2016 MPI GRA Closing Argument

October 26, 2015

Manitoba Public Insurance

Mutual Objectives of Rate Setting

Mutual objectives of all the parties in rate setting:

- Provide Basic ratepayers with rate predictability and stability
- Set rates that are just and reasonable
- Offer amongst the lowest rates in Canada
- Ensure the sustainability and financial soundness of the universal compulsory automobile insurance program
- Achieve an actuarial opinion of being in a satisfactory future financial condition
- Provide the ratepayers value for their money paid in rates
- Have a clearly defined process for setting rates publicly

Mutual Objectives of Rate Setting

- MPI was very pleased to hear the closing arguments of CAC, CMMG, and CAA which had many complimentary things to say about MPI,
- There was a fairly high degree of consensus amongst the intervenors about the rates.
- Two of the intervenors (CAC and CAA) supported the Corporation’s overall application for 0% rate change
- The CAC counsel even noted that:
  - “a rate increase in the range of 1% would not be unreasonable” tr 1949
  - “our client is struggling…. With whether to come in recommending zero percent or 1.6” tr 1948
  - “we’re right on the bubble” tr 1949

Mutual Objectives of Rate Setting

- This unanimity is unprecedented.
- Shows the strength of MPI's rate making methodology
- Tested and improved over 24 years of public rate hearings.
- Has established rate making and rate setting on a consistent basis that is actuarially sound and statistically driven.
- The consensus between some of the intervenors and the Corporation should be commended by the Board.

Application

In this GRA, MPI has applied for four specific items:

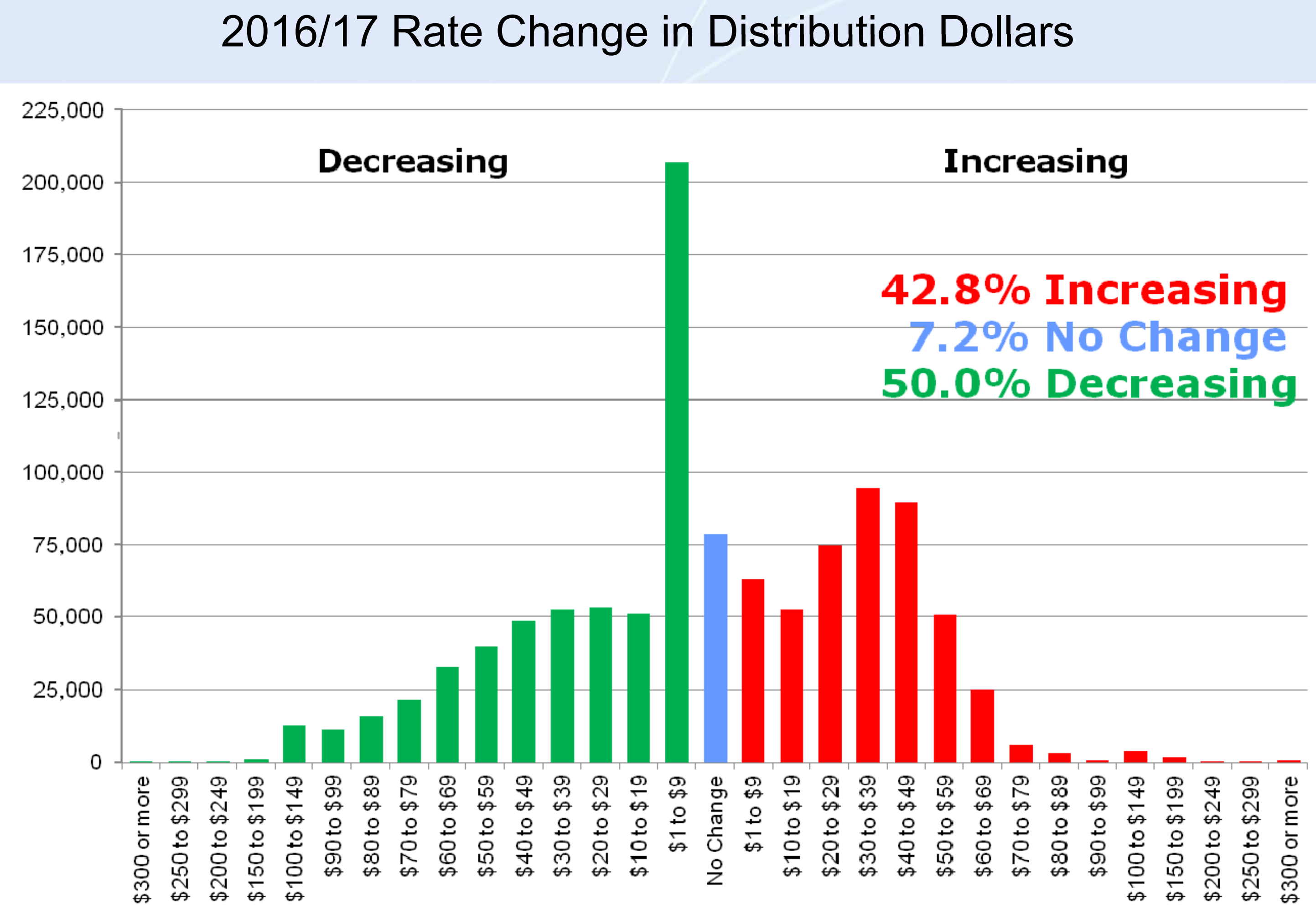
- The premiums charged with respect to compulsory driver and vehicle insurance (rates for service) effective March 1, 2016
- A 0% overall Basic insurance rate increase effective March 1, 2016
- A minimum (lower) RSR target of $231 million in total equity based on the results of the 2015 DCAT
- A maximum (upper) RSR target equal to a Minimum Capital Test (MCT) ratio of 100%, which is currently equal to $366 million in total equity based on the 2014/15 year end financial results

Rates

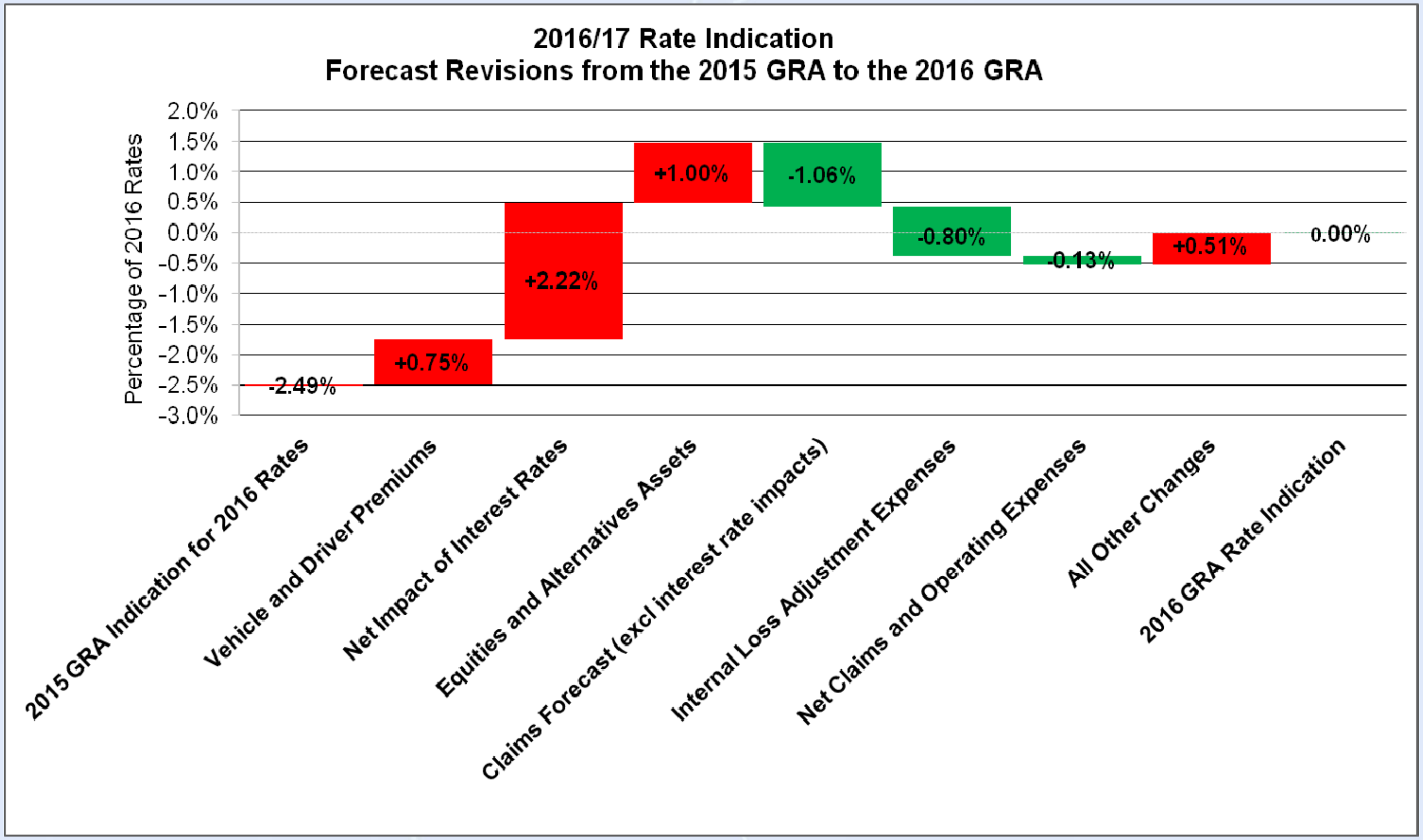
The Corporation is seeking a 0% change in rates effective March 1, 2016.

- The goal is for Basic to break even financially
- Break even financially means averaging out the two years of net income for 2016/17 and 2017/18, recognizing the effect of the staggered renewals
- This is the twelfth time in fifteen years that MPI is not applying for a rate increase
- Rates have cumulatively *decreased* by 9.7% over the last 15 years
- $600 million has been rebated to customers in the past fifteen years

2016/17 Rate Change Distribution in Dollars



2016/17 Rate Indication



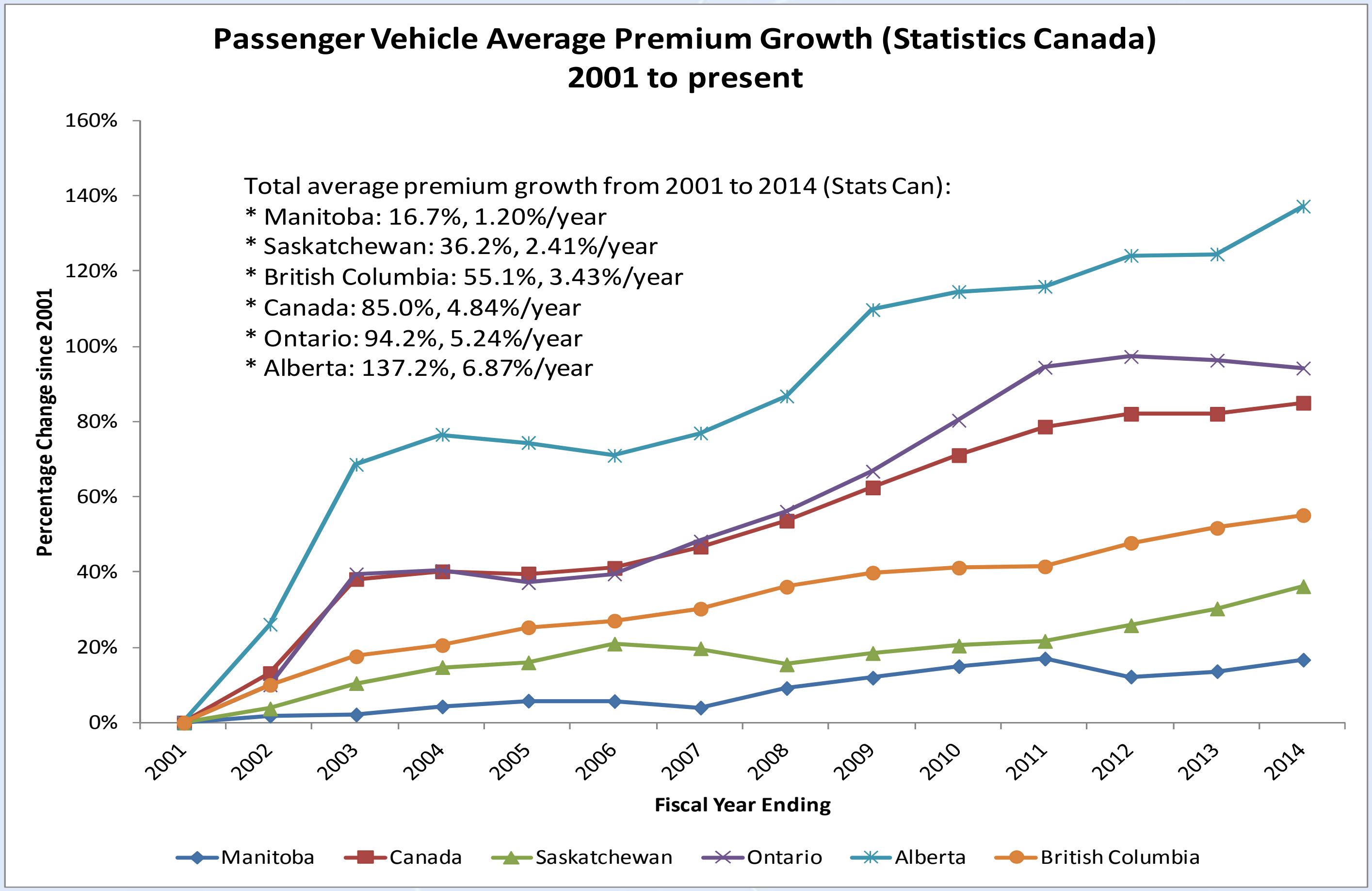
History of Rebates and Rate Changes

History of rebates and rate changes over the last fifteen years

Rebates		
Year	Total ($millions)	Per cent of premiums (%)
2016		
2015		
2014		
2013		
2012		
2011	$336	45.0
2010		
2009		
2008	$63	10.0
2007	$60	10.0
2006	$58	10.0
2005		
2004		
2003		
2002		
2001	$80	16.6

Rate Changes %		
Year	Applied	Order
2016	0.0	
2015	2.4 + 1.0 RSR Rebuilding Fee	3.4
2014	1.8	0.9
2013	0.0	0.0
2012	-6.8	-8.0
2011	-4.0	-4.0
2010	0.0	0.0
2009	-1.0	-1.0
2008	0.0	0.0
2007	-2.6	-2.6
2006	0.0	0.0
2005	0.0	-1.0
2004	2.5	3.7
2003	0.0	-1.0
2002	-1.2	0.0
2001	0.0	0.0

Provincial Premium Growth Comparison



Provincial Premium Growth Comparison
cont'd

Had MPI rates increased at the same rate as the Canadian average auto insurance rate increases since 2001, Manitoba ratepayers would be paying **58.5% more** than they are currently paying today.

Financial Condition of Basic

CONTINUED VULNERABILITY

- The precarious financial condition of Basic is continuing
- Basic has experienced two years of losses of $69 million and $63 million, followed by a year of $2.4 million in income
- The Corporation has just posted second quarter financial results of $5 million, which although is a positive net income, is $33 million worse than budget (Q3 & Q4 are of concern fue to the upcoming winter months which typically experience high claims frequency with accompanying poor financial results)
- As at August 31, 2015, the RSR is at $182 million – a $49 million shortfall from the $231 million target – just six months after the Board of Directors transferred $75.5 million to replenish its previous target of $213 million

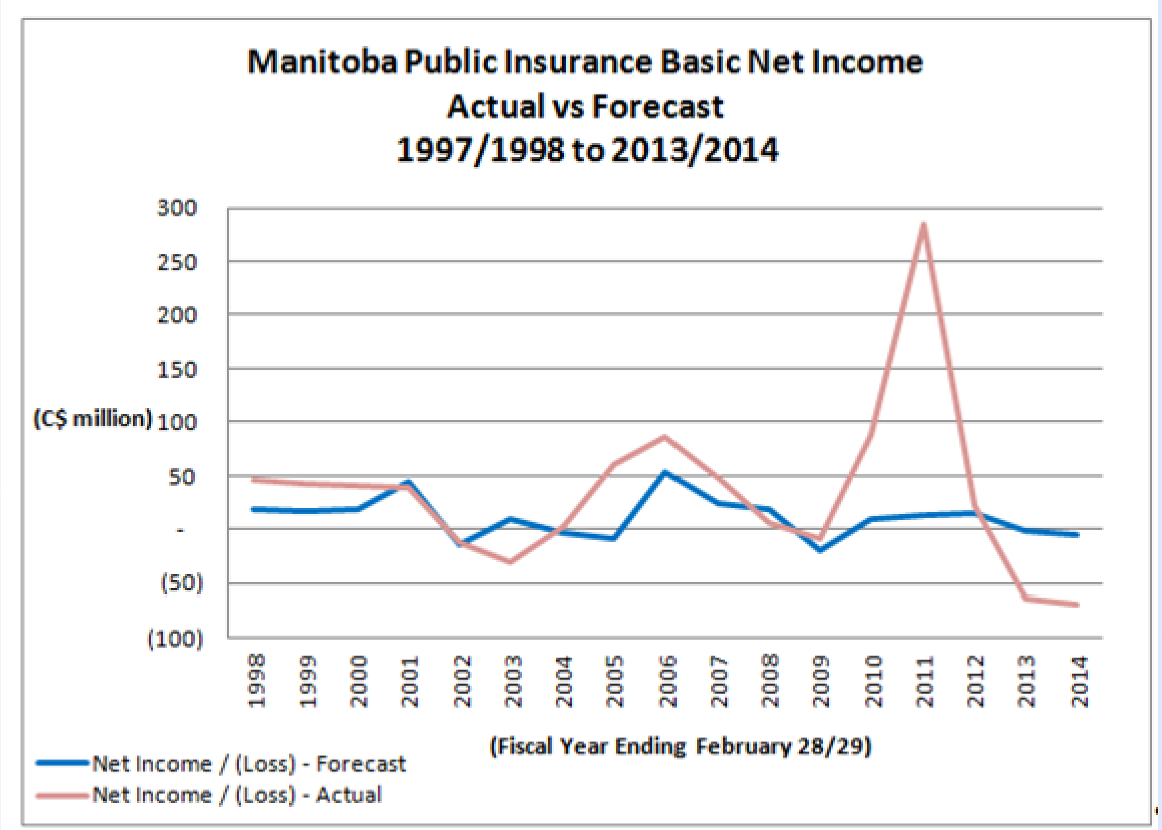
RSR
Purpose

The purpose of the RSR is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

- This has been the accepted purpose since it inception
- In the GRA, the Corporation forecasts what its income and expenses will be in the future
- Based upon these forecasts and assumptions, the appropriate rates are approved so that the Corporation will break even in the applied for fiscal rating period
- In any given year the Corporation will end up with either more or less money than it had forecast
- When unexpected events or losses occur, the Corporation uses the RSR to pay these expenses

RSR

Basic Net Income (Actual vs. Forecast)



Source – RSR Discussion paper

RSR
Accounting

How the RSR is replenished and diminished and the accounting treatment of the RSR

- A budget is created with the best information available
- Unexpected and non-recurring events or factors include variances from a break-even budget
- Variances, positive or negative, flows through retained earnings and the RSR until the RSR reaches the maximum target
- Amounts above the maximum target are considered excess from a capital perspective
- Discussions can occur on what should be done with the excess money above the maximum

RSR

PwC Review

Review by PricewaterhouseCooper (PwC)

- PwC are the auditors for SGI and ICBC
- PwC reviewed the Corporation's accounting practices relating to the RSR
- PwC supported the accounting practices and concluded that the process is transparent
- PwC stated that "The RSR is often used for more than just offsetting extreme (i.e. those plausible adverse events that might occur one in forty years) but rather absorbing the variances from plan each year."

The Corporation's position is that expected events and losses are those that are forecast, whereas unexpected events and losses are not forecasted and can draw down or replenish the RSR within the minimum DCAT and maximum MCT level.

RSR
Range

- The Corporation has applied for a range in the RSR with:
  - Minimum - $231 million (DCAT - based on total equity)
  - Maximum - $366 million (100% of MCT)
- Two objectives for any rate application are to:
  - Ensure the sustainability and financial soundness of the universal compulsory automobile insurance plan
  - Achieve an actuarial opinion of having a satisfactory future financial condition
- MPI believes all ratepayers will benefit when these two objectives are reached
- MPI Chief Actuary, Mr. Johnston, advised that the RSR needs to be in excess of the minimum $231 million in order to state his opinion that MPI is in a satisfactory financial condition

RSR and Capital Adequacy

- MPI, PUB, and interveners have spent almost two decades trying to determine the methodology to calculate the level of capital adequacy and range for rebates

- Approaches reviewed, debated, adopted, improved upon, rejected, and considered include:
  - Percentage of premiums
  - Risk analysis
  - Risk analysis/Value at Risk
  - Minimum Capital Test
  - Dynamic Capital Adequacy Test
  - And back to the percentage of premiums

Fine Tuning of DCAT and Adverse Scenarios

- MPI has recommended DCAT since 2009 because it:

  – Explicitly measures the potential financial impact for the Corporation's key risk factors and produces a RSR target that is directly related to the Corporation's risk level

  – Is a process of analyzing and projecting the trends of an insurer's capital position given its current circumstances, its recent past, and its intended business plan under a variety of future scenarios

  – Allows MPI to determine the implications that its business plan has on capital and identify the significant risks to which it is exposed

Fine Tuning of DCAT and Adverse Scenarios
cont'd

The Board in 2012 concluded:

- **The Board believes that the DCAT methodology is an improved approach for determining the target for the RSR over the current methodology,** however, further analysis and discussion is needed, particularly in relation to the adverse scenarios used in the DCAT and the methodology construct, before such an approach should be utilized for rate-setting purposes
- **The Board is pleased that the Corporation is willing to be more consensus based in preparing the DCAT, and that it is receptive to aspects of the adverse scenarios being discussed and revised** [emphasis added] (Order 157/12)

Fine Tuning of DCAT and Adverse Scenarios
cont'd

The Board in 2014 concluded:

- The Board **accepts the DCAT methodology, in principle but on a preliminary basis, for the purposes of establishing the RSR target range for Basic**. For the time being and subject to further analysis, the Board **accepts that a 1-in-40 year scenario probability level**, as requested by MPI, is the appropriate threshold for the minimum RSR target for 2015/16
- The Board also **accepts that the minimum RSR target should be based on total equity**, given the impact of unrealized equity investment gains within AOCI. The Board then established Phase I and Phase II of the collaborative process for specifics

Role of DCAT

Achieving Rate Predictability and Stability

- Rate predictability and stability occurs when the RSR is of sufficient size to absorb the costs when the unexpected non-recurring events arise
- In the absence of an RSR, the unprecedented losses of $132 million, as occurred in fiscal 2013 and 2014, would have been recovered within a short time
- Assuming that an extra $8 million is generated from each 1% rate increase, a rate shock increase of 16.9% would be required to recover those losses
- An RSR range, established to address risks and the losses that occur from those risks, can absorb and be rebuilt over a longer period of time because there is not the same necessity to replace the losses as quickly
- This removes rate shock and contributes to better rate predictability and stability

Joint Actuarial Testimony

Introduction

- The joint interactive actuarial testimony went fairly well with Mr. Johnston and Ms. Sherry testifying in a forthright and professional manner
- The Corporation believes the Board was well served by the active exchange of dialogue between the two actuaries and was provided the best information upon which to make its decision
- If the process were to be utilized again, a possible revision may be to add in the Board's actuarial advisor in a slightly different role and capacity, yet to be determined

Joint Actuarial Testimony

RSR and Applicability of DCAT/MCT

- Ms. Sherry put forward a thought provoking concept - “Our point is that it is not immediately obvious that a RSR is in the best interest of the ratepayers” (PUB/CAC 1-8)
- She continued by saying that the RSR should not be so large as to create a disadvantage to the economy and ratepayers, and at the applied for $231 million level it was too large
- She reiterated that the DCAT and MCT test should not be used for the RSR since these are private sector tests for solvency which is not a risk for MPI
- However, the Board has already in its past ruling accepted the DCAT as an appropriate test for MPI

Joint Actuarial Testimony

DCAT Tailored for MPI

- The adverse scenarios chosen by Ms. Sherry's insurer were very significantly more adverse than anything MPI uses and thus yield a much lower DCAT result (for example – one year equity decline time horizon and a 150 basis points change in interest rates)
- This difference points to the fact that the DCAT has been tailored for MPI, to reflect its status as a monopoly public auto insurer
- The assumptions in the MPI DCAT are much more aggressive than those used by a private insurer, thereby yielding a lower minimum amount
- It should be noted that MPI still faces the same risks as private insurers from the equity market, inflation, and interest rates

Joint Actuarial Testimony

Equity Decline

CAC recommendation – Equity decline scenario

- The use of a four year time horizon for equity decline

MPI position – Equity decline scenario

- Using a four year time horizon for equity decline may result in the RSR being depleted and the Corporation being in an unsatisfactory financial condition and some point during the forecast period
- For the purposes of the DCAT, the equity decline scenario only factors into the combined scenario, not a stand alone adverse scenario
- To obtain the opinion of satisfactory financial condition the forecast cannot go below zero at any time. Mr. Johnston noted:
  - "Does our forecast, with the scenario, stay above zero total equity over the whole forecast period at any point in the forecast period, not just at the end?" tr 163
- MPI asks the PUB to reject the CAC recommendation

Joint Actuarial Testimony

Interest Rate Decline

CAC recommendation – Interest rate decline scenario

- "The interest rate decline scenario, and its contributions to the combined scenario, should be heavily discounted as it is not credible on the basis of the evidence available. We would suggest that it be given a weight of zero and eliminated from the consideration of the RSR target." (Sherry and Simpson Evidence, Recommendations, p.15)

MPI position – Interest rate decline scenario

- Even though Ms. Sherry acknowledged that interest rate risk is still a major risk for MPI and she knows of no insurer that eliminates this risk in their DCAT, she still criticized the scenario used in the DCAT, though was unable to provide any concrete examples or suggestions that could be done for this scenario (Tr 1569)
- MPI strongly urges the PUB to ignore CAC recommendation as it is simply not plausible for either MPI or the PUB to assign zero credibility to one of the Corporation's major risks

Joint Actuarial Testimony

DCAT Collaborative Approach

Ms. Sherry acknowledged that she:

- Did not participate in the collaborative process
- Never mentioned the 1-in-20 probability scenario once, though it forms a cornerstone of CAC recommendations
- Did not attend (nor did Professor Simpson) the live demonstration of the DCAT model, though it was requested by CAC

In summary, MPI would have liked to see more involvement by CAC in the collaborative process since this is a good opportunity for robust discussions on various points of views and assumptions.

Need for a Range/ Forecasting Risk

- The Board is aware that the DCAT results are based on the collaboratively developed risk models for claims incurred, equities , and interest rates

- Variability in the DCAT modeled results reflect **natural random variability** in these risks

- Random variation <u>does not</u> reflect poor forecasting by the Corporation

Need for a Range/ Forecasting Risk

- As shown below, single year net income would be expected to deviate from budget by -$102M ($108M-$210M) every 40 years ***purely due to chance***.
- These figures exclude any other risk factors not fully contemplated in the DCAT analysis like:
  - abnormal one-time risks like the 10% increase in collision severity experienced in 2013/14.
- Other less probable but adverse events would fall somewhere in the spectrum of a single year loss of $0 to $102M from the net income budget.

Combined Scenario results for **Retained Earnings** before management and regulatory action

Portion of Table on Page 58 of the DCAT report
Combined Scenario
Retained Earnings (in millions)

Probability	Return Period	2016/17
1-in-200	1 year + base	$90
1-in-100	1 year + base	$98
1-in-40	1 year + base	$108
1-in-20	1 year + base	$145
Base		$210

Changes in Retained Earnings reflect changes in net income excluding AOCI

Need for a Range/ Forecasting Risk

- If we look at the risk factors before management and regulatory action on a two year basis the results are magnified.
- The two year net income (as measured by changes in retained earnings), excluding management and regulatory action would be expected to deviate by -$188M ($39M-$227M) every 40 years ***purely due to chance***.
- Other less probable but adverse events would fall somewhere in the spectrum of a two-year loss of $0 to $188M from the net income budget.
- For instance, like the two years of losses experienced by MPI totaling $132m.

Need for a Range/ Forecasting Risk (cont'd)

Combined Scenario results for **Retained Earnings** before management and regulatory action

Portion of Table on Page 58 of the DCAT report
Combined Scenario
Retained Earnings (in millions)

Probability	Return Period	2017/18
1-in-200	2 year + base	($10)
1-in-100	2 year + base	$9
1-in-40	2 year + base	$39
1-in-20	2 year + base	$45
Base		$227

Changes in Retained Earnings reflect changes in net income excluding AOCI

Need for a Range/ Forecasting Risk (cont'd)

- This random variability creates the need for an <u>adequate range</u> for the RSR
- Furthermore, to achieve the mutual objectives of rate predictability and stability and having Basic in a satisfactory financial condition, an adequate RSR range is required
- This can be accomplished by using the DCAT at the lower level and the MCT at the higher level

Correlation

- The issue of correlation was raised in the closing comments by CAC regarding the results and discussions around MPI undertaking #38 and #39
- Mr. Johnston's understanding from the collaborative discussions was that historical data, including correlations, should be considered in the development of the Combined scenario
- If the issue of correlation was raised prior to the completion of the DCAT report, and there was agreement from Mr. Johnston and Mr. Pelly in regards to this assumption, it is reasonable to think that Mr. Johnston would have made this adjustment to his report

Correlation
cont'd

The Combined model was run for 1,000 simulations with the limited time available with equities and interest rates independent. The 1-in-40 scenario was selected for both the 4-Year Combined and the 2-Year Combined scenario. Management action was applied identically to each of the scenarios. The results are shown in the table below.

	Total Equity ($millions)				
4-Year Combined 1-in-40 Scenario	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
with correlation	$262	$181	$116	$51	$70
independent	$262	$177	$98	$61	$72
Difference	$0	($4)	($18)	$11	$1
2-Year Combined 1-in-40 Scenario	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**2019/20**
with correlation	$262	$139	$31	$46	$80
independent	$262	$117	$53	$94	$154
Difference	$0	($23)	$21	$48	$74

Footnote: rounding means that numbers may not add perfectly in all instances

Risk Tolerance Probability Level

CAC recommendation - Risk tolerance

- A 1-in-20 year risk tolerance should be utilized

MPI position – Risk tolerance

- Risk tolerance had already been adjusted down from 1-in-100 years to 1-in-40 years based on discussion at previous hearings and Technical Conferences
- This is consistent with Board Order 135/14 p.53
  - "For the time being and subject to further analysis, the Board accepts the 1-in-40 year scenario probability level, as requested by MPI, is the appropriate threshold for the minimum RSR target in 2015/16."
- MPI continues to support this probability level as the minimum target.
- The selection of a risk tolerance level is largely a judgment call, and MPI believes the PUB has already made that call – at 1-in-40

RSR

Actuarial vs. Policy Rationale

- Ms. Sherry's rationale for a diminished RSR is based on policy rationale rather than an actuarial rationale

  "So really, the key message is that the size of the RSR is very important, because the bigger the RSR is the more disadvantage really can be created for the Manitoba economy, and really, the Manitoba ratepayers, because then a Crown Corporation is holding onto their money." tr 1328

- The position of the CAC actuary, and consistent with the CAC position since the 1990s, is that it is better for the consumers to keep the monies in their pockets rather than have MPI hold it in a reserve for them
- In other words, in the balance between intergenerational equity and predictable stable rates, for CAC the weight is tipped significantly to intergenerational equity
- For CAC, having a reserve fund for future unforeseen and adverse events violates intergenerational equity – even though every insurer has a reserve fund, OSFI requires one, ICBC and SGI have these, and since Kopstein's recommendations, both the Corporation and the PUB have been fine with having a reserve fund

RSR
Actuarial vs. Policy Rationale (cont'd)

- The balance between intergenerational equity and rate stability/predictability is a policy-based or ideological position that precludes agreement between CAC and MPI on the reasons and goals for and amount of the DCAT/MCT/RSR
- While intergenerational equity is important within the ratemaking methodology, the unique aspects of PIPP coverage span multi-generations:
  - All Manitobans are MPI customers due to the PIPP
  - Basic policyholders fund the PIPP
  - All Manitobans do not contribute for at least the first 15.5 years of their lives
  - Some Manitobans will never be a driver or a policyholder and never contribute
  - Some Manitobans will have a driver license but not a policy
  - Older Manitobans will stop contributing when they stop driving
  - This means many Manitobans may not contribute for up to 30 years in their lifetime
- It is the PUB which will have to decide the appropriate balance and flowing from that, the magnitude of the RSR

Approval of Minimum Level (DCAT)

The time is now to approve the use of DCAT methodology resulting in a lower level minimum RSR of $231 million.

- The method is based on MPI specific risks resulting from changes to assets and liabilities
- It assists Management and the PUB in the identification, measurement and mitigation of key risks
- The method creates a clear linkage between the required RSR and the amount of risk faced by MPI
- The indicated RSR range will change when MPI’s risk profile changes

Approval of Minimum Level (DCAT) cont'd

- The recent losses totaling $132 million in two consecutive years dramatically demonstrates the need for a DCAT based minimum
- It is a clearly documented process which adheres to professional standards and methodology
- It is peer reviewed by the appointed Actuary and reviewed in detail at these hearings, including by the PUB's actuarial advisor
- Direct input into the adverse scenarios and assumptions was provided by the PUB's actuarial advisor to the Chief Actuary

Approval of Minimum Level
(DCAT) cont'd

MPI is of the opinion that the PUB has enough evidence on and confidence with the DCAT to determine an adequately funded RSR lower level of $231 million (or lower if the Board decides to have independent rather than correlation in the combined scenario assumptions).

Approval of Maximum Level (MCT)

- If the Board wishes to protect ratepayers from the rate increases made necessary by unexpected events and losses arising from nonrecurring events or factors, the Board must establish an RSR range that is adequate to meet the costs of those risks

- MPI has applied for an upper range to the RSR to be 100% MCT. In making such an application, the Corporation notes that the MCT is being used as a *maximum* level for capital adequacy, and not a bare *minimum* as per OSFI guidelines

Approval of Maximum Level (MCT) cont'd

The benefits of the Minimum Capital Test:

- Although it is a minimum capital test, MPI is proposing to use it as a maximum capital test
- It is designed to assess the key risk faced by the insurance industry, the majority of which are relevant to MPI
- It is used by virtually all other insurers, including SGI and ICBC, and is established by OSFI
- It assesses the riskiness of assets, policy liabilities, and off-balance sheet exposures, by applying a consistent set of factors that were agreed upon by a task force of insurance experts

Approval of Maximum Level (MCT) cont'd

- It measures the risk based on MPI's current financial statements – or current risk profile
- The calculation of the MCT score is completely objective – i.e. no judgment is required
- The MCT score is relatively easy to calculate

Approval of Maximum Level (MCT) cont'd

- The key reason MPI proposes the use of 100% MCT as the maximum level is that it is an objective measure of risk that is independent of the internal customized DCAT analysis
- MCT is utilized by virtually all other P&C insurers in Canada as their minimum capital requirement (150% minimum for private insurers, 100% minimum for SGI and ICBC)
- MPI is not proposing that it ever holds capital in excess of 100% MCT - it is simply an independent, industry accepted yardstick that MPI utilized to establish the upper target

The Time is Now

- The RSR protects ratepayers from the risk of rate instability
- The Kopstein Report and the PUB recognize that the RSR should be expressed in terms of a range
- The Board should use the best available modern financial tools that exist today to continue to maintain predictable and stable rates in the future
- The Corporation has recommended that DCAT at a 1-in-40 year risk tolerance level be used to establish the lower target of the RSR
- The Corporation has recommended that the MCT at a ratio of 100% be used to establish the upper target of the Rate Stabilization Reserve
- Following several years of refinement of the DCAT and undertaking the extensive collaborative exercise with the PUB and interveners over the past year, the Corporation believes the Board has the information to rule on the range of the RSR

Transfers from Competitive Lines to Basic

- The Corporation's Board of Directors, based on the "spirit" of last year's Order, replenished the Basic RSR to ensure Basic's satisfactory financial condition
- As at February 28, 2015, $75.5 million was transferred to the Basic RSR from Extension line of business. The specific amount of $75.5 million was chosen as that brought the RSR into the minimum target as prescribed by the 2014 DCAT, $213 million
- Had the financial results been worse, a larger sum of money would have been transferred to ensure that Basic was in a satisfactory financial condition

Transfers from Competitive Lines to Basic cont'd

- The Corporation has committed to fund any shortfall in the Basic RSR from the competitive lines of business if the condition's listed in the CEO's presentation are satisfied. (see slides 11 & 12)
- Mr. Guimond also noted that with recent financial results the Corporation may be in a similar position this year and provided a commitment to fund any shortfall in the Basic RSR from the competitive lines of business
  - "[I]f we continue down this path, that the Corporation is willing to transfer another $50 million if it has to. Depending upon what happens at the end of the fiscal year, it might be less or more, but we will make sure that the minimum amount is there." Tr 297
- If the RSR were to stay at the same level as its current $182 million at the end of the second quarter, then the Corporation will transfer almost $50 million to ensure the satisfactory financial condition of Basic, as set by the lower level of the RSR by the 2015 DCAT result of $231 million

Transfers from Competitive Lines to Basic cont'd

- If the DCAT is approved, then at year end, whatever the gap is between the financial results and the DCAT result, MPI would transfer that amount of money to "cover the gap" (assuming there is sufficient excess capital in the Extension line of business to do so)
- "The idea is to immunize Manitobans from ever having to have a rebuilding fee for the RSR" – Mr. Guimond

Transfers from Competitive Lines to Basic cont'd

See transcript pages 756 - 765

Interest Rates
Introduction

- Interest rate risk represents the risk of economic loss resulting from market changes in interest rates and the impact on interest rate sensitive assets and liabilities
- In general, when interest rates increase, MPI will see favourable financial results
- The higher the interest rates, the less money that has to be set aside to pay out long term claims. When interest rates increase, then claims liabilities decrease
- However, when interest rates increase the value of the marketable bond portfolio decreases
- Historically, small changes in interest rates can therefore have a significant impact on investment income, though this has been managed better by the move last year to a +/-1 year in duration matching and a move this year to full matching

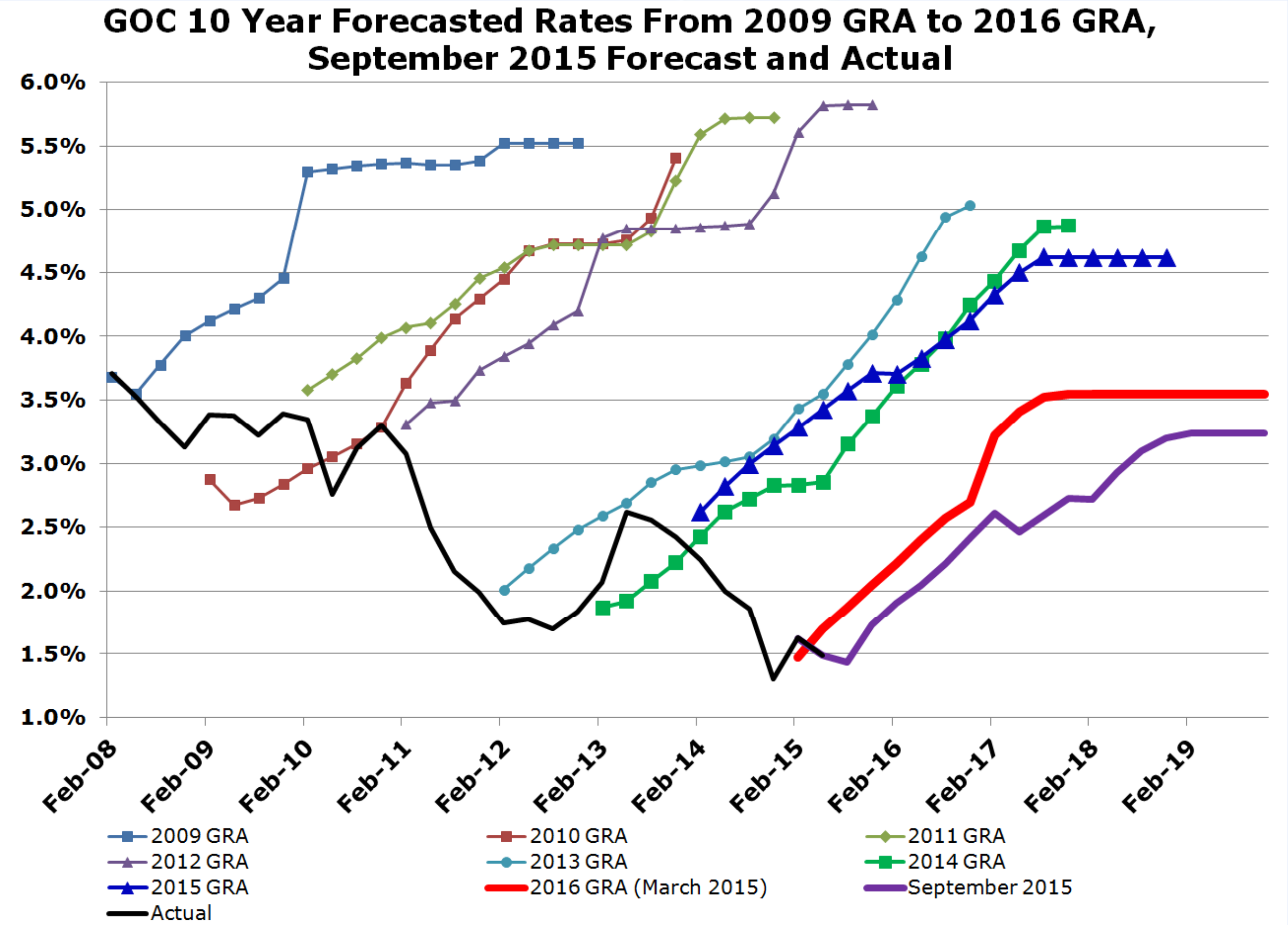
Interest Rates

MPI Forecast

- Consistently over the past many years the five major banks and Global Insight have been forecasting increasing interest rates
- The forecasts have been higher than what the actual interest rates were, and interest rates have declined even further
- Since last year interest rates have decreased even further, hitting floors that are unprecedented and even negative in European jurisdictions
- MPI continues to use the interest rate forecasts of the major Canadian banks and Global Insight

Interest Rates

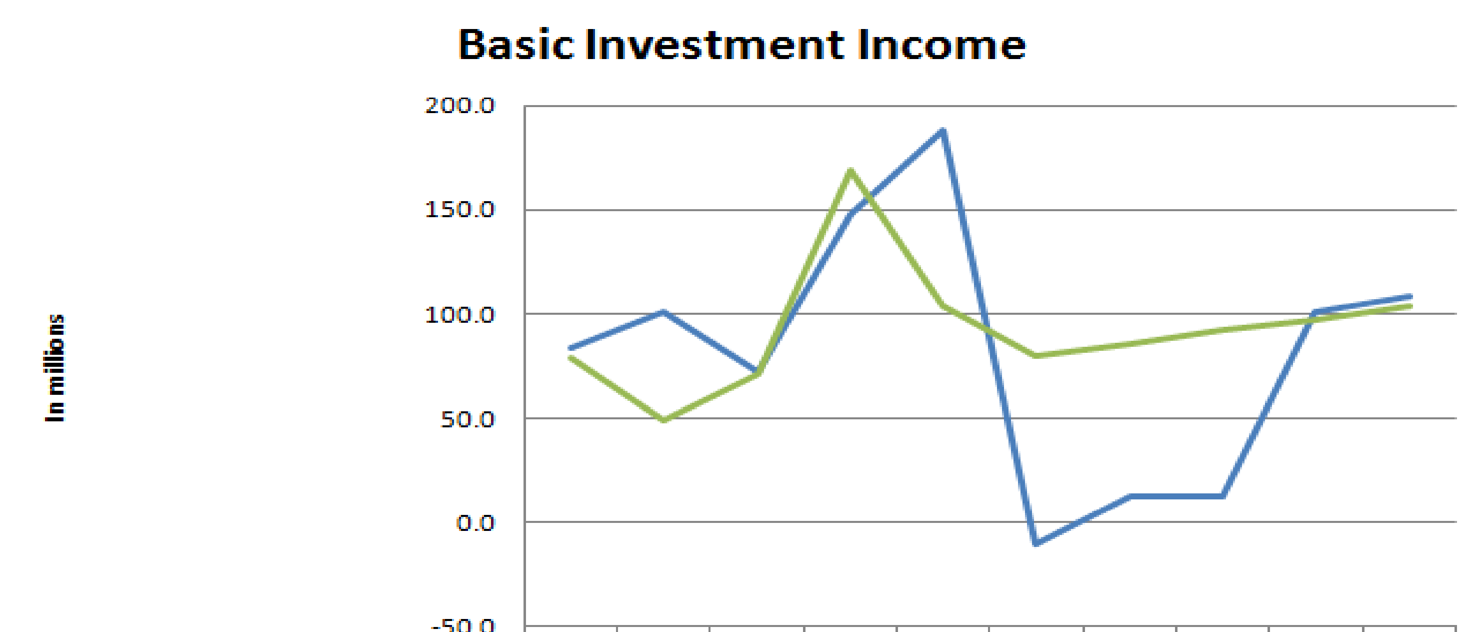
MPI Forecast (cont'd)



Investment Income (Loss)

Basic Investment Income

Investment income fluctuates, both the historical and in the forecast



	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Basic Investment Income	83.8	101.2	72.4	147.7	188.5	-10.8	12.8	13.0	100.4	108.1
Basic Investment Income excluding Marketable Bond G/L	78.4	49.4	70.7	169.4	104.2	79.8	85.4	92.2	96.6	104.2

Investment Income (Loss)

Basic Investment Income

- Over the rating years (2016/17 and 2017/18) average Basic investment income is forecasted to be $12.9 million.
- This relatively low investment income is negatively impacted by the ($75.9) million in average losses on the marketable bond portfolio.
- If total losses on marketable bonds from the rising interest rate forecast were excluded, then **Basic investment income would be $88.8 million** on average over this time period.
- When looking at the investments, it is always important to note that marketable bond losses from the rising interest rate forecast are **offset** by a corresponding decrease in claims due to the Corporation's duration matching program.
- With full duration matching of bonds and claims liabilities now in place, the impact of interest rate changes has been significantly mitigated.

Investment Income (Loss)

Basic Investment Income (cont'd)

- Total investment income allocated to Basic was $188.5 million in 2014/15
- Basic investment income forecasted to be a loss of $10.8 million in 2015/16
- Basic investment income forecasted to be $12.9 million over the rating years (2016/17 and 2017/18)
- Fluctuation in investment income primarily driven by the marketable bond portfolio

Manitoba Public Insurance

2016 GENERAL RATE APPLICATION
MPI Exhibit #

Investment (Basic)
(in Millions of Dollars)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			Actual					Forecasted		
Investments										
Basic Investment Income	83.8	101.2	72.4	147.7	188.5	-10.8	12.8	13.0	100.4	108.1
(1) Marketable Bond Gain/(Loss)**	5.5	51.8	1.7	-21.6	84.3	-90.6	-72.5	-79.2	3.8	4.0
Basic Investment Income excluding Marketable Bond G/L	78.4	49.4	70.7	169.4	104.2	79.8	85.4	92.2	96.6	104.2

Investment Income (Loss)

Canadian Equity Portfolio

- The Canadian equity portfolio includes publicly traded common stocks and preferred shares listed on a Canadian stock exchange
- Managed by three managers under contract with the Department of Finance
- Realized gains/losses and dividend income flow through the Profit and Loss statement
- Unrealized gains/losses are reflected in the Other Comprehensive Income statement

Investment Income (Loss)

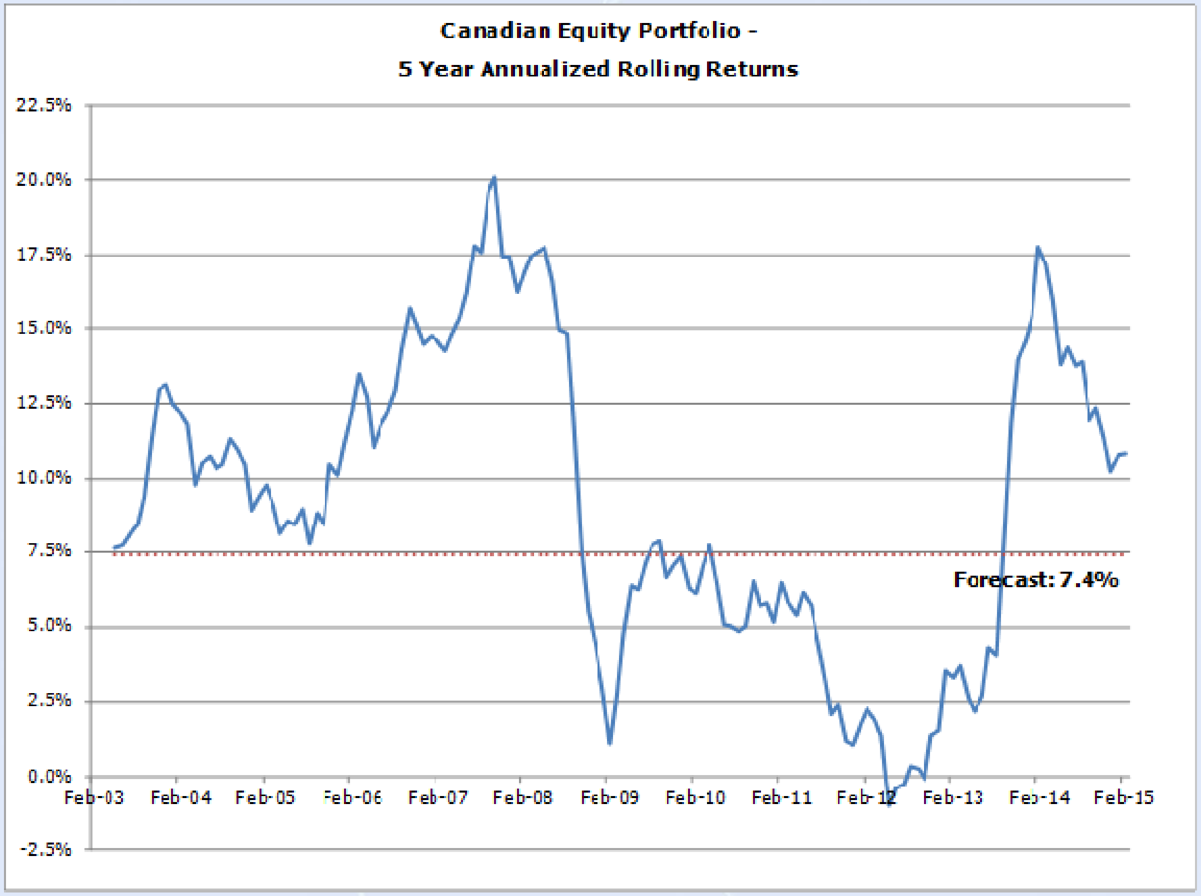
Canadian Equity Portfolio (cont'd)

- The forecast rate of return for Canadian equities is based upon the 5th percentile 20 year annualized return, as mandated by Order 157/12
- Using this formula, the forecast return is 7.4% using index data since 1956. MPI previously used forecasted returns of 6.1% and 6.2% in the 2012 and 2013 GRAs respectively
- This more aggressive forecast methodology yields a higher rate of return for forecasting equity returns ($9.7 million return in the current fiscal year)
- In the first six months of this year the overall corporate equity loss is $15.5 million, the forecasted $9.7 million may be doubtful

Investment Income (Loss)

Canadian Equity Portfolio (cont'd)

The volatility in the Canadian equity portfolio can be demonstrated in this graph



Investment Income (Loss) Canadian Equity Portfolio (cont'd)

- Ms. Reichert noted since inception, MPI has received $90.7m above the indexed return for Canadian equities:

- "[W]e have done very well with our equity managers. And they have, in fact, added and continue to add value above the index. So it is a long-term view that we need to take with our equity managers, and even though equities right now are in a bit of slump you can see from inception that they have still managed to do quite a bit better than what the index would indicate." Tr 822

Investment Income (Loss)

Canadian Equity Portfolio (cont'd)

Canadian equity managers – Value added

- Since inception MPI has received $90.7 million above the indexed return for Canadian equities

MPI Equity Managers'
Net Value Added Since Inception
to August 31, 2015 (or termination date)

Manager	Manager's Net Return*	Net Index Return**	Net Value Added Since Inception	Inception Date	# of years
Current Managers					
Canadian Equities					
Large Cap Manager A	11.2%	7.4%	3.8%	December-98	16.7
Large Cap Manager B	8.8%	7.2%	1.6%	February-02	13.5
Small Cap Manager C	10.5%	2.4%	8.1%	June-05	10.3
U.S. Equities					
Russell 1000 Value ETF	8.0%	8.2%	-0.2%	July-13	2.1
Russell 2000 Value ETF	4.9%	4.9%	0.0%	July-13	2.1

* Returns are net of management fees
** Assumes 0.05% cost to invest passively for all index

Investment Income (Loss)

Actual vs. Forecast

Total Corporate Investment Income

Last Year's Forecast for 2014/15	Actual for 2014/15
$34.4 million	$226.2 million (Basic share - $188 million)

- Positive variance of $191.8 million can be attributed to interest rates falling instead of increasing as forecasted, and from higher income from Canadian equities

Investment Income (Loss)

Actual vs. Forecast (cont'd)

Marketable bonds

- Total gains higher than forecast by $164.4 million due to decrease in Government of Canada 10 year bond rate
  - Forecasted bond rate to increase by 0.71% to 3.14% by end of year
  - Actual bond rate decreased by 1.13% to 1.30% at year end

Dividends and realized gains

- Total gains higher than forecast by $26.6 million
  - Canadian dividends were $14.3 million higher than forecasted ($25.5 million vs. $11.2 million) – due to a capital dividend pay out when the index pooled fund was liquidated
  - Realized gains were $12.2 million higher than forecasted due to strong returns of the Canadian market (S&P/TSX Composite return was 10.3% in 2014/15 vs. forecasted return of 7.3%)

Investment Income (Loss)

Actual vs. Forecast (cont'd)

First six months of this year vs. first six months of last year

- Decline in investment income of $99.4 million mainly due to
  - a $96.0 million decrease of unrealized gains/loss on Fair Value Through Profit or Loss bonds
  - a $7.0 million decrease in gains on the sale of Canadian equities
  - offset by a $4.3 million higher gains on the sale of Fair Value Through Profit or Loss bonds

Asset and Liability Duration Matching
Background

Background

- The Corporation first began forecasting the impact of changing interest rates on the fixed income assets and claims liabilities for the 2013/14 fiscal year
- At that time, the duration of the fixed income assets were within 2 years less than the duration of the claims liabilities
- For the 2014/15 year, the Corporation reduced the duration of the fixed income assets to be within 1 year of the claims liabilities duration to mitigate the negative impact that changing interest rates could have on net income.
- During 2014/15 the Corporation tendered for a full Asset Liability Management (ALM) study to be conducted - AON Hewitt was the successful proponent

Asset and Liability Duration Matching

AON Hewitt Study

AON Hewitt Study

- The study was conducted in phases, with the final recommendations on the optimal composition of the investment portfolio and the optimal hedging strategy provided in their final report in December 2014
- Final report was reviewed by the Investment Committee Working Group in December and AON representatives presented their report to the Investment Committee of the Board of Directors in January 2015
- Two main recommendations from the ALM study
    1) Adopting new asset allocation with no recommendation to add new or remove existing asset classes
    2) Tightening the current duration matching strategy to better mitigate the Corporation's interest rate risk

Asset and Liability Duration Matching
ALM Recommendations

ALM Recommendations

1) Adopting new asset allocation with no recommendation to add new or remove existing asset classes

Asset Class	Old Target	New Target
Fixed Income (incl. cash)	60%	70%
CDN Equities	15%	10%
US Equities	5%	5%
Canadian Real Estate	13%	10%
Infrastructure	7%	5%
Private Equity	0%	0%

Asset and Liability Duration Matching

ALM Recommendations (cont'd)

2) Tightening the current duration matching strategy to better mitigate the Corporation's interest rate risk

- The difference between the duration of the assets and the duration of the claims liabilities are reduced from +/- one year duration gap bandwidth to full duration matching including actuarial provisions
- This tighter hedging strategy will improve the effectiveness of the previous interest rate risk management strategy, and is more cost effective than a cash flow matching strategy or a hybrid approach

Asset and Liability Duration Matching

ALM Recommendations (cont'd)

Approvals

- The Investment Committee of the Board of Directors accepted the AON recommendation of perfect duration matching with 70% of the Corporate investment portfolio comprised of fixed income bonds
- The provincial Department of Finance approved implementing a corporate investment portfolio consisting of 70% fixed income, 15% equities and 15% alternative investments
- The Department of Finance also approved the hedging strategy with the duration of fixed income assets being perfectly matched to the duration of claims liabilities
- The management guideline for perfect duration matching was determined to be ± 0.25 years

Asset and Liability Duration Matching

Adopting Recommendations

Investment and Claims Net Interest Rate Impact (Basic)

Investment and Claims Net Interest Rate Impact (Basic)
(in Millions of Dollars)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
			Actual					Forecasted		
Net Interest Rate Impact										
(1) Marketable Bond Gain/Loss	5.5	51.8	1.7	-21.6	84.3	-90.7	-72.5	-79.2	3.8	4.0
(2) Claims Interest Rate Impact	-8.0	82.6	3.3	-26.1	122.4	-101.9	-85.5	-102.5	-3.5	-3.6
Net Impact of Interest Rates [(1) - (2)]	**13.5**	**-30.8**	**-1.6**	**4.5**	**-38.1**	**11.2**	**12.9**	**23.3**	**7.3**	**7.6**
Budgeted Net Interest Rate Impact	**-**	**-**	**-**	**-1.3**	**31.5**					
Variance from Budget	**13.5**	**-30.8**	**-1.6**	**5.8**	**-69.6**					

Asset and Liability Duration Matching
Adopting Recommendations (cont'd)

- The last 5 years shows significant volatility in actual results and compared to budget for the last two years
- The forecast for the next 5 years with perfect duration matching is much less volatile (i.e. if forecasted interest rates do not occur, variances will not be as significant, impact to retained earnings will be less significant , and rates will be more stable and predictable)
- By implementing the new asset allocation and assuming a full duration matching, Basic net income is reduced by $7.0 million in 2015/16 and by $1.2 million on average over the rating years 2016/17 and 2017/18
- In this year's rate application, the fixed income portfolio duration is forecasted to be fully matched to the corporate claims liability duration

Motorcycle Rates

- MPI has applied for an 8.2% decrease in motorcycle rates
- Motorcycle rates do not vary greatly relative to the value of the motorcycle
  - Significant component of motorcycle claims costs is PIPP (approx. 85%)
  - More than half of these costs are from a small number of serious loss incidents
- The volatile claims experience of motorcyclist's class is evidenced in the following chart

Motorcycle Rates
cont'd

Loss Ratio for Motorcycle Major Class

Manitoba Public Insurance

2016 RATE APPLICATION
MPI Exhibit #

CMMG/MPI 1-1
Loss Ratio for Motorcycle Major Class

Loss Ins Year	Including "Pool" Loss	Actual Total Premium	Including "Pool" Loss	Including Claims Exp
2004	4,615,620	6,597,819	69.96%	82.44%
2005	6,633,208	7,464,128	88.87%	104.73%
2006	13,001,105	8,618,553	150.85%	177.78%
2007	8,045,383	9,474,661	84.91%	100.07%
2008	8,800,101	10,686,013	82.35%	97.05%
2009	8,340,238	11,474,147	72.69%	85.66%
2010	13,250,215	12,156,455	109.00%	128.45%
2011	6,186,886	12,817,434	48.27%	56.89%
2012	5,747,942	12,986,962	44.26%	52.16%
2013	12,648,754	12,851,434	98.42%	115.99%
2014	8,690,514	12,845,431	67.65%	79.73%
TOTAL	**95,959,966**	**117,973,036**	**81.34%**	**95.86%**

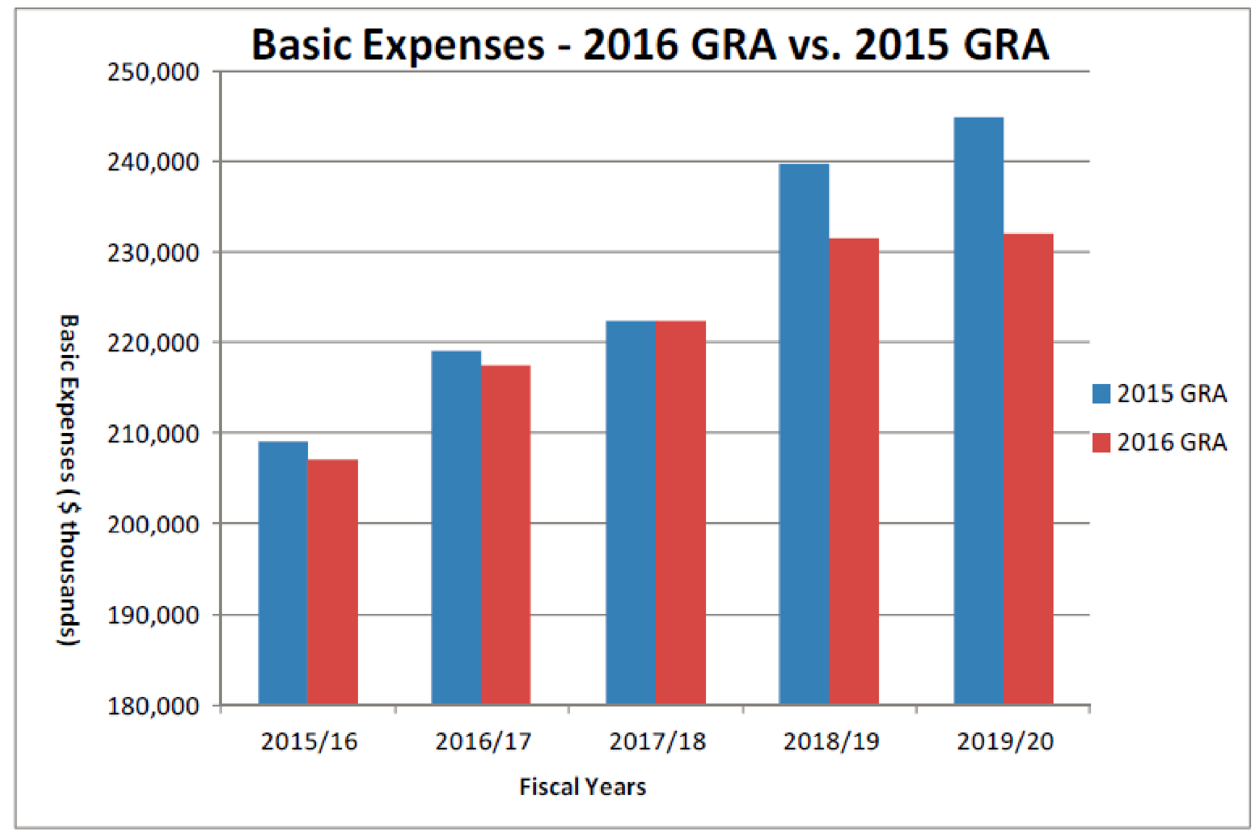
Motorcycle Rates

cont'd

- 2006 year is not an outlier – claims experience for 2010 and 2013 are similar to 2006
- Motorcycles have experienced a decline in loss costs for the past several years
- Rates have decreased at a slower rate of decline than the recent claims experience
- However, for rate stability purposes all motorcycle PIPP costs are averaged out over ten years and MPI strongly believes that a 10-year historical period continue to be used for rate setting
- The smoothing of motorcycle rates through the consistent ten year rule goes both ways – on the way up and the way down for claims experience actual losses

Operating Expenses
Total Basic

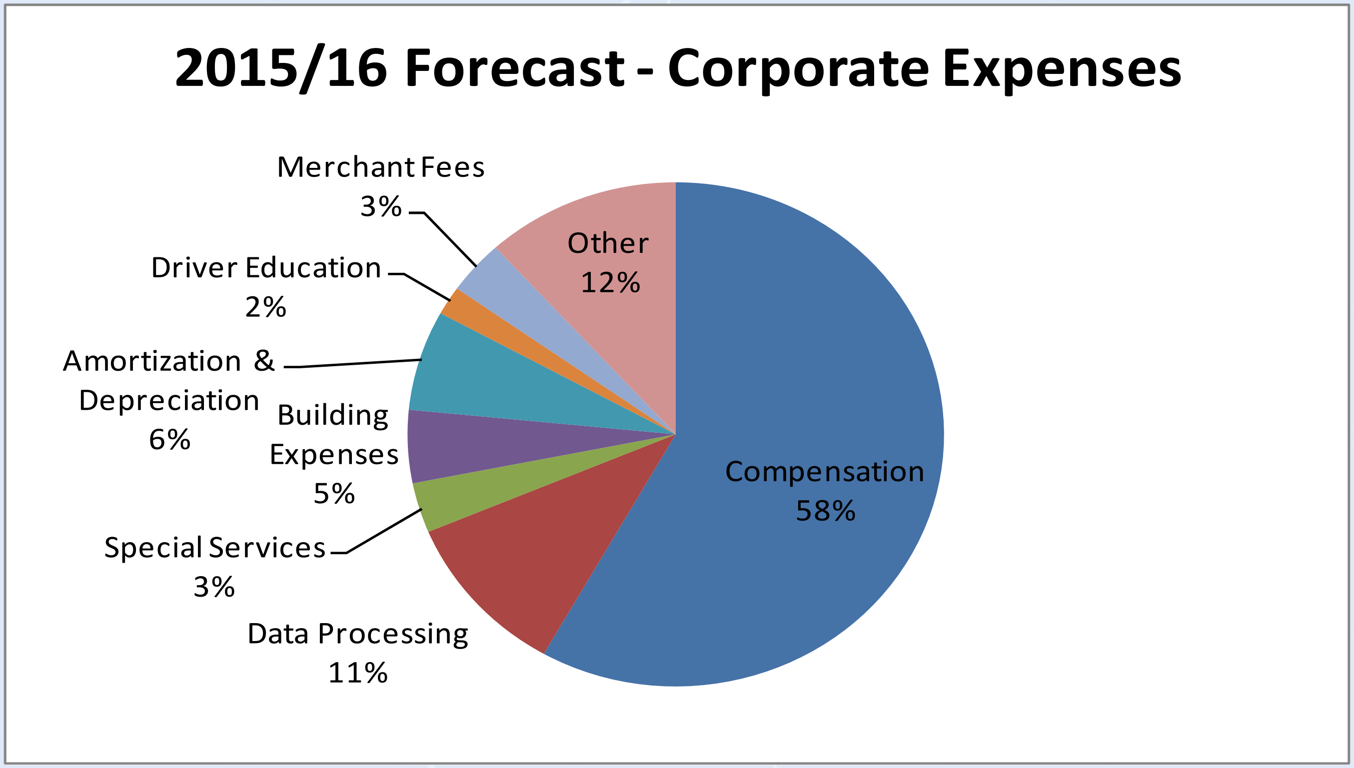
The total Basic expense comparison is illustrated by the following chart



Operating Expenses

Corporate Expenses by Category

The following pie chart illustrates the composition of the expense categories which make up corporate expenses



Operating Expenses
Compensation Forecasting

Compensation Forecasting Assumptions

The four key drivers of forecasted salaries expenses are:

1. Economic Increases
2. Step in Scale Increases
3. FTE Counts
4. Vacancy Allowance

Operating Expenses

Compensation Forecasting (cont'd)

1) Economic Increases

- Represents the contractual general wage increases as specified within the Collective Agreement

Effective from September 23, 2012 to September 17, 2016 (Actual) Effective from September 18, 2016 to September 19, 2020 (Forecast)			
Effective Date	Rate	Fiscal Year	Impact
September 23, 2012	0.00%	2012/13	1.45% *
September 22, 2013	0.00%	2013/14	0.00%
September 21, 2014	2.75%	2014/15	1.15%
September 20, 2015	2.75%	2015/16	2.75%
September 18, 2016	1.50%	2016/17	2.13%
September 17, 2017	2.00%	2017/18	1.75%
September 16, 2018	2.00%	2018/19	2.00%
September 15, 2019	2.50%	2019/20	2.25%

*includes increase of 2.9% September, 2011

Operating Expenses

Compensation Forecasting (cont'd)

2) Step in Scale Increases

- The forecasted rate used is 1.75%, which is consistent with the rate used in prior years
- An adjustment to the steps in scale increase and analysis of expected staff turnover resulted in an estimated reduction of $2.4 million in 2015/16 and 2016/17

Operating Expenses
Compensation Forecasting (cont'd)

3) FTE Counts

- The table below shows the five year historical and five year forecast of actual and budgeted staffing levels

Fiscal Year	Actual	Budget	Over (under) Variance
2010/11	1,822.8	**1,850**.1	(27.3)
2011/12	1,862.9	1,926.5	(63.6)
2012/13	1,894.7	1,936.7	(42.0)
2013/14	1,890.3	1,934.7	(44.4)
2014/15	1,874.8	1,928.7	(52.9)
2015/16		1,898.9	
2016/17		1,898.9	
2017/18		1,898.9	
2018/19		1,898.9	
2019/20		1,898.9	

- Variance to budgeted FTEs is a reflection in the corporation's Vacancy Management Program as a means to control costs
- In **2015/16, 30 FTE budgeted positions have been eliminated** (a $1.5 million reduction)

Operating Expenses

Compensation Forecasting (cont'd)

4) Vacancy Allowance

- Not all FTE positions will be filled at a point in time
- Staff turnover will result in a certain number of positions being vacant at any given point
- This vacancy means that salary dollars are not being paid, which reduces salary expense
- The vacancy allowance is forecasted to grow relative to the economic and step in scale increases applied to salary expenses

Operating Expenses

Compensation Forecasting (cont'd)

The table below illustrates the year over year forecasting methodology using all four salary expense drivers.

Corporate Salary Analysis – Normal Operations

	2014/15	2015/16	Change	%	2016/17	Change	%	2017/18	Change	
Gross Salaries	128,758	129,850	1,092		134,711	4,861		139,255	4,544	
Vacancy Allowance	(6,222)	(5,981)	241		(6,213)	(232)		(6,454)	(241)	
Total Net Salaries	**122,536**	**123,869**	**1,333**	1.09%	**128,498**	**4,629**	3.74%	**132,801**	**4,303**	3.35%
	GENERAL WAGE ANALYSIS									
Prior Year Balance			128,758			129,850			134,711	
FTE Changes			(1,533)							
Economic		1.15%	1,406		2.13%	2,655		1.75%	2,266	
Steps in scale		1.75%	2,147		1.75%	2,181		1.75%	2,266	
Other Salary Account adj **			(880)			32			19	
Other / Rounding			(48)			(7)			(7)	
Total			**129,850**			**134,711**			**139,255**	

(C$000s, except where noted)

** this includes retirement payments and provisions, sick leave provisions, and banked vacation and other negotiated allowances.

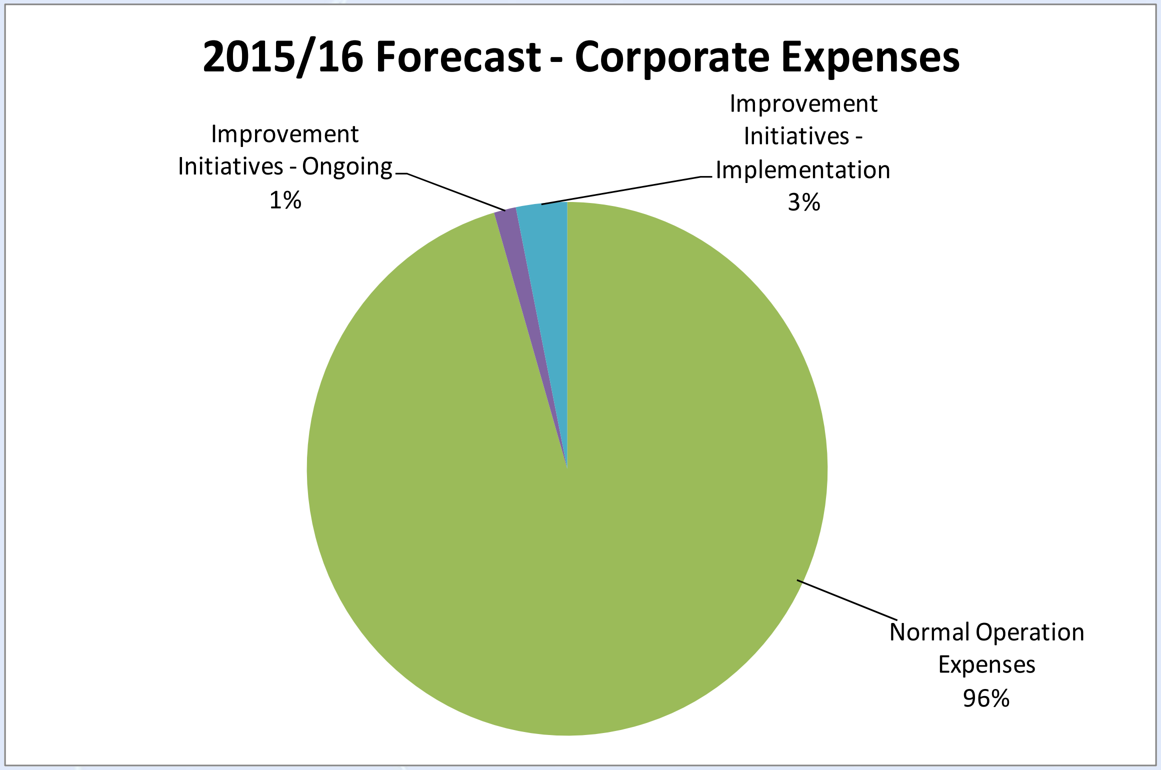
Corporate Expenses
by category

Corporate Expense can be allocated into three major categories:

1) Normal Operating

2) Improvement Initiatives – Ongoing

3) Improvement Initiatives - Implementation



Corporate Expenses
by category (cont'd)

Normal Operating Expenses - Basic Share

($millions)	2013/14	2014/15	2015/16	2016/17	2017/18
Compensation	112.2	115.2	118.1	121.8	125.2
Data Processing	14.2	16.2	16.5	17.3	17.9
Other	49.1	49.1	48.3	48.7	49.9
Subtotal	175.5	180.5	182.9	187.8	193.0
% increase (decrease)	*5.0%*	*2.8%*	*1.3%*	*2.7%*	*2.8%*
Amortization / Depreciation	12.8	18.3	14.2	11.7	11.4
% increase (decrease)	*4.0%*	*43.0%*	*(22.4)%*	*(17.6)%*	*(2.6)%*
Total Normal Operating Expenses	188.4	198.8	197.1	199.5	204.4
% Increase / (Decrease)	*2.2%*	*5.5%*	*-0.9%*	*1.2%*	*2.5%*

Corporate Expenses
by category (cont'd)

- There are fluctuations in other years where there are higher dollar value projects completed compared to other years, and this creates large fluctuations in the amortization and depreciation line items
- The normal operating expenses are not the key driver of a rate increase or a zero rate change this year
- These 1.2% and 2.5% increases are nominal despite CPI and incorporating mandatory economic and steps in scale increases
- The upcoming negotiations with the autobody repair industry have results that are included in the claims incurred costs, not in operating costs

Use of Consultants

Reasons for using consultants:

- These are typically in the IT area
- MPI’s public sector-type compensation can not attract the qualified individuals for certain senior IT positions
- Certain IT skills are only of temporary use for certain projects
- A number of consultants are from out of province even though there is a Manitoba first clause, as some skill sets are not available in Manitoba
- There is heavy competition from other private sector insurers and financial services corporations within the city
- There is no public acceptance for high IT salaries

Use of Consultants
cont'd

- There is no preferred practice to hire IT consultants - MPI could be further ahead on corporate initiatives at a lower cost if more IT workers were employees rather than consultants
- IT consultants are required if MPI is planning to proceed on corporate initiatives such as PDR, updating software releases, and maintaining the current IT infrastructure
- PDR, software updates, and maintenance of current IT infrastructure are all undertaken for the benefit of ratepayers to continue to provide adequate coverage and service
- The sole way MPI is able to accomplish these undertakings is by resorting to hiring IT consultants – and this is not the preferred route
- CAC asked for a plan to reduce the external staff in a cost effective manner and for MPI to justify whether the level of consultants is justified - MPI can provide such a review

IT Expenditures

- Board counsel in her closing comments pointed out the IT costs have compounded increases of 12.3% over time
- This is due to a history of under-spending on IT and the necessity to embark upon "repair the roof" type maintenance
- The forecasted spending on IT operating expenses is starting to level off at a 2.5% compounded growth rate over the next five years
- All IT expenditures have been necessary, prudent, and reasonable on behalf of the Manitoba ratepayers

Information Technology Costs (Corporate)
For 2010/11 to 2019/20
($ in thousands)

Summary	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Forecast	2016/17 Projected	2017/18 Projected	2018/19 Projected	2019/20 Projected	Compound Annual Growth Rate 11/12-14/15 (4 years)	Compound Annual Growth Rate 15/16-19/20 (5 years)
Total IT Expenses	36,689	40,980	50,075	56,272	58,411	54,443	60,611	66,586	71,006	66,184	12.3%	2.5%

Cost Containment

The objectives of the Cost Containment Committee are to:

- Ensure that MPI continues to investigate new and innovative ways of improving work processes, use of technology, new products and services in order to contain and reduce costs and deliver value
- Reduce Corporate operating expense by 2016/17 by $4-8 million. The Committee exceeded expectations and identified $8.5 million in reductions in the 2015/16 budget. The $8.5 million is comprised of reductions in:
  - Staff of more than $1.5 million – 30 FTEs
  - Overtime and other salary- $3.1 million
  - Software and licensing - $1.3 million
  - Premises $1 million
  - Various other items - $1.6 million (see Vol. II, Cost Containment, Att. B, p. 3)
  - Although not factored into the $8.5 million, there is a reduction in leased space by almost $1 million annually expected starting in 2017/18
- Foster and model a culture of innovation and cost containment

Cost Containment
cont'd

- The Corporation takes seriously its responsibility to provide excellent service to customers, while controlling operating costs and implemented various cost containment initiatives
- The reason MPI is not seeking a 1% increase in rates is because of this $8.5 million saved through cost containment
- The Corporation continuously manages all operating, maintenance, and capital expenditures. MPI believes it has shown in the evidence, both written and oral, that it makes these expenditures with the appropriate degree of fiscal prudence

Physical Damage Re-engineering

- The physical damage re-engineering project will deliver and orchestrate the improvement of the full cycle of physical damage claims management services, in partnership with the extended repair industry, to meet the evolving needs for quality, safety, cost control, and service
- The claims administration process will strive for seamless interplay with the various incident touch points by leveraging technology and staying abreast of new and emerging technologies, tools, and processes and implementing these when prudent and appropriate, resulting in convenience for the customer
- Once completely implemented in 2019, the Physical Damage Re-engineering program will contribute more than a $13 million reduction in costs, including almost $10 million directly related to reducing claims costs

Physical Damage Re-engineering
cont'd

- MPI agrees with CAC's characterization of PDR as an ambitious and potentially transformative vision
- Accordingly, MPI is taking a measured approach and given the scope and duration of this project, will take the necessary time to re-plan as appropriate to mitigate risks
- MPI has every intention of mitigating the significant risk that PDR presents in a bid to realize the significant benefits and value that stand to be realized

Physical Damage Re-engineering
cont'd

- MPI successfully completed Collaborative Estimating in which a common software platform was introduced into all autobody repair shops
  - Involved 300+ shops, 1,000s of external employees of the body shops, varying levels of IT readiness, and changing workflows
- MPI is embarking upon Distributed Estimating as the next step in PDR,
  - Autobody repair shops will complete the first estimate, thereby allowing customers to skip the current requirement to bring their vehicles to an MPI Service Centre for an estimate
  - A lengthy pilot with various different types of shops is underway right now

Physical Damage Re-engineering cont'd

- MPI believes it is necessary to address the point made by by Mr. Williams regarding the original PDR schedule compared to the current schedule
- It is important to noted the significant structural changes occurring in the industry – some of which have occurred after the initiation of PDR
- We want to assure the PUB that although the schedule has been adjusted, MPI is still on track from a budget and cost savings
- We want to assure the PUB that many of the schedule changes were to accommodate business partners in the autobody repair industry. It is imperative to have the data to negotiate the upcoming contract negotiations in 2016; thus the reason for the additional pilots.
- There is no basis that PDR expenditures are neither prudent nor reasonable
- MPI needs to execute PDR in a manner that ensures the support of the autobody repair industry and our customers.

Physical Damage Re-engineering cont'd

- MPI will keep the Board and intervenors informed of this project so the Board can fulfill its mandate to set Basic rates in the next GRA
- The update will not be in the form of an in-camera briefing, but rather an open record status update on the pilot, insofar as what is shared does not negatively affect the negotiations and end up costing the ratepayers more for their repair costs
- MPI may consider asking representatives of the autobody repair industry to present to the Board similar to how they presented last year on the need for PDR and the increasing complexity of autobody repair
- MPI will continue to deliver the PDR initiative in a manner that ensures the collaboration and support of the Manitoba collision repair industry

Road Safety and Loss Prevention

Budget

- It may appear that the road safety budget decreased but this is due to the fewer number of immobilizers required as this program nears completion
- Road safety operating budget does not include the approximately $4 million being spent on the High School Driver Education initiative
- Comparisons on road safety spend with SGI and ICBC are not accurate as their programs are very different
  - ICBC undertakes infrastructure improvements
  - SGI includes departments that MPI operates under the DVA line of business

Road Safety and Loss Prevention

More than Just Numbers

- There were 16,193 bodily injury claims last year – on average 44 Manitobans each and every day were injured in motor vehicle accidents
- Each and every day our staff is there for those Manitobans and they are aware of the human costs experienced by these Manitobans
- For our staff, it is not about numbers - they work and live with the human costs of these accidents
- MPI staff understand better than anyone in these proceedings the human and societal costs of motor vehicle accidents
- Although the Corporation speaks in numbers in this rate setting forum, the real work of the Corporation is done in other forums where the numbers are secondary to the primary function of fulfilling MPI's mission of "working with Manitobans to reduce risk on the road."

Road Safety and Loss Prevention

Quantifying Societal Costs

- On the issue of numbers and road safety there has been a lot of discussion about the need to quantify the societal costs of motor vehicle accidents as compared to claims costs
- Each accident causes damage and whether the costs of any given accident are high or low are often determined by fortuitous events occurring in fractions of a second
- The goal is to prevent the accident in the first place and each accident prevented by a road safety measure has a cost savings
- Unfortunately, there is no way of measuring accidents that did not happen because of a road safety measure

Road Safety and Loss Prevention

Optimization of Road Safety Program

- The Corporation has for many years presented evidence regarding the nature and scope of the various components of its road safety program
- Nevertheless, the Board had concerns about the road safety program; not the activities but whether there was a strategy around these activities and whether the spending on road safety programs is being optimized
- For this reason, the Corporation retained the services of Sirius Strategic Solutions to conduct an independent review

Road Safety and Loss Prevention

Sirius Strategic Solutions Review

Is the road safety budget appropriate and being optimally used?

- Sirius Strategic Solutions concluded that
  - The appropriate size of a road safety budget is not subject to simple formula. In any jurisdiction the complexities of government structures; the nature of road safety issues and relative priorities; political and public will; and, competition for available resources, will drive budget decisions including the optimal use of funds
  - To achieve these outcomes, MPI has developed a framework for road safety prioritizing and decision making that is based on research, data, and evaluative evidence to support sound and reasonable decisions on the allocation of funding
  - The road safety framework also recognizes that evidence changes and thus priorities will shift; necessitating an ongoing consideration of priorities and funding needs

Road Safety and Loss Prevention

Sirius Strategic Solutions Review (cont'd)

– In sum, the work to date and the commitment to continually enhance elements of the road safety framework to focus resources on priorities that will contribute to MPI's goals and optimize funding, has been considerable and substantive.

– While there is no uniform or simple formula for determining how much funding should be spent on road safety initiatives in any one jurisdiction or organization, MPI has chosen a model intended to optimize its funding, or provide a return on investment that will contribute to achieving its goals

– In linking the elements of its road safety framework including priority setting and program development, priority validation and issue analysis, and, monitoring and evaluation, allocation of funding to support the programs is a creditable and supportable approach to successful road safety programming

Road Safety and Loss Prevention

The Provincial Road Safety Committee

The Government established The Provincial Road Safety Committee which is co-chaired by MPI. The objective of the Committee is to enhance road safety and reduce the number and severity of collisions as well as the number of collision injuries and fatalities in Manitoba by:

- Synthesizing efforts in:
  - Engineering and infrastructure
  - Roadway operations
  - Enforcement and legal systems
  - Education and awareness
  - Vehicle safety
- Fostering coordination and collaboration between the various departments and agencies involved in road safety

Road Safety and Loss Prevention

The Provincial Road Safety Committee (cont'd)

- Promoting road safety in a strategic, concerted way
- Ensuring road safety issues are identified and prioritized
- Better allocating limited resources to those areas in greatest need of intervention

The purpose of the Committee is not to redefine legislative mandates for participating organizations and logical areas of accountability stemming from those mandates. Rather, the Committee will guide a more strategic and holistic approach to addressing road safety issues in Manitoba through stakeholder engagement, cooperation, and collaboration.

It is important to note that this Committee is the appropriate forum to address societal costs.

Road Safety and Loss Prevention

MPI Loss Prevention and Road Safety Framework

- The Corporation has set out its strategy for road safety in its Loss Prevention and Road Safety Framework
- The Corporation's strategy includes an operational plan and framework for road safety
- The Corporation has redefined how it establishes its priorities, evaluates programs, and engages stakeholders
- Robust analysis and evidence based decision making will be the key to the future success of this strategy

Road Safety and Loss Prevention

External Stakeholders Committee

- The Terms of Reference, filed in this application, for the External Stakeholders Committee on Loss Prevention, state:
- The **Purpose** of the Committee is to:
  - Share information related to loss prevention programs developed and delivered by Manitoba Public Insurance;
  - Provide a forum in which stakeholders can provide feedback and input on Manitoba Public Insurance loss prevention programs and their design;
  - Provide a forum in which stakeholders can present their own loss prevention program ideas for receipt and consideration by Manitoba Public Insurance; and
  - Strive for consensus on Manitoba Public Insurance loss prevention priorities and programming approaches.

Road Safety and Loss Prevention

Working with Stakeholders

- Working with stakeholders is crucial for the success of road safety
- It is important work that has, and will continue to happen throughout the year, outside of the hearing process, for those stakeholders such as CAA, CAC, and CMMG that are interested in working together towards the common objectives of road safety
- The Corporation was pleased with the CAA closing comments about the improvements they have seen in the Corporation's Road Safety Program and how it aligns closely with its priorities
- On the other hand, Bike Winnipeg attacked the Corporation's Road Safety Program by stating – "We don't know what the program is."
- Such a statement is perplexing considering its participation on the External Stakeholders Committee on Loss Prevention and MPI's filing of numerous road safety related documents in the application

Road Safety and Loss Prevention

Working with Stakeholders (cont'd)

- The common theme of the Corporation's Road Safety Programs is collaboration with others. The Corporation cannot change road safety behaviour on its own, but success will occur when MPI and its external stakeholders work together to achieve their common goal.

Comments on Intervenors Argument

- MPI was very pleased to hear the closing arguments of CAC, CMMG, and CAA which had many complimentary things to say about MPI, and was especially pleased to hear, the fairly high degree of consensus amongst these intervenors about the rates
- Two intervenors (CAC and CAA) supported the Corporation's overall application for 0% rate change, and the CAC counsel even noted that a 1.6% rate increase would be reasonable
- Joint actuarial testimony worked well between Ms. Sherry and Mr. Johnston
- Collaborative process worked well with the PUB actuarial advisor but CAC could have added to the process

Comments on Intervenors Argument (cont'd)

- Engagement at the operational level with it stakeholders throughout the year can lead to positive results as evidence by CMMG
- As noted by Mr. Houghton, a member of CMMG, in his presentation, MPI
  - Introduced new motorcycle insurance products
  - Funded motorcycle charity rides
  - Funds some motorcycle safety initiatives
  - MPI's Chief Actuary attends meetings with the CMMG – including the CMMG Annual General Meeting – to explain motorcycle rates
- This can be contrasted to the relationship with Bike Winnipeg which seemingly uses the PUB hearing process to advance its position on road safety, rather than actively working with MPI, Government, and many other stakeholders on the road safety committees
- In fact, Bike Winnipeg, does not take a position on rates

Comments on Intervenors Argument (cont'd)

- Three of the intervenors (CAA, CMMG, and CAC) commented favourably on the road safety approach taken by MPI, and in particular the road safety committees that they participate on
- That is to be commended, they are to be thanked, and the Corporation will work diligently with CAC, CMMG, and CAA and others on the road safety committee to address matters and reduce risk on the road
- MPI encourages Bike Winnipeg to avail itself to these opportunities

Conclusion

Consensus Conclusion

Consensus Conclusion

- Throughout this GRA process the Corporation's positions on the various issues were thoroughly explored and challenged by the Board, its advisers and the Interveners
- One could easily be mistaken to conclude that the exploring and challenging of the Corporation's position is evidence of a lack of consensus between the Corporation and the Interveners
- One would come to this mistaken conclusion if they focused on the minutia of the differences on these numerous, diverse and complex topics
- But on the important goals of rate setting process there was an exceptional amount of consensus

Conclusion

Goals for Rate Setting Process

There are seven goals for the rate setting process:

- Provide Basic Ratepayers with Rate Predictability and Stability
- Set Rates that are Just and Reasonable
- Offer amongst the Lowest Rates in Canada
- Ensure the Sustainability and Financial Soundness of the Universal Compulsory Automobile Insurance Program
- Achieve an Actuarial Opinion of Being in a Satisfactory Future Financial Condition
- Provide Ratepayers Value for Their Money Paid in Rates
- Have a Clearly Defined Process for Setting Rates Publicly

Conclusion

Provide Basic Ratepayers with Rate Predictability and Stability

- There is consensus that DCAT is the appropriate tool for determining the lower level of the RSR
- The Board should use this consensus as part of the basis for making such a finding. Although there was consensus on this point, there was no consensus on the detail of whether the lower level of the RSR should be set by DCAT using a 1-in-40 year probability level scenario or CAC Manitoba's newly proposed 1-in-20 year scenario
- The Board will have to make a decision on this point and for reasons previously stated it should make a finding in favour of the 1- in-40 year probability level scenario

Conclusion

Provide Basic Ratepayers with Rate Predictability and Stability
cont'd

- There seems to be consensus amongst the Corporation and the Interveners that the ALM duration matching has assisted in contributing to rate stability
- The applied for overall 0% rate increase is clearly a stable rate when compared to the prior year rate.
- CAC Manitoba came as close as possible to stating that principled approach to the rate setting process would see an overall 1.6% rate increase. A 1.6% overall rate increase would fall within the definition of rate stability

Conclusion

Set Rates that are Just and Reasonable

- The Corporation and the Interveners agree that an overall increase of 0% would produce just and reasonable rates
- CAC Manitoba believes that even an overall increase of 1.6% would produce just and reasonable rates
- Whichever of these rate increases or somewhere in between that the Board may ultimately decide is the appropriate overall rate increase, it should be satisfied that the parties to the hearing believe the result is just and reasonable rates

Conclusion

Offer Amongst the Lowest Rates in Canada

- The Corporation has previously submitted evidence that Manitoba ratepayers pay amongst the lowest rates in all of Canada
- As this was not challenged the Board can assume that there is consensus amongst the Corporation and Interveners that a 0% increase or even a 1.6% overall rate increase would continue to position Manitoba as having amongst the lowest rates in Canada

Conclusion

Offer Amongst the Lowest Rates in Canada (cont'd)

- One area of disagreement on this goal exists between the Corporation and the CMMG
- The Corporation is of the view that when evaluating the comparators consideration should be given to the extent of the product that is being purchased for those dollars
- With the exception of SGI, the PIPP product for personal injuries is vastly superior to the products being offered by other insurers

Conclusion

Offer Amongst the Lowest Rates in Canada (cont'd)

- The Corporation and CMMG are in consensus that motorcyclist rates should go down significantly to reflect claims experience
- The Corporation believes the applied for 8.2% decrease in the rate for motorcyclists should be approved. CMMG believes a 12% decrease is appropriate
- The difference in the two proposals is based upon the number of years of claims experience considered
- The CMMG is proposing a shorter period that would emphasize recent positive claims history
- The Corporation cautions the Board - if CMMG's proposal is adopted, one bad year of claims experience in the future will have a greater negative impact than in the Corporation's model which smoothes claims experience.

Conclusion

Ensure the Sustainability and Financial Soundness of the Universal Compulsory Automobile Insurance Program

- The consensus is for using the DCAT to ensure financial soundness, but the probability level has not achieved consensus
- The lack of consensus is based upon what the Corporation characterizes as a difference between an ideology and practical reality
- The Corporation believes that the sustainability and financial soundness of universal compulsory automobile insurance is ensured through an appropriately sized RSR
- The Interveners believe that a significantly smaller RSR is required – if the RSR is depleted, then ratepayers can pay high rates at that time or the Government can transfer money to MPI

Conclusion

Ensure the Sustainability and Financial Soundness of the Universal Compulsory Automobile Insurance Program (cont'd)

- The Corporation is not seeking an RSR that approximates the capital reserves of private insurers or even its sister Crown agencies in British Columbia and Saskatchewan
- As CAC Manitoba stated, public automobile insurance is highly valued by Manitobans - its sustainability and financial soundness should not be put at risk because of an ideology

Conclusion

Achieve an Actuarial Opinion of Being in a Satisfactory Future Financial Condition

- The actuarial opinion can be provided if there are sufficient reserves to meet the risks facing the Corporation
- There is consensus that DCAT is the tool to assess the risks and that it is the basis for establishing the lower end of the RSR.
- Where there is a lack of consensus is the probability level scenario that is applied to the DCAT
- The CAC Manitoba has only recently proposed the 1-in-20 year scenario - this is inconsistent with what the Board has historically considered appropriate
- The CAC Manitoba proposal is not reasonable and subjects the Corporation to undue risk

Conclusion

Provide Ratepayers Value for Their Money Paid in Rates

- The Corporation has submitted into evidence the document entitled "Value to Manitobans"
- The Interveners did not challenge this evidence and the Corporation submits that this can be taken as consensus that the Interveners and the Corporation believe that a valuable service is provided to Manitobans
- Approving the rates applied for ensures the continuation of the Corporation's ability to provide ratepayers value for the money they pay in rates

Conclusion

Have a Clearly Defined Process for Setting Rates Publicly

- Over the past few years, the Corporation has continually tried to improve its application to be better organized, focused and clearly addressing the issues of concern for the Board and the Interveners
- The filing has been expanded greatly in detail and MPI worked with Board advisors on the minimum filing requirements
- The Corporation believes that doing so has greatly improved the public rate setting process

Conclusion

Have a Clearly Defined Process for Setting Rates Publicly (cont'd)

- The consensus that exists on having a clearly defined process for setting rates publicly was probably best expressed by the Canadian Automobile Association [transcripts page 1896]:

I'd like to also mention that our CEO, Mike Mager, does take a great interest in these proceedings and, as well, does usually intend to be here, but he wasn't able to be here today. He always reminds me to bring up the fact that the fair and reasonableness of the rate-setting process is our number 1 priority. And he alway -- he also does always remind me to talk about the fact that -- how the Corporation has increased its transparency on a variety of fronts in recent years is -- is very encouraging to us.

Conclusion

The Corporation urges the Board, in making its decision on the order, to achieve these seven objectives of the rate setting process.

The Corporation stands by its application:

- The premiums charged with respect to compulsory driver and vehicle insurance (rates for service) effective March 1, 2016
- A 0% overall Basic insurance rate increase effective March 1, 2016
- A minimum (lower) RSR target of $231 million in total equity based on the results of the 2015 DCAT
- A maximum (upper) RSR target equal to a Minimum Capital Test (MCT) ratio of 100%, which is currently equal to $366 million in total equity based on the 2014/15 year end financial results

Conclusion
cont'd

- The DCAT is indeed ready to be adopted by the PUB to establish the minimum level of total equity
- The MCT 100% is a very conservative maximum level for the RSR
- MPI is willing to review the use of the 100% MCT for the maximum RSR level in four years to provide the PUB with comfort that this upper limit is still appropriate

Conclusion
cont'd

- In closing, MPI submits that it has satisfied the onus that its rates as applied for are just and reasonable and requests the PUB approve them
- The Corporation has placed sufficient evidence on the record for the PUB to approve the rates as applied for
- It is critical for the Corporation to receive the Order by <u>December 1, 2015</u>
- This is due to required system changes, drafting of a new regulation by Legislative Counsel, approval by Cabinet, and keeping in mind that the first notices to customers for payment of premiums occurs on January 15, 45 days prior to the March 1, 2016 effective date of the rates