehicles involved in at-fault accidents to determine, at a minimum, what percentage of those vehicles have a different owner for the next insurance year.

In the hearing, when reviewing an example of two drivers each with two registered vehicles, MPI acknowledged that transfers within the family unit could result in advantages for those able to transfer, as opposed to a single-person, multiple-vehicle household with no opportunity to transfer.

In the case where a driver has an at-fault accident, if that driver has the opportunity to transfer ownership of the insured vehicle(s) to another individual who resides at the same residence, that driver can avoid the loss of the vehicle premium discount on all vehicles transferred, while a driver who resides alone would lose the discount on every insured vehicle owned by her/him, as illustrated in the following example:

Vehicle Premium Impact Scenario

Driver	Vehicles Owned	Initial Premium $	Vehicle Premium Discount	Net Premium $
With 7 Merits				
Driver A	Automobile	1,200	25%	900
No Spouse	Motorcycle	1,800	25%	1,350
	Total	3,000		2,250
Driver B	Automobile	1200	25%	900
With Spouse	Motorcycle	1800	25%	1,350
	Total	3,000		2,250
After At Fault Accident and Minor Conviction (Loss of 7 Merits)				
Driver A	Automobile	1,200	0%	1,200
No Spouse	Motorcycle	1,800	0%	1,800
	Total	3,000	(A)	3,000
Driver B	Automobile	1,200	25%	900
With Spouse	Motorcycle	1,800	25%	1,350
	Total	3,000	(B)	2,250
Difference Driver A Vs Driver B			(A-B)	750

As a result of the ability to transfer ownership to an individual with a 25% discount, Driver B is able to retain the discount while Driver A (as per the above example) does not.

Balance Between Driver & Vehicle Premiums

The division of the Corporation's earned premium revenue between Driver premiums and Vehicle Premiums was reviewed at the hearing, as DSR implementation involves changes to both Driver Premiums and Vehicle Premium Discounts.

By 2013/14, the evolution of DSR is forecast to result in written premium of $33.9 million from driver premiums and over $746 million from vehicle premiums (after deducting projected vehicle premium discounts), the latter representing about 95% of total premiums collected.

In defence of the current division between driver and vehicle premiums, the Corporation suggested that given there is no coverage tied to driver premiums it was not possible to develop actuarial indicators supportive of a different division.

Drivers' premiums have been used as an offset to the costs of providing benefits since the inception of the Basic program. MPI contended that the historical split between driver and vehicle premiums (5/95) is currently the best indicator for determining the fairness of future rate proposals.

On an individual basis, DSR would ensure that driver risk is evaluated, so that higher risk drivers would pay more than safer drivers, both for the driver and the vehicle premium. Yet, no actuarial basis for the current division was placed into evidence.

MPI acknowledged that there is nothing within the DSR concept that would prevent changes to the division of the revenue requirement between vehicle premiums and driver premiums on a going-forward basis, although it was suggested that any such change would best be developed gradually.

MPI noted that it may prove challenging to move significant revenue over to the driver licence in a way that would be seen as fair, reasonable and appropriate. However, the Corporation accepted that there may be merit for further research on this issue.

MPI opposed a proposal (put forward by CMMG) that would reduce all vehicle premiums to the equivalent of a 25% discount, and employ the driver premium as the means to reward and “punish” drivers for “good” and “poor” driving behaviour, respectively.

MPI indicated that reducing all vehicle premiums to the equivalent of a 25% vehicle merit discount would result in a loss in annual revenue of approximately $33 million, and represent the equivalent of a 5.86% rate decrease for all merit-eligible, non-corporate vehicle premiums. MPI suggested that to offset that revenue loss, the Corporation would be required to raise driver premiums by an average of about $43 per driver, and that research would be required to determine how such an increased burden on driver premiums would be reflected in the DSR scale.

CMMG’s proposal would, if implemented, dramatically alter the current division of overall premium revenue requirement between vehicles and drivers, but would, arguably, be more consistent with the reality that “drivers cause accidents, vehicles do not”.

Claims Buy Back

Under the current bonus/malus system a customer can “buyback” any at-fault claims, and there are no restrictions on the amount or category of claim that can be “bought back”. And, if as a result of the original at-fault claim the customer was assigned demerits, the buyback of the claim would also result in the reversal of the demerits.

The practice also involves changing a driver’s abstract so that an observer of the abstract, such as another insurer in another jurisdiction, could well consider a driver who had been involved in numerous accidents but paid back MPI for all costs incurred as a claims-free driver.

MPI advised that under its DSR application, the buy-back option would continue and an individual would be able to buy back a claim and avoid the five demerits that are to be affixed for each at-fault accident. And, if an individual that buys back a claim does not have another claim or conviction, s/he would be considered to have had an at-fault, claims-free year.

That said, under DSR, as is the case with the existing system; an individual cannot buy back HTA convictions.

3.0 FUTURE CHANGES TO DSR

Transition of Scale and Penalties

MPI has not sought approval of the projected further transition of DSR through to and including 2013/14, leaving it open to the Corporation to adjust its now-planned transition in any future year, though any such changes would be subject to review at future GRA's

That said, over the next four years MPI forecast that DSR demerit penalties will increase sharply, and the level of the highest vehicle premium discount will be raised to 30% from 25%, as summarized in the following table:

Driver Premiums				
DSR Level	Transition February 2010	2011/12	2012/13	2013/14
13	n/a	n/a	n/a	$0 or $5
12	n/a	n/a	$0 or $5	$0 or $5
11	n/a	$0 or $5	$0 or $5	$0 or $5
8,9,10	$0 or $5	$0 or $5	$0 or $5	$0 or $5
7	$20	$20	$20	$20
6	$25	$25	$25	$25
4&5	$30	$30	$30	$30
2&3	$35	$35	$35	$35
1	$40	$40	$40	$40
0	$45	$45	$45	$45
-1	$45	$45	$45	$100
-2	$45	$45	$75	$100
-3	$45	$45	$150	$200
-4	$45	$100	$150	$200
-5	$45	$100	$200	$300
-6	$245	$250	$300	$300
-7	$270	$300	$350	$400
-8	$295	$300	$350	$400
-9	$320	$350	$400	$500
-10	$345	$400	$450	$500
-11	$395	$500	$600	$700
-12	$445	$500	$700	$900
-13	$495	$600	$800	$1,100
-14	$545	$700	$1,000	$1,300
-15	$595	$800	$1,200	$1,500
-16	$670	$1,000	$1,300	$1,700
-17	$745	$1,200	$1,500	$1,900
-18	$820	$1,200	$1,600	$2,100
-19	$895	$1,300	$1,800	$2,300
-20	$1,044	$1,500	$2,000	$2,500

As previously mentioned, MPI advised of its intention to introduce the higher levels of penalties gradually, to minimize the potential for immediate rate increases for high risk drivers, and thus provide an opportunity for those drivers to adjust their driving behaviour before they are assessed higher penalties.

In provisionally proposing a maximum penalty under the system of $2,500 (by 2013/14), the Corporation advised that it balanced consideration of public acceptance, access and affordability. MPI suggested that if the penalties became “too high”, the number of drivers driving without a licence would increase.

MPI also advised that it does not plan on expanding the DSR demerit scale beyond 20 demerits. For any individual who accumulates additional traffic offences or at-fault claims that would take the demerit count past 20, MPI stated that the driver’s abstract will capture a record of all convictions; for insurance-rating purposes, the placement of an individual on the DSR scale would be capped at 20 demerits.

MPI has also indicated that it plans to expand the scale on the merit side of DSR, from the current 10 to 15, over several years. MPI projected introducing higher levels of vehicle premium discounts (27.5% at DSR level 12 in 2012/13, and 30% at DSR level 13 in 2013/14).

The proposed expansion of the DSR scale and vehicle premium discount changes is illustrated in the following table:

	Vehicle Premium Discount				
DSR Level	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
14					30%
13				30%	30%
12			28%	30%	30%
11		25%	25%	25%	25%
7 - 10	25%	25%	25%	25%	25%
6	20%	20%	20%	20%	20%
4 & 5	15%	15%	15%	15%	15%
2 & 3	10%	10%	10%	10%	10%
1	5%	5%	5%	5%	5%
0	0%	0%	0%	0%	0%

MPI stated its intention to monitor the experience of drivers at the various DSR levels, and to propose adjustments as necessary to ensure that risk would continue to be reflected in rates under DSR.

The Corporation indicated that any adjustments expected in the next few years will result in lower rates for safer drivers and higher rates for drivers exhibiting higher-risk behaviour.

4.0 THE RSR

The purpose of the RSR is to protect motorists from large premium increases (rate shock) that would otherwise be necessary as a result of losses arising from unexpected and non-recurring events. In short, the RSR provides a buffer, so that if MPI incurs a material unexpected loss in a particular year, it is less likely that a large rate increase will be necessitated, and that there will be time for a gradual recovery of MPI's financial strength.

As a result of the proposed implementation and evolution of DSR, MPI forecast a "draw down" of the RSR (in aggregate) of approximately $90.8 million over the years 2009/10 through to and including 2013/14. Subsequently, MPI's expectation is that lower broker commissions and higher driver premiums under DSR would offset any further draw on the RSR.

With the introduction of Streamlined Renewals, (wherein drivers are only required to renew their licence every five years), Broker commissions for Basic premiums are expected to fall from 5% to 2.5% of annual premiums by 2011/12. (MPI also advised its expectation that broker workloads will decline significantly, concurrent with the decreasing commission level for Basic, though commissions for Extension products will increase.)

Again, MPI forecast that reduced Broker commissions for Basic would mitigate the magnitude of the reduction in RSR that the Corporation anticipated would result from implementation of MPI's proposed transition to the DSR. Over the years 2009/10 through 2013/14, Broker "Basic" commissions were forecast to fall by an aggregate $41.2 million.

On an overall basis (and assuming no reduction in claims due to DSR, which would be a disappointing outcome, MPI forecast that the RSR would be reduced by approximately $49.4 million, as follows (in thousands of dollars):

Fiscal Year	Impact on Driver Premiums Earned	Impact on Vehicle Premiums Earned	Premium Taxes	Total Premium Earned Reduction	Commission Savings	Net Impact On RSR
2009/10	(2,486)	(1,368)	116	(3,738)	-	(3,738)
2010/11	(11,598)	(5,445)	511	(16,532)	633	(15,899)
2011/12	(17,007)	(6,757)	713	(23,051)	6,044	(17,007)
2012/13	(10,901)	(11,464)	671	(21,694)	14,615	(7,079)
2013/14	(2,888)	(23,754)	799	(25,843)	20,125	(5,718)
Total	(44,880)	(48,788)	2,810	(90,858)	41,417	(49,441)

MPI opined that the “use” of the RSR to provide a “gentle” transition into DSR would not have any negative implication as to the level of rate protection RSR provides its policyholders, as forecast RSR levels are not expected to fall below the target range established by the Board.

MPI suggested that a short-term appropriation of RSR to transition to the new broker Basic commission level and DSR (the former to bring substantial savings for Basic when fully implemented and the latter to further the prospects of safer driving and lower accidents) will not affect the ability of the RSR to protect motorists from rate increases arising from non-recurring, unexpected events.

Based on information provided in the application, and incorporating the improved results indicated in the preliminary unaudited fourth quarter 2008/09 financial results (which are discussed further below), RSR balances, are currently forecast as shown below:

Rate Stabilization Reserve ($ Millions)

	Actual	***Forecast***	***Projection***		**Outlook**		
Year ending February 28/29	***2008***	***2009***	***2010***	***2011***	***2012***	***2013***	***2014***
RSR, Opening	128.1	127.1	135.6	131.3	122.9	132.4	165.7
Net Income Pre-DSR	69.0	(7.4)	(2.6)	7.6	26.5	40.3	56.8
Driver Safety Rating			(3.7)	(16.5)	(23.1)	(21.7)	(25.8)
Streamlined Renewals			0.0	0.6	6.0	14.6	20.1
Total Net Income for the Year	69.0	(7.4)	(6.3)	(8.3)	9.5	33.2	51.1
RSR Allocation IIF	15.2	15.9	2.0	-	-	-	-
Premium Rebate	(62.6)	-	-	-	-		
Accounting Adjustment	(22.7)	-	-	-	-		
RSR, Closing	127.1	135.6	131.3	122.9	132.4	165.7	216.8
IIF	17.9	2.0	-	-	-	-	-
Total Basic Retained Earnings	$ 145.0	$ 137.6	$ 131.3	$ 122.9	$ 132.4	$ 165.7	$ 216.8

For 2013/14, MPI forecast that the Board-approved RSR Range would be $86 to $132 million.

MPI further advised that, while its internal RSR target range for that year is much higher than the Board's (MPI's being a range of $161 to $322 million), the Corporation accepts the Board's lower RSR range as adequate and, as well, will update its forecast for the RSR for the upcoming 2010/11 GRA.

5.0 FINANCIAL FORECASTS

2008/09 Updated Forecast

MPI provided a financed forecast, updated from the forecast it provided at the last GRA, held in the fall of 2008. At that time, MPI forecast a net loss of $2.5 million for the Basic program for 2008/09, following a transfer of $17 million from the IIF.

However, in the Corporation's DSR filing (which reflected both actual financial information to November 30, 2008 and forecast financial results for the last quarter of 2008/09), MPI revised its prior forecast for Basic to a net loss of $5.4 million for 2008/09. The updated forecast also reflected:

- A reduction in claims costs in the order of $26.4 million, attributable to lower comprehensive claims and reductions in claims reserves;
- A $5 million reduction in operating expenses, due to delaying projects; and
- A revised estimate of investment income ($49.7 million), down from $86.9 million (a reduction of $37.2 million).

The Corporation provided the Board with the fourth quarter of 2008/09 (unaudited) and its results for the 12 months ended February 28, 2009, and it reported a $13.8 million improvement in net income for Basic over its previous forecast. MPI's latest expectation for 2008/09 Basic net income was $8.5 million, rather than the $5.3 million loss forecast included within MPI's DSR application.

The updated forecast results for 2008/09 indicate that investment income was lower than the prior forecast by approximately $45 million, with realized investment income of only $4 million for Basic for the year. In addition, MPI's investment portfolio reflected unrealized losses on "available for sale" assets in Accumulated Other Comprehensive Income (AOCI), with that balance being in deficit ($118.0 million).

MPI attributed the drop in actual, unrealized and forecast investment income to three major factors:

1. foreign exchange losses;
2. realized losses on equity investments;
3. write-downs on investments; and
4. actual and forecast lower interest rates on reinvested funds.

In past hearings, the Corporation reported that it hedged its full exposure to the US dollar, in respect to American equity investments.

Even with the unaudited lower investment income for 2008/09, MPI's expected results still reflected a slightly improved Basic financial result for the 2008/09 year in comparison to the prior forecast, due primarily to a reduction in claims from the forecast.

MPI advised that claims expenses were less than previously forecast (due primarily to reduced theft counts, PIPP claims experience in the year was lower than previously forecast, and there is a reduction in the "incurred-but-not-reported" IBNR balance - details to be forthcoming at the upcoming GRA).

Future Years Forecasts

The financial forecasts presented in support of the application reflected those presented at the 2009 GRA, adjusted to include actual results up to the third quarter ended November 30, 2008.

MPI is yet to revise its net income forecasts for 2009/10 through 2013/14. The forecasts for the upcoming GRA 2010/11 test year and the full outlook period will be finalized and filed in June 2009, as part of the 2010/11 GRA.

MPI expressed confidence that emerging data with respect to claims will support the corporation's positive Basic financial expectations through to and including 2013/14, despite recent investment deterioration, and MPI advised that it was unaware of any indication of a need for a rate increase at the upcoming 2010/11 GRA.

Claims Savings

The Corporation has neither established reduced claims as an objective for DSR, nor has it forecast any reductions in claims as a result of safer driving due to the implementation of DSR.

That said, the Corporation stated that claim savings are likely to be achieved as a result of DSR, compared to the current bonus/malus approach. With better information regarding the financial impact of at-fault accidents and convictions, along with the improved method for measuring driver risk, MPI suggested that drivers may become more "self-interested", forward-thinking and disciplined, and may accordingly drive more cautiously.

However, the Corporation advised that as there was no evidence from a behaviour modification / scientific research perspective, there was no reliable basis for MPI to predict claim savings to arise from DSR. (MPI also advised that it had not engaged a psychologist to review DSR, in terms of forming an opinion as to the probability of DSR affecting on driver behaviour in a way that would be expected to reduce future claims experience.

6.0 RED LIGHT CAMERAS AND HIGHWAY TRAFFIC ENFORCEMENT

Since the introduction of red light traffic enforcement cameras in 2003, and with increased use of photo radar, statistics of HTA convictions in the City of Winnipeg have dropped significantly, according to evidence filed at the hearing:

Year	HTA Convictions
2000	44,219
2001	29,226
2002	40,737
2003	32,780
2004	27,342
2005	25,835
2006	27,692
2007	20,992

With respect to the reduced level of traffic enforcement, a topic also canvassed in prior MPI GRA hearings (with concern being expressed by the Board in several consecutive rate Orders), MPI agreed that the chances of better driving behaviour would improve if there was an increase in officer-rendered traffic enforcement and citations.

MPI acknowledged that an enhanced level of enforcement may have a significant and positive effect on safer driving behaviour.

MPI indicated having ongoing conversations with the City of Winnipeg Police Service (WPS) and the RCMP related to traffic enforcement, and suggested that the 2008 conviction count will reflect higher levels of enforcement. MPI indicated that it was "pleased" with what it perceived as increased levels of traffic enforcement by the RCMP outside Winnipeg.

In Order 150/05, the Board recommended that MPI take into account red-light camera infractions in the design of DSR to replace the current bonus/malus system.

In Order 150/07 the Board stated:

> *"The Board continues to hold the view that there is a link between the continuing high level of accidents and injuries and reduced traffic law enforcement – red light cameras cannot replace direct traffic law enforcement and the allocation of responsibility for inappropriate driving conduct through the assessment of demerits and surcharges.*
>
> *The Board continues to recommend that MPI further its discussions with the Province, RCMP and WPS, towards seeking enforcement improvements."*

In Order 157/08, the Board followed up on its previous recommendation commenting on the upcoming DSR hearing, and the Board anticipated that the relationship between red light camera infractions and questionable driving behaviour would be considered.

Nonetheless, MPI indicated that red light camera and photo radar infractions were neither considered nor incorporated into the DSR design, as had been recommended by the Board, and that no research into the linkages between accidents and infractions had taken place. As well, MPI reported having undertaken no analysis of the number or trend of such infractions.

The Corporation noted that its exclusion of consideration of such infractions in the design of DSR was based on:

- There is no way to know who was driving the vehicle;

- A public perception that it would be unfair to assign demerits against the owners of “technologically” ticketed vehicles; and

- MPI customer’s survey indicated that drivers do not favour having red light infractions affect their DSR placement.

MPI suggested that the public has been led to believe that red light camera infractions would not result in demerits, that understanding pertaining to the current bonus/malus system, yet MPI acknowledged that if the driver could be identified it would be appropriate to include red light camera traffic convictions in the DSR system.

7.0 ACTUARIAL ANALYSIS

The DSR application summarized the technical foundation for the Corporation's DSR proposal. It outlines three analytical stages, as follows:

Testing Predictability

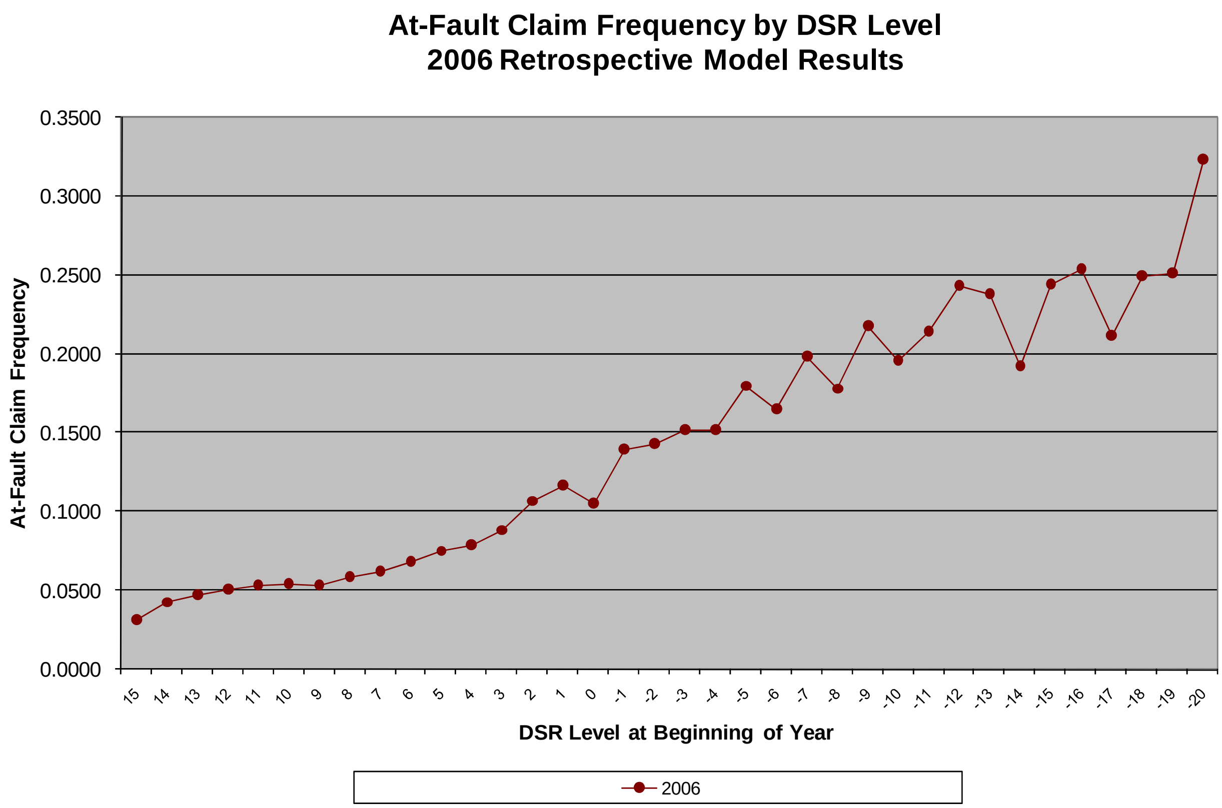
The Corporation used actual at-fault claim frequency experience for a recent insurance year, stratified by the number of years free of at-fault claims and/or minor convictions at the start of that insurance year, and that data confirmed that prior claim and conviction record is predictive of future at-fault claim frequency.

A further at-fault claim frequency analysis, stratified by the number of at-fault claims and minor convictions at the start of the insurance year and the year prior, confirmed that the risk of claims occurring increases with the number of recent at-fault claims and minor convictions, and that a scale-based approach to reflecting driver risk is more suitable than a one-time penalty approach.

Retrospective Modelling

MPI reported that it also tested actual historical at-fault claim frequency experience for the 2001 to 2006 insurance years, stratified by proposed DSR levels within the Application's proposal for implementation and evolution of DSR rating, and that the review confirmed that at-fault claim frequency consistently rose as drivers moved from the top end of the merit side to the bottom end of the demerit side on the DSR scale.

This conclusion is illustrated in the following graph, reporting the results of the Corporation's retrospective modelling for the 2006 insurance year.



MPI indicated that through repeated trials, this tool was instrumental in testing the effectiveness of competing DSR implementation plans, and that this analysis was conducted before settling on the design of DSR.

MPI noted that an individual with 20 demerits has a 30% risk of having an at-fault accident in the next insurance year, whereas that risk would only be 3% for an individual with 15 merits. This suggests that the risk of an individual with 20 demerits having an at-fault accident is 10 times greater than the risk of a person with 15 merits (once the scale allows for 15 merits).

Prospective Modelling

Finally, the Corporation used the results of its Retrospective Modelling, adjusted for expected differences in future initial DSR level placements, at-fault claim frequencies, conviction frequencies, and earned drivers' and earned vehicles', discounts, to project the expected level of total Driver Premiums and total Vehicle Premiums by fiscal year, assuming implementation on November 1, 2009.

Comparison of these results with the financial forecast from the last GRA, subject to the 2008/09 fiscal year forecast being actualized up to the end of the third quarter, provides a sense of the expected bottom line impact of this DSR Application (combined with the pending changes to broker commission arrangements) through the initial rating period under DSR, and the outlook period.

MPI's financial forecasting made no provision for any change in the frequency or severity of claims that may arise as a result of DSR implementation, a possibility which remains an "unquantifiable hope", but not a stated objective of DSR.

Relative Rate Adequacy and Responding to Experience

The Board accepts that DSR is a significant improvement over the current bonus/malus scheme, and represents progress towards establishing a rate structure that more fairly collects premiums from drivers and vehicle owners by better matching the risk they represent to the collective pool of risks.

However, the evidence presented and discussed during the hearing suggests that relative rate adequacy is not uniform across the DSR levels. In particular, the relative adequacy of rates increases as one moves to higher merit levels (with lower rates), and conversely, decreases as one moves to higher demerit levels (with higher rates). In other words, a level of cross-subsidization of the highest rated drivers by the lowest rated drivers is implicit in the DSR proposal, particularly at implementation.

To some extent, the proposed evolution of the driver premium surcharges in future years is expected to mitigate this initial cross-subsidization, and the Corporation committed to monitoring experience as it unfolds by DSR level towards applying “for future rate changes that are consistent with the actuarial evidence on a directional basis”.

Citing public policy considerations, in particular the issues of access and affordability, the Corporation expressed doubt that it would “ever” be appropriate for a Crown corporation insurer to fully respond to the actuarial indications in this regard.

8.0 STREAMLINED RENEWALS/ONE PART LICENCE

MPI reported its intention to implement DSR concurrently with the further implementation of the Streamlined Renewal Process, which is a component of the Corporation's Business Process Review.

MPI indicated at the 2009/10 GRA (held in the fall of 2008) that the deferred development costs related to the SRP were approximately $5.4 million. As a result of this "investment", MPI expects to transition to a one-piece driver licence document encompassing all of the information currently on the two-part licence. The licence renewal process was expected to commence in the fall of 2009 and be completed by the summer of 2010.

While the "physical" licence will be issued for a five-year period, Manitobans will continue to make driver licence fee and premium payments annually, and be rated based on their driving record for the preceding year.

MPI reported that the new approach will require motorists, if they have no coverage or classification changes to make, to visit their broker once every five years, rather than on an annual basis. MPI asserted that this will improve "customer service".

In recognition of the expected significant decrease in broker Basic renewal work effort, MPI entered into a new commission agreement with the Insurance Broker Association of Manitoba (IBAM). Broker compensation is to be set out in a separate regulation, which MPI indicated was being drafted in accordance with the MPIC Act.

MPI advised that the Basic insurance commission rate will be reduced over time to 2.5% from the current 5%, with the 2.5% level to be reached in 2012, at which time there would be a “one-time” increase in commissions for transactions involving a flat fee.

The changes to the broker commission levels for Basic Insurance were reported by MPI as follows:

Effective Date	New Agreement	Old Agreement
November 1, 2008	5%	5%
November 1, 2009	5%	5%
November 1, 2010	4%	5%
November 1, 2011	3%	5%
November 1, 2012 (thereafter)	2.5%	5%

As previously indicated, MPI anticipates a marked reduction in visits to brokers by MPI’s customers as a result of the new SRP, though some motorists are expected to continue the old and current practice of renewing their policies annually through a broker.

In the interim period between five-year renewals, brokers will continue to receive an annual commission on the automobile insurance renewal, based on the initial renewal, even though the Broker may well not be called upon to process follow-up renewal(s).

9.0 DVL & BASIC

DVL was a provincial government operation until its 2004 transfer to MPI, which incorporated it as a separate department under its Extension Insurance Division, which is not regulated by the Board.

DVL functions involve the administration and assessment of fees for the registration of motor vehicles, the regulation of driver licences and management of the Driver Class Licensing Program. Under the terms of the transfer agreement, as set by the Province, MPI is to receive a flat annual payment of $21 million toward its costs to administer DVL functions – the agreement does not provide for indexation to recognize inflation.

Before the transfer to MPI was implemented, the Province unilaterally ceased the broker commission cost sharing arrangement on February 1, 2004, whereby the Province, through DVL, had reimbursed MPI for “commissions” paid by MPI to brokers for the vehicle registration portion of the annual vehicle registration process. At the time of the cancellation, the broker commission cost sharing amounted to approximately $6 million, and was increasing annually.

And, since the agreement went into place, the $21 million annual funding has not been sufficient to meet the reported annual operating costs of DVL incurred by MPI, with the Corporation’s annual operating losses brought about by those costs being in the range of $11 million, and funded out of Extension revenues.

MPI established DVL operation as a separate line of business for the administration of the Driver Vehicle Act outside the regulatory oversight of the Board, notwithstanding ongoing integration of DVL functions within MPI's overall operations; operations dominated by Basic functions.

MPI claimed that its proposed DSR represents the greatest advantage to be realized out of the amalgamation of DVL with MPI, reporting that the merger has allowed the Corporation to develop a cohesive and efficient DSR system, and to provide the ability to introduce streamlined renewals expected to benefit drivers through enhanced customer service.

In prior Orders, the Board has stressed the importance of DVL as a means to motivate and bring about reductions in accidents, fatalities, injuries and claims incurred. In Order 150/05 and subsequent orders, the Board has recommended that DVL be placed under Board jurisdiction. The Board has advised of a legitimate regulatory interest in DVL (now that it has been amalgamated with MPI), those interests extending not only to the financial effects on Basic, but also including the potential contributions of DVL to the MPI goal of reducing accidents.

> *"Only a successful integration of DVL into Basic operations that eliminates deficits on DVL operations and an enhanced Bonus/ Malus system that leads to reduce accident frequency will make these changes cost effective in the longer term for Basic policyholders."* [Board Order 150/05, Page 25]

10.0 INTERVENER POSITIONS:

CAA

CAA commended MPI for developing a modelling ability to project drivers' risks on the basis of drivers' past records. However, CAA expressed concern with respect to details of DSR, particularly with respect to the manner by which the Corporation expects to achieve its stated goals.

CAA reviewed MPI's three stated goals for the DSR program. The first, to provide for higher rewards for the safest drivers; the second, to provide stronger incentives for high-risk drivers to improve their behaviour; and the third, to improve drivers' understanding of their driving behaviour and how that behaviour can affect the amount they pay for auto insurance.

With respect to the first stated goal, CAA expressed concern that under MPI's transition plan, there will not be any change in the vehicle premium discounts until the year 2012, and that the future savings to good drivers were "miniscule" compared to the total premiums paid by drivers for insurance and driver licences.

CAA also expressed concern that the DSR concept, as presented, may create unrealistic savings expectations. CAA also suggested that the public would not appreciate their vehicle premium discounts being affected by "minor" Highway Traffic Act violations and by accidents for which they were not judged to be 100% at-fault.

CAA believes that once the driving public understands the impact of DSR, their response could manifest itself in a number of negative ways.

First, “with the stakes being higher”, CAA expects that dissatisfaction with the at-fault assessment process will grow. Secondly, CAA anticipates that many appeals will find their way to Small Claims Court. Thirdly, CAA forecasts that claim buy-back activity will also increase.

With respect to MPI’s third goal for the DSR, CAA suggested that studies have shown that driver behaviour only improves for the first month following an accident reverting to the previous behaviour thereafter, and that MPI itself has admitted that it is unable to measure behavioural change. CAA expressed doubt that DSR will have any material effect on driver behaviour.

CAA also expressed concern that implementing DSR, pursuant to the transition approach favoured by MPI, will reduce revenues such as to result in a need to increase average premiums at the upcoming GRA hearing. Accordingly, CAA recommended that the Board hold over a decision on DSR until the 2010/11 GRA, so that it can be evaluated in the context of GRA-filed forecasts and the proceeding itself.

CAC/MSOS

CAC/MSOS stated that, while on a conceptual level MPI’s DSR design is a material step forward from the perspectives of fairness and transparency, there remains room for improvement.

For CAC/MSOS, the new DSR concept has the potential to materially affect driving behaviour, though the Intervener expressed concern that the potential may not be achieved in the absence of further actions, both by the Corporation and those responsible for HTA enforcement.

CAC/MSOS also expressed concern with respect to their desire for regulatory and fiscal prudence. This concern relates to approving the DSR application outside the scope of a GRA, particularly given uncertainty as to future investment income levels, and pending reconsideration of the methodology to set an appropriate RSR range and potential IBNR adjustments to incurred claims.

For CAC/MSOS, the negative impacts of a potential further delay of DSR implementation would be outweighed by the positive considerations of fiscal prudence and regulatory best practice. Given that the new DSR program will result in a material revenue reduction (in the order of 2.6% of premiums), CAC/MSOS recommended that the final determination of the DSR system be deferred until further information is provided during the next GRA. This, they suggest, would allow for independent testing of the Corporation's forecasts and assumptions, and clarification of the Board's intentions with regard to the RSR.

CAC/MSOS expressed concern that approving the DSR now may inadvertently put the Board in the position of having to increase rates at the next GRA, if concerns related to the deterioration of investment income, RSR rebuilding plans, and claims cost assumptions so warrant. In the view of CAC/MSOS', such a situation, if it did develop, would neither be well understood nor be accepted by the public.

Assuming a more detailed review of the Corporation's finances can assure CAC/MSOS that the proposed DSR application is fiscally prudent, the intervener would then recommend that the application be granted, recognizing that there will be a delay in the introduction of the program if it is not.

CAC/MSOS provided four suggested alternatives to the DSR program details:

- Defer the targeted driver premium decrease for drivers in the 8 to 10 merit range;
- Expedite the imposition of demerit premiums or surcharges;
- Provide lower rewards to good drivers and higher negative consequences for poor drivers; and
- Restrict positive changes only to those in DSR level 10

CAC/MSOS questioned whether the targeted rate level reductions, as proposed by MPI, were being provided to the safest drivers, noting that the changes in revenues are not exclusively to benefit the safest drivers.

CAC/MSOS noted that individuals with zero claims-free years were to be placed at DSR levels 5, 4 and 3, so as to receive substantial discounts on transition to the new system. CAC/MSOS also noted that the proposed elimination of surcharges in 2010/11 would disproportionately benefit high-risk drivers.

CAC/MSOS noted the significant reduction in HTA convictions in the City of Winnipeg, and that such convictions are now only half the level of seven years ago. CAC/MSOS also noted the relationship between the number of convictions and the number of accidents. CAC/MSOS suggested that if enforcement were at the pre-2000 levels in Winnipeg, there would likely be fewer drivers with merits and more drivers with demerits.

CAC/MSOS questioned the statistical fit and predictive value arising from the retrospective modelling, given the material reduction in the relative proportion of convictions in Winnipeg as compared to accidents in the time period that MPI used in testing its model.

CAC/MSOS questioned whether there was a significant structural change occurring during the analysis period, such as a decrease in traffic enforcement in the Winnipeg region that had an impact on the reliability of the weighting of prior accidents.

CAC/MSOS recommended a structural change test should be undertaken. In addition, they recommended that the relationship between convictions and accidents should be the subject of further study, including the filing of comparative models.

With respect to traffic enforcement, the Board should recommend, to both the City of Winnipeg and the Province that the rollout of DSR should be associated with an enhanced commitment to highway traffic enforcement, and that MPI should be directed to report back to the Board on what, if any, options it has considered with its partners to enhance and support increased highway traffic enforcement, both within and outside the City.

With respect to fairness, CAC/MSOS questioned whether the proposed rating scale represents an appropriate reflection of the expected risk at the various levels of the driving scale. For CAC/MSOS, the current composition of the DSR level 10 is overly aggregated in that it fails to differentiate declining levels of risk for those drivers with more than 10 years claims-free, and CAC/MSOS suggested that there should likely be more steps in the scale.

CAC/MSOS noted that individuals with 15 years claims-free have been included with the 10 year claims-free category and, based on their relative risk to other drivers classified in DSR level 10, are paying more than their relative risk, suggesting that strong consideration should be given to expanding the scale upward, and relatively rapidly.

With respect to future changes in the scale (to be the subject of future applications), CAC/MSOS recommended that serious consideration be given to the relative relationship between accidents and convictions. CAC/MSOS expressed concern with the weight MPI's DSR proposal provides to accidents as opposed to convictions in the assessment of demerits, and submitted that future consideration should be given to a better fit, one that may provide a reduced weighting to accidents.

CAC/MSOS further suggested that there would be merit in looking at not only frequency, but also at severity, specifically measured by injury to oneself for predictive value.

With respect to monitoring and measuring DSR program success, CAC/MSOS suggested that MPI should establish appropriate measures in terms of loss prevention impacts, and that the program should be given the best opportunity to achieve loss prevention objectives. CAC/MSOS noted that the Corporation has been overly cautious in outlining ways to measure changes in behaviour, and less than sufficiently explicit in defining measurable outcomes.

CAC/MSOS recommended that the Board should direct MPI to file express criteria (measurable benchmarks, trends and targets) of how the program's success (relative to its three stated goals) will be measured, including specific criteria on how the effects on driver behaviour will be measured.

With respect to CMMG's "alternative" DSR proposal (which is outlined on a following page), CAC/MSOS agreed with CMMG that it is drivers, not vehicles, who engage in high-risk behaviour, and held that there is some logic supporting CMMG's call to impose the premium consequences of poor behaviour on the driver premium, rather than the vehicle premium. However, for CAC/MSOS there remained unanswered questions related to CMMG's proposal:

- Which drivers should be required to make up the revenue shortfall if vehicle premiums were reduced to the level of the current 25% maximum discount?
- What are the implications of CMMG's proposal, if penalties remain allocated to the same drivers as MPI proposes, but simply moved to the driver premium?
- How is the differential risk of high-risk drivers best reflected; through percentage discounts for good drivers from a higher base, or percentage penalties on a lower base, or a flat rate?
- What scenarios were considered involving different family relationships, and in each one, would an attempt to prevent "gaming the system" result in overcharging customers?
- What would be the impact of implementing CMMG's proposal on the large majority of customer households, which have one or no vehicles per driver?
- What would be the impact of CMMG's proposal on high, medium and low-risk drivers who do not own a vehicle?

CAC/MSOS concluded that there was insufficient evidence on the record to decide whether CMMG's proposal was superior to MPI's DSR proposal, and recommended that the CMMG proposal should be examined more thoroughly at another hearing, so that the details and implications of CMMG's proposal may be thoroughly tested.

CAC/MSOS concluded its review of MPI's DSR proposal by posing what it denoted as "some key questions" that remain to be addressed:

1. Is the current allocation of demerits between accidents and minor convictions appropriate?

2. Is the current allocation between driver premium and vehicle premium appropriate?
3. Does remedial training for high-risk drivers, in some or all cases, result in risk reduction?
4. What are “best practices” in terms of motivating all drivers, in particular high and moderate-risk drivers, to improve their driving?
5. Are there ways the predictive value of DSR can be enhanced (i.e. should severity be a measure)?
6. Should there not be further research into whether particular types of convictions are more predictive of risk?
7. Under DSR, will low-risk drivers still be paying too much, taking into account public policy considerations?

<u>CMMG</u>

CMMG commended MPI on bringing forth the DSR application, and held that MPI has done excellent work in achieving the unification of its systems, recognizing increased areas of rewarding good drivers, and minimizing the dislocation that would otherwise accompany program change in its transition proposal.

That said, CMMG held that the DSR perpetuates a significant flaw, in that high-risk drivers may circumvent the DSR by registering their vehicles in another person's name. CMMG expressed concern that MPI did not properly acknowledge the issue of manipulation (“gaming the system”), and they failed to further test and evaluate alternative models.

CMMG recommended that the Board should direct MPI to perform a quantitative analysis of the additional premium revenue that may be available through an approach that would “follow the vehicle” and thus, better reflect the risk that poor drivers bring to the system in the premiums charged to those drivers. CMMG expressed particular concern that there were 12,111 demerit drivers who did not register a vehicle in their own name in the test insurance year.

CMMG also expressed the view that the Corporation is “paying lip service” to the notion that individual drivers should pay premiums reflective of the risk that they bring to the system. In CMMG's view, DSR will not provide for adequate premiums being paid by poor drivers.

With respect to the announced amended commission arrangement with insurance brokers, CMMG held that MPI has not properly contained those costs and described the commission structure as a “sweetheart arrangement”. In particular, CMMG opposed the provision that would allow commissions to be paid on premiums neither billed nor collected by brokers. CMMG noted that “excess” commissions have a negative impact on the premiums for motorcycle owners.

CMMG also held that any change in the demerit status of an individual affecting premiums payable, should be limited to one vehicle, to create a more level playing field with those drivers able to transfer at-fault/conviction-prone vehicles to other family members to avoid premium increases.

CMMG advanced an alternative to the DSR, whereby penalties and surcharges for high-risk driving would be applied to the driver premium, not to the vehicle. CMMG argued that the approach has the following benefits:

a) it recognizes that it is drivers who engage in high-risk behaviour, not vehicles, and would apply penalties for high-risk driving to the driver;

b) it would prevent high-risk drivers from circumventing or “gaming” the system by having their vehicles insured by low-risk family members, with merits and accident-free experience, and thereby benefiting from a merit discount to which, CMMG held, they were not entitled;

c) the approach would recover premiums now “lost” from high-risk drivers “gaming the system”, costs now passed on to other drivers; and

d) the approach would avoid the unequal impact of vehicle premium penalties, which vary depending on the number and value of vehicles insured.

CMMG advised that the implementation of its proposal would involve re-setting all vehicle premiums at the 25% discounted rate, and the transfer of all benefits and costs for “good” and “high-risk” driving to the driver premiums.

11.0 PRESENTERS

At the DSR hearing, time is reserved for presentations from the public on the issues being examined. Time constraints are placed on presentations, presenters are not sworn and as their presentations are not evidence as they are not subject to cross-examination. Nonetheless, the Board, MPI and interveners take note of what is said.

Mr. D. Houghton, a policyholder, motorcycle owner and President of CMMG, brought to the hearing’s attention his concerns related to the practice of transferring registered vehicles from high-risk drivers to drivers with merits within the same household, noting that vehicle owners should bear some additional insurance burden if they allow a high-risk driver to operate their vehicles on a continual basis. Mr. Houghton noted that high-risk drivers also avoid surcharges by cancelling or not renewing their driver’s licence and waiting out the surcharge period. Mr. Houghton indicated that unpaid premium penalties increase premium costs for other drivers who continue to register vehicles in their own names.

Mr. Houghton spoke of the hardship borne by owners with multiple vehicles under DSR, as an individual will lose premium discounts on all vehicles, even when only one was involved in the accident. Mr. Houghton suggested that the loss of discount should apply only to one vehicle.

Another presenter, Mr. J. Murray, expressed concerns with the proposed penalties under the proposed DSR system, holding that that the assessing of five demerits for an at-fault accident was too severe, given Manitoba’s road conditions.

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

12.0 BOARD FINDINGS

Firstly, the Board appreciates the contributions made and cooperation extended by MPI and Interveners during the DSR hearing. The Board also expresses appreciation to the two presenters, who took the time to appear and make their views known. The Board notes that all parties participating in the DSR hearing evidenced interest in both better matching premiums with risk and motivating motorists to drive more safely.

In Order 150/05, the Board reviewed the limitations of the current bonus/malus system, which was last amended in 1988. Since program inception, MPI claimed an inability to refine the system due to the Province's control of DVL and the limitations of the Corporation's database.

MPI contended that, pre-amalgamation with DVL, the limitations of control and the outdated DVL computer system limited the effectiveness of either DVL or MPIbringing about needed changes. With the integration of DVL into MPI, the Corporation initiated a major Business Process Review, one component being the development of the DSR proposal.

The Board appreciates the significant and thoughtful analyses undertaken by MPI in developing its DSR proposal. The statistical analysis undertaken reflects a strong predictive value for DSR. Further, the Board agrees with the approach taken on rewarding and motivating good driving behaviour for those who are falling within the demerit end of the scale. The MPI approach will allow an individual with a considerable number of demerits to move fairly quickly to a merit status (and eligibility for premium discounts), if the individual remains claims and infraction-free for a period of time.

The Board also agrees with MPI on its current view as to the maximum number of demerits to be recognized on the DSR scale and as to maximum penalty at the close of the transition period. A penalty of $2500 for a driver with 20 demerits (to apply in the final year of MPI's proposed DSR transition, 2013/14) should send a proper and effective signal that risky driving behaviour is costly, while not being such an onerous penalty that individuals increasingly choose to drive without a licence.

The Board also agrees that the safest drivers should be rewarded, and, going further, suggests that consideration be given in a future application to expanding the level of discounts beyond the 30% maximum now contemplated.

The Board further acknowledges the cooperation that MPI afforded during the hearing process, and its openness to suggestions on changes to the system (in the future), with the goal of improving the DSR system. In the Board's view, MPI's DSR proposal represents an improvement over the current bonus/malus program, though some changes are required before the system is implemented and further changes should be considered as experience with DSR develops over time.

For some time, the Board has believed that substantial revisions to the bonus/malus system were required, with respect to motivating better driving behaviour towards bringing down the human and financial costs of accidents through increasing the financial incentives for all drivers to drive carefully. As well, the Board has long held the view that MPI alone is unable to bring down accident frequency and severity to more optimal levels, and that partners are required.

That view has been validated in the successful auto-theft initiative, where the police and the Province joined with MPI in actions that have brought about significant reductions in thefts and attempted thefts, to the advantage of MPI, its policyholders and society as a whole.

The Board remains of the view that the number of automobile accidents in Manitoba is unacceptably high. The Board notes that the City of Winnipeg, where 70% of MPI's policyholders live, appears to be increasingly relying on technology for traffic enforcement, through the use of red light cameras and photo radar, while "officer issued" infractions tickets continue to decline.

This strategy has clearly not, at least to-date, materially decreased either the levels of accident frequency or their severity.

At this hearing, MPI reported that the RCMP have recently responded to MPI's urging of increased traffic enforcement, and that more tickets are now being issued outside the City by officers, as opposed to photo radar. It is only officer-rendered tickets that result in demerits and affect vehicle premium discounts.

While 2008 and current infraction "numbers" are not yet known to the Board, the Board accepts the indication that the RCMP is "picking up the pace" and the City is listening, and hopes that the City follows the RCMP's lead and increases its level of officer-based traffic enforcement.

The seemingly ever-increasing number of red light camera and photo radar tickets in Winnipeg suggest, just as MPI's customer survey has shown (the survey indicated that an alarming percentage of MPI's policyholder drivers regularly speed), that photo radar and red light camera infractions are likely predictive of future accidents as much as regular officer-ticketed infractions are, and in this Order the Board will recommend that MPI consider reflecting all infractions in its DSR design.

While the public may not like receiving demerits and losing discounts because of repeated red light or photo radar tickets, and the Board does not necessarily hold that a single red light or photo radar ticket need be taken into account, the Board finds that the public interest would best be served if every incentive that can reasonably be adopted was brought to bear toward the goal of reducing accidents and their resultant toll.

Accidents bring financial consequences, but much more important, they bring death and/or injury, with related catastrophic consequences for family members of the deceased and injured. The attention that has and is now being paid to reducing auto theft should be placed on reducing accidents, and that attention should involve the police as well as technology.

By the way, the Board is not of the view that photo radar and red light camera infractions should be taken into account in assigning drivers to merit/demerit levels on a retrospective basis; the application of such infractions within DSR should be on a going-forward basis, to allow drivers to understand that “an infraction is an infraction”, however caught.

The Board’s concerns with the DSR proposal include:

a) MPI’s objectives for its proposed DSR fails to include “reducing claims frequency and severity”, which the Board holds to be a higher priority than public acceptability;
b) While better matching of premiums with risk is a bona fide objective, and the Board accepts MPI’s assertion that an unstated objective of DSR is the reduction of claims, and that the Corporation will review its model and amend it further towards that latter goal as time and experience progress, some changes are

required before DSR is implemented, even if that implementation is just a "first step";

c) The Board does not agree that the transition to DSR from the current bonus/malus approach should be as "gentle" (as now is proposed) on vehicle owners and drivers who have had recent traffic tickets and/or at-fault accidents;

d) The Board agrees in part with CAA that the immediate benefits of DSR for the "best drivers" will not be sufficiently apparent to best motivate both the "best" and "worst" drivers to drive safely;

e) The Board does not agree with the proposed approach with respect to new licensees from other jurisdictions, finding the proposed treatment too favourable relative to the treatment to be given to current and continuing Manitoba drivers and owners (who are familiar and experienced with Manitoba driving conditions, particularly winter weather);

f) The design ignores red light cameras and photo radar infractions, despite MPI's acceptance of the premise that such infractions are as serious as those cited by a police officer; the Board suspects, and MPI has not contested, that if traffic enforcement had remained at the level it was ten years ago (the number of officer-issued tickets has fallen by over 50%, both for the City and the overall Province), the number of driver/owners and drivers with merits would be significantly lower, the number of drivers with demerits would be higher in number, and the annual revenue arising from demerits and reduced merits would be considerably higher; as to whether accident counts would be lower, the Board suspects that that also would be case;

g) The proposed transition represents, in essence, "budgeting for a loss", which has been opposed in the past by Interveners and indicated as a concern for the Board in past Orders. The proposed DSR implementation is not "revenueneutral" (for public acceptability reasons) and the Corporation's proposal would provide new benefits for good drivers and driver/owners, but withhold higher charges for the higher risk drivers and driver/owners;

h) The transition (as proposed by MPI) does not provide enough of an immediate significant benefit to the "best drivers";

i) Taking into account both realized investment income reported for 2008/09 and Accumulated Other Comprehensive Income (AOCI) as of February 28, 2009, the Corporation has experienced a significant decline in investment performance, one that, if deducted from the RSR balance of February 28, 2009, would result in a RSR balance well below the Board's stated minimum for the RSR (note that the Board takes a longer-term perspective on investment results, and while not inclined to withhold revenue reductions to incent better driving, has taken the current situation into account in its decision);

j) MPI has yet to file new DCAT, a Basic Autopac Operational and Investment Risk Analysis and an updated Value-at-Risk report and suggest a way that the current gap between the Board and the Corporation's views of a proper RSR range can be closed – if the Board accepted MPI's proposed use of MCT and the related RSR range suggested by the Corporation (which it does not, at least in its current form), the DSR proposal would be at risk;

k) the Corporation will be filing updated forecasts with its GRA filing in June 2009, and these forecasts could be materially different (in some respects) from past and current forecasts;

l) MPI's continuing practice of allowing "claim buy backs" is in contradiction to the underlying principles of DSR – the practice allows for a misrepresentation of "actual" experience, particularly when abstracts are issued that have been altered as a result of a buy back;

m) The proposed continuation of allowing transfers of recorded vehicle ownership between family members living at the same address, to allow for the continuation of vehicle insurance discounts, since driver/owners with more than one vehicle and no family member to whom to transfer vehicle ownership are disadvantaged as to the impact of an at-fault accident and infractions in comparison to others;

n) The proposed DSR system's current inability to account and deal adequately with "high demerit" drivers who do not register vehicles but have been involved in a disproportionate share of "not-at-fault" accidents;

o) Though the DSR is represented as being an "integrated" approach, MPI has indicated that it anticipates no changes in Extension underwriting (e.g. to utilize DSR levels to differentiate premium levels between "good" and "could be improved" driver/owners);

p) The potential for a large number of drivers who do not own a vehicle but have a licence (at a cost of $5 per annum), when research into the costs of accidents (particularly at-fault accidents related to non-owner drivers), has not been conducted; and

q) The division of premium revenue requirements between drivers and vehicles is questionable; the Board believes that research is required into alternative approaches, and that the research should include consideration of the proposal brought forward by CMMG.

Accordingly, while the Board approves the introduction of DSR, its approval includes several variances and a number of recommendations as follows:

1. The Board recommends that no "new" driver or driver/owner (from a different jurisdiction) is to receive a DSR merit rating higher than 5 (the proposed initial transition allows for a maximum of 10 merits) – Manitoba's weather and road conditions may be considerably different than those previously experienced by

new registrants, and Manitoba experience should be required to reach the higher merit levels;

2. The Board orders that the total driver and vehicle insurance premium for each individual policyholder, upon transition to the DSR scale, shall not be lower than the total premium under the current system, unless the driver or driver/owner has 15 years of accident and infraction free driving, using an overriding adjustment or revised transition schedule;

3. The Board recommends that the merit range should be increased immediately to a maximum of 15, with DSR level 15 to represent drivers with 15 years of neither at-fault accidents nor infractions, and drivers at DSR level 15 should be provided with an immediate 30% reduction from 'standard' premium, rather than the current proposal of 25%;

4. The Board further recommends that drivers that are aggregated into DSR level 10 (pursuant to MPI's proposal), should be categorized into DSR levels 10 through 15, with 10 to represent 10 years of neither at-fault accidents nor infractions, 11, 11 years, etc., through to 15 and above, which shall be aggregated within DSR level 15;

5. As an alternative to the Board's recommendations to expanding and stratifying the scale of drivers at DSR level 10, if those recommendations are not reflected in the Regulation and implemented with the commencement of DSR, the Board will direct that a range of vehicle premium discounts should be provided to those in DSR level 10, whereby upon transition, those with 15 years of claims and infraction-free driving are to be provided with an immediate 30% reduction in

vehicle premium discounts; those with less than 15 years claims and infraction-free driving should remain with a 25% vehicle premium discount;

6. The Board orders that the proposed driver premium reductions for DSR levels 8, 9 and 10 be denied at this time, and that at least one more year of no infractions and at-fault accidents be required before these drivers gain further discounts under DSR;

7. The Board orders that until such time as research is conducted into the “family transfer” or “gaming the system” issue, a driver with two or more vehicles, who does not transfer one or more of those vehicles to someone within his/her household subsequent to an at-fault accident, shall not lose the discount on the vehicle(s) that was (were) not involved in the at-fault accident unless that driver has had one or more other at-fault accidents in the previous five years; and

8. The Board recommends that no further “buy backs” with respect to passenger vehicles occur from the date of implementation of DSR, excepting if the buyback is for an accident for which no injuries or fatalities occurred and for which the total claim did not exceed $1000. With respect to commercial fleets, MPI should not allow for buy backs for accidents in which an injury or fatality occurred, and should conduct research into the implications of denying buy backs for fleets. (The Board understands that approximately 2,500 buy backs occur annually, and that buy backs with respect to commercial fleets represent a significant component of the buy backs.)

The Board requests that MPI prepare and file the following additional reports that “speak” to DSR implementation, at the time of MPI’s 2010 GRA filing and/or during that GRA process:

i) Details of the proposed implementation of the Board ordered variances to the DSR proposal;
ii) First and second quarter unaudited financial results for 2009/10;
iii) An update as to MPI's IFRS options and prospects;
iv) A completed cost allocation study, providing support for the ongoing division of revenues and costs between Basic and other MPI operations;
v) An update of the forecast impact of DSR implementation, consistent with the Board's directions, on Basic net income for the years 2009/10, 2010/11, 2011/12, 2012/13 and 2013/14;
vi) An update with respect to the Corporation's discussions with the WPS and the RCMP with respect to HTA enforcement, and an update as to more recent enforcement statistics;
vii) A report on the number of red light camera and photo radar infractions reported by the City of Winnipeg in each year since the implementation of the program;
viii) Updated DCAT, Basic Autopac Operational and Investment Risk Analysis, and Value-at-Risk reports; and
ix) MPI's proposed solution to the divergence of views between MPI and the Board with respect to an acceptable RSR range.

Ahead of the 2011/12 GRA, MPI is to:

i) Research into the possible future inclusion of red light camera and photo radar infractions in the establishing of DSR levels – the terms of reference for the research shall be vetted by the Board prior to the work being undertaken;
ii) Research into the possible future variance of the DSR approach to "follow the vehicle's past experience" with respect to transfers of vehicles involved in

accidents subsequently transferred to another family member living in the same household;

iii) Provide the Board with an update on the Corporation's plans with respect to the continuing transition to higher "demerit" costs under the DSR; and

iv) Develop, and file with the Board, forecasts and supporting assumptions for goals, and implications for accident frequency and severity as a result of the implementation of DSR – the goals shall be defined in numerical terms and be for the fiscal years 2011/12, 2012/13, and 2013/14.

The Board's "varied" approval of the application will be finalized or amended, either with respect to DSR particulars or implementation date (or both), following its review of the to-be-filed additional information. Interveners will be provided an opportunity to comment on MPI's filings and on the issue as to whether the Board should further vary or confirm its Order.

Jurisdiction

In 2004, the Provincial government directed the amalgamation of DVL operations within MPI; MPI chose to situate DVL within its Extension Division. The Board, since the amalgamation, has annually recommended in its Orders that DVL Operations should be placed within the Basic Division, so as to be within the regulatory purview of the Board.

The Board, again as in past Orders, has stated that both Extension and SRE operations are interwoven with MPI's Basic Program, including:

a) Common Board of Directors;
b) Common management, staff and broker /agent complement;
c) Utilizing common infrastructure, and operations founded on and supported by the Basic mandatory insurance program; and
d) Supported by a common investment pool.

At the 2009/10 GRA, the Board noted that the share of the Manitoba extension auto insurance market held by private insurers has fallen to 5% or less, and that MPI has a virtual monopoly on that market. That "monopoly" will be even stronger with the new streamlined renewal process, which will result (for many) in only one trip to a broker every five years and, for the broker, higher earned commissions for Extension products.

In the Board's view, neither of the competitive lines would be successful, without the mandatory Basic program as the foundation. The Basic program and the Broker network provide a platform from which MPI offers its Extension and SRE products. With the adoption of streamlined renewals and a shift in commissions from Basic to Extension, there is a greater incentive to promote MPI's Extension products, a situation that will further strengthen the virtual monopoly position.

In 2007 and 2008, MPI integrated the DVL staff within the Corporation. Subsequent to the integration, the costs associated with former DVL functions have become increasingly difficult for the Board to identify.

Accordingly, the Board only reviews a portion of MPI's integrated operations. This lack of transparency affects the ability of the Board to assess non-regulated results and prospects. On this basis, it is difficult for the Board to make decisions on the sufficiency of rates, including the amendments to be effected as a result of this Order, without having the complete financial picture of the financial state of MPI's operations.

The examination of one component of an integrated operation can lead to erroneous conclusions, and increase the risk of "error" with respect to directions.

The implementation of the new DSR system has significant financial implications for the Corporation, with related rate implications for Manitoba drivers. The future transition plan will result in greater levels of rewards and penalties, which, as currently designed, draws on the retained earnings of Basic and may put pressure on Basic rates.

In assessing the adequacy of rates, the Board has always considered the overall financial strength of the Corporation. Despite previous Board enquiries, financial forecast information related to Extension and SRE were not provided. MPI, throughout this proceeding, has only provided partial information on the financial condition of MPI, making it difficult (if not impossible) to assess the future forecast financial prospects of MPI. Without complete information, the Board finds it is put in the position of making decisions that have an impact on the financial well being of the Corporation (now and in the future) without full knowledge about the financial strengths of the organization.

The Board is of the view that, without an expanded regulatory role to include non-Basic operations, there is insufficient transparency to fully assess and assure the public interest. The current arrangement is inconsistent with the spirit of transparency and public involvement that spurred government to provide the Public Utilities Board with its role of monitoring public processes. Such a role assists both MPI and the government in better ensuring long-term, public support for the public auto insurance plan. Now, with the pending introduction of DSR, it is even more vital that public accountability and support of MPI's programs be secured.

As previously indicated, the Board agrees that the integration of DVL has led to the DSR proposal and the promise/opportunity for an improved and comprehensive DSR, and that DSR will replace a disjointed and poorly understood bonus/malus system. The Board (in past Orders) recognized the potential for DVL-related actions to be integral in reducing accidents.

In Order 150/05 (and in following Orders) the Board recommended that DVL be placed under Board jurisdiction, noting that the Board has legitimate regulatory interest in DVL, extending not only to the financial effects on Basic, but also including the future operations and amendments to the bonus/malus system.

The Board stated:

> *"Only a successful integration of DVL into Basic operations that eliminates deficits on DVL operations and an enhanced Bonus/ Malus system that leads to reduced accident frequency will make these changes cost effective in the longer term for Basic policyholders."*

The Board remains of this view. With the advent of an improved DSR, the Board believes that, through its regulatory oversight, DVL would better serve the public interest. That said, the Board is quite willing to work with MPI to devise an oversight design that will provide the Board with the information it requires to properly regulate MPI and assess its financial position and prospects, and still allow MPI the "freedom" in the so-called competitive lines that MPI maintains it requires for operational needs.

Investment Income

While the Board is concerned with the actual and forecast declines in MPI's investment income and with the substantial growth in the AOCI balance (all brought about by the precipitous decline in equity values following the apprehension of an American-origin credit and banking crisis), absent evidence that the decline will be permanent, it will continue taking the "long view" of investment matters that it adopted in previous Orders, and it will approve a transition approach to the implementation of DSR that will, in the immediate and mid-term, be expected to reduce driver premium income.

From the evidence before it, the Board concludes:

a) Including related currency-hedging losses, MPI's equity portfolio (which, according to its investment policy, may have had a balance of as much as $400 million going into the "credit crisis") fell in actual and unrealized results to February 28, 2009 by in excess of 40%;

b) MPI reports that its actual claims are considerably less than forecast for 2008/09, and with MPI also providing a preliminary indication that claims will be below forecast for 2009/2010, the negative investment situation has been or is expected to be at least partially offset by favourable claims cost reductions;

c) While MPI's DSR proposal was not predicated on the replacement of the current Bonus/Malus approach resulting in reduced volumes of accidents and claims, the anticipated increased motivation for drivers to maintain good driving records or improve poor driving records may be expected to accomplish this, eventually (with the DSR) resulting in fewer accidents and claims than would otherwise be the case; and

d) With the Board's variation of MPI's DSR proposal, the net decrease in driver premiums will not prove to have a material negative impact on MPI's mid and long-term net income results.

With respect to prospects for a recovery in MPI's investment income, the Board notes that aggressive monetary and fiscal policy initiatives in Canada, the United States and the global economy, and with the perceptions to date within financial markets as to the long-term effects of these measures, it has (since February 28, 2009) led to some signs of an equity market rebound, fuelled in part by actual and forecasted very low central bank interest rates for an extended period.

Whether the recovery in equity market holds, and possibly further strengthens (without further declines in bond yields negating some of the potential improvement in MPI's overall investment portfolio yield), the Board is sufficiently hopeful that investment income levels will recover that it will not disallow the implementation of a varied DSR, to commence with the 2010/11 insurance and fiscal year.

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.

13.0 IT IS THEREFORE RECOMMENDED THAT:

1. No “new” driver or driver/owner from a different jurisdiction should receive a DSR merit rating higher than 5 (the initial transition allows for a maximum of 10 merits) – Manitoba’s weather and road conditions may be considerably different than those previously experienced by new registrants, and Manitoba driving experience should be required to reach the higher merit levels;

2. The DSR merit range should be increased immediately to a maximum of 15, with DSR level 15 to represent drivers with 15 years of neither at-fault accidents nor infractions, and drivers at DSR level 15 should be provided with an immediate 30% reduction from ‘standard’ premium, rather than the current 25%;

3. Drivers (pursuant to MPI’s proposal) now aggregated into DSR merit level 10, should be categorized into DSR merit levels 10 through to 15, with DSR level10 to represent 10 years of neither at-fault accidents nor infractions, 11, 11 years, etc., through to DSR level 15 and above, which shall be aggregated within DSR level15;

4. No further “buybacks” with respect to passenger vehicles should occur from the date of implementation of the DSR, except for situations where the buyback is for an accident for which no injuries or fatalities occurred, and for which the total claim did not exceed $1000 – with respect to commercial fleets no buy backs should be permitted excepting in the case that neither an injury nor a fatality was involved;

5. MPI should consult with policing agencies and the Province with respect to remedying evidently-diminished traffic law enforcement (objective: bring down accident counts, improve road safety and further the premium equity between drivers with differing driving experiences and approaches);

6. MPI should support the Board's recommendation to government (issued herein) that Extension and SRE divisions should be brought within the Board's regulatory oversight (objective: enhance the value to policyholders of Board oversight and processes); and

7. MPI should transfer DVL operations (including financial aspects) from the Extension division to Basic insurance operations (objective: recognize the integral nature of DVL operations within Basic).

14.0 IT IS THEREFORE ORDERED THAT:

1. The driver and driver/owner combined license/vehicle insurance premium shall not be lower than it otherwise would be for each individual under the current system, unless a driver or driver/owner (at the time of transition) has 15 or more years of accident and infraction-free driving, in which case there should be an overriding adjustment or revised transition schedule for those drivers;

2. A range of vehicle premium discounts shall be provided to those in DSR level 10, whereby upon transition, those with 15 or more years of claims and infraction-free driving are to be provided an immediate 30% reduction in vehicle premium discounts, while those with less than 15 (but 10 or more) years of claims and infraction-free driving are to remain with a 25% vehicle premium discount;

3. The driver premium reductions, for those in DSR levels 8 ,9 and 10, are to be denied at this time; at least one more year of no infractions and at-fault accidents will be required under the new system before these drivers gain discounts under DSR;

4. Until such time as research is conducted into the ‘family transfer” issue, a driver with two or more vehicles that does not transfer one or more of those vehicles to someone within his/her household subsequent to an at-fault accident shall not lose the discount on the vehicle(s) that was (were) not involved in the at-fault accident, unless that driver has had one or more other at-fault accidents in the previous five years;

5. MPI is required to file reports and information with the Board on or before the 2010 GRA, specifically:

    i. Details of the proposed implementation of the Board ordered variances to the DSR Proposal;
    ii. First and second quarter unaudited financial results for 2009/10;
    iii. An update as to MPI's IFRS implications and options;
    iv. The completed cost allocation study;
    v. An update of the forecast impact of DSR implementation, consistent with the Board's directions, on Basic net income for the years 2009/10, 2010/11, 2011/12, 2012/13 and 2013/14;
    vi. An update with respect to the Corporation's discussions with the WPS and the RCMP with respect to HTA enforcement, and an update as to more recent enforcement statistics;
    vii. A report on the number of red light camera and photo radar infractions reported by the City of Winnipeg in each year, including and since the implementation of the program;
    viii. Updated DCAT, Basic Autopac Operational and Investment Risk Analysis and Value-at-Risk reports; and
    ix. MPI's proposed solution to the divergence of views between MPI and the Board with respect to the RSR;

6. MPI is to undertake and file with the Board, on or before the filing of the 2011/12 GRA:

    a) A report on its research into the possible future inclusion of red light camera and photo radar infractions in the establishing of DSR levels – the terms of reference for the research are to be vetted by the Board prior to the work being undertaken;

b) Research into the possible future variance of the DSR approach to “follow the vehicle’s past experience” with respect to transfers of vehicles involved in accidents which are subsequently transferred to another family member living in the same residence as the prior family owner;

c) An update on the Corporation’s plans with respect to the continuing transition to higher “demerit” costs under the new DSR; and

d) Forecasts, and supporting assumptions, for goals and implications for accident frequency and severity as a result of the implementation of DSR – such goals to be defined in numerical terms and be for the fiscal years 2011/12, 2012/13, and 2013/14.

The Public Utilities Board

"GRAHAM LANE, C.A."
Chairman

"G. GAUDREAU, C.M.A."
Secretary

Certified a true copy of
Order No. 89/09 issued by
The Public Utilities Board

Secretary

Appendix A

Appearances

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

Appendix B

Witnesses for MPI

Marilyn McLaren	President and Chief Executive Officer
Don Palmer	Vice-President Finance and Chief Financial Officer

Appendix C

Interveners

Canadian Automobile Association - Manitoba Division ("CAA")

Coalition of Manitoba Motorcycle Groups ("CMMG")

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

Presenters

Doug Houghton

Jonathan Murray