MANITOBA	Board Order 151/00
THE PUBLIC UTILITIES BOARD ACT	
THE MANITOBA PUBLIC INSURANCE ACT	
THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT	December 4, 2000

Before: G. D. Forrest, Chairman
P. Britton, Member
E. Jorgensen, Member

AN APPLICATION BY MANITOBA PUBLIC INSURANCE FOR AN ORDER APPROVING COMPULSORY DRIVER AND VEHICLE INSURANCE PREMIUMS FOR THE YEAR ENDED FEBRUARY 28, 2002

At February 28, 2000, the Corporation had total retained earnings, including extension and SRE, of $180.7 million.

7.2 Risk Analysis History

In the 1998 General Rate Application ("GRA") the Corporation prepared a Risk Analysis in support of its RSR target. Using a statistical variance approach, the Corporation considered five risk factors (revenue risk, investment risk, claims costs, claims expenses, and operating expenses) to determine the appropriate level of the RSR. The level of reserve required for each risk factor at various confidence levels was determined. The study considered each risk factor to be perfectly correlated and positive. Investment risk was excluded because of uncertainty arising due to recent changes to the investment portfolio. Based on this methodology, the RSR target ranged from $78 to $105 million at a 95% confidence level. The Corporation's Board of Directors adopted an RSR target of $80 to $100 million for fiscal 2001 to fiscal 2003, noting that the previous approach of aligning an RSR target to either unpaid claims or premiums written would necessitate rate changes simply to keep the RSR at the target level as premium revenue increased. Therefore, a target range of $80 to $100 million based on long-term stability, and not tied to an increasing formula, was more appropriate.

In Board Order 154/98 the Board did not agree that each risk component is perfectly correlated or additive. Instead, an actual correlation was to be used. Furthermore, the Board directed that investment risk should be included as a risk factor, and at least some operating expenses should be excluded, as these were controllable by management. The Board directed that, until these matters are fully addressed, the existing 15% of premiums written was to continue as the RSR target methodology.

The following year the Corporation submitted its Risk Analysis to update the risk factors and respond to the Board's concerns. Applying the actual correlations and including operating expenses, the recommended RSR requirement at a 95% confidence level was $78 million. With operating expenses removed, this decreased to $67 million. The Corporation viewed its approach and methodology to be statistically sound as it was based on a variance of costs and revenues from long-term averages rather than the accounting variance of budget-to-actual as proposed by CAC/MSOS. It was the Corporation's view that any budget-to-actual variance would render the methodology to one of stress testing to identify budgeting errors rather than a statistical variance of costs and revenues. The Risk Analysis also included pre-PIPP data since there was not enough PIPP data to be statistically valid according to the Corporation. A Value at Risk Analysis to measure the maximum predicted loss for the Corporation's investment portfolio over a time horizon, determined that at the three year time horizon the appropriate investment risk would be $0.

In Board Order 177/99, the Board considered the Corporation's proposed $80 to $100 million range to be excessive for various reasons, including the consideration in the Risk Analysis of operating expenses, pre-PIPP data and the variance of cost and revenues from long term averages instead of a variance of budget-to-actual amounts. In both Board Orders 154/98 and 177/99 the Board stated the inclusion of all operating expenses was inappropriate as these were at least partially controllable by management. With respect to pre-PIPP data, the Board directed the Risk Analysis be prepared excluding pre-PIPP data and then using the ten-year data to include pre-PIPP data to allow the Board to gauge the responsiveness of the target range to the PIPP experience. The Board also expected that the future Risk Analysis would take into account the variance between forecast and actual amounts that directly impact the RSR. The Board expected the Risk Analysis would still use the methodology and statistical approach currently used, but that some of the variable inputs would be changed.

7.3 Current Risk Analysis

In the current application, the Corporation provided an updated Risk Analysis to review its basis of selection of a Basic insurance RSR target and to address the concerns expressed by the Board in Board Order 177/99.