MANITOBA PUBLIC INSURANCE

2023 GENERAL RATE APPLICATION

CLOSING SUBMISSIONS

November 7, 2022

MANITOBA
PUBLIC INSURANCE

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1 INTRODUCTION

1. Perhaps one of the few things upon which the participants in this General Rate Application (GRA) can agree is that Manitobans continue to navigate an uncertain world. It is an increasingly complex one, where inflation is high, unemployment is low, a recession of some unknown severity may or may not be on the horizon and where the relationship between people and transportation is in the midst of being redefined.

2. Despite this uncertainty, Manitobans can be certain that Manitoba Public Insurance (MPI) continues to make progress on achieving its goal of maintaining stable, predictable rates that are among the lowest in Canada.

3. MPI is seeking an overall rate decrease of 0.1%. This is the fourth consecutive year in which MPI has applied for a rate decrease. And, on top of all this, MPI is maintaining its capital within the legislatively prescribed range.

4. MPI remains on strong financial footing and, as a result, rates continue to decrease overall; but this does not mean that all is well. The Public Utilities Board (PUB) referenced the following line from the film Apollo 13 in this GRA:

> *"Houston, we have a problem."*

5. MPI agrees with the appropriateness of this quote. It does have a problem. In fact, it has many. The PUB is aware of capacity and capability issues facing MPI such as insufficient actuarial resources, financial services limited to performing task functionality, insufficient information technology (IT) security resources, lack of cloud resource, and operational staff shortages that are creating diminishing service standards.

6. Simply speaking, MPI has neglected to invest in its own internal resources for too long. As a result, it now faces the realistic possibility that it will be unable to properly fulfill its statutory responsibilities.

7. Five years ago, MPI faced similarly significant problems. It ultimately resolved them through the application of the three pillars of prudent fiscal management[1] and by focusing on its core business (articulated in its new Mission Statement[2] and Vision Statement).[3] Despite the magnitude of the obstacles it currently faces, MPI is confident it can overcome them.

8. One of the criticisms levied against MPI in this GRA is that it is out-of-touch with Manitobans. After all, uncertainty begets fear and fear begets a need to proceed with caution. Manitobans do not require an industry-leading innovator, they say. They are captive to MPI and need only the essential services it provides in the most cost-conscious of ways. As Manitobans begin to tighten their proverbial belts, so too must MPI.

9. As the PUB heard throughout the GRA, MPI does not seek to be an industry leader or an innovator. This GRA, it is submitted, represents a commitment by MPI to better respond to the wants and needs of Manitobans. To address its shortcomings, both recent and historic. To catch up with the stark new realities of the marketplace. To become more in touch with Manitobans and remain relevant. As Eric Herbelin, President and Chief Executive Officer of MPI testified:

> *"I agree, and there are different ways to look at -- so the world is changing and we continuously need to evolve. What we see, is that, in recent pasts, MPI did not make certain investments that are becoming now life threatening and -- and -- and difficult to handle all at once.*
>
> *So, how do we go about change going forward? There are innovation leaders. We don't need to be that. We are, as you very well described, just this utility providing a simple product to Manitobans, and this is our core.*

[1] The three pillars being: appropriate premiums based upon Accepted Actuarial Practice (AAP), effective and efficient operations; and adequate capital reserves;
[2] Exceptional coverage and service, affordable rates and safer roads through public auto insurance.
[3] The trusted auto insurance and driver services provider for every Manitoban.

So, what we need to make sure is that this utility remains relevant and adopt industry best practices as industry adopt those best practices and maybe make some of the mistakes before -- before us and they are tested.

At this point in time, the reality is there's -- we're not even able to adopt -- or to fast forward the industry. At this point, we are just catching up and we need to first catch up, NOVA being one of the main point, but, also, describe some areas of the business that need catch up, such as actuarial, risk management, and others.

And once we have caught up on those, it's a matter of keeping abreast of developments and adopting, in a fast forward way, those developments, as opposed to being a leading innovator in itself.

That's certainly not our approach."[4]

10. It should be noted that, unlike those who claim MPI is out of touch with Manitobans, MPI presented overwhelming evidence in this GRA that establishes the exact opposite:

a) First, as seen in Figures BMK-1[5], BMK-2[6] and BMK-3[7] MPI already charges its customers premium rates that are on average lower than most other insurance companies for comparable coverage in Canada in 2022;

b) Second, as seen in Figure BMK-4[8], MPI habitually exceeds other provinces (including Saskatchewan and British Columbia) in limiting the growth of its average passenger vehicle premium;

c) Third, as seen in the Benchmarking Presentation,[9] Manitobans generally agree that MPI is delivering on its mission to provide "Exceptional coverage

[4] 2023 GRA Transcript, Oct 19, 2022, pp. 285-286, lines 18-25 and 1-21;
[5] 2023 GRA, Part III, p. 8 (eBook p. 297);
[6] 2023 GRA, Part III, p. 9 (eBook p. 288);
[7] 2023 GRA, Part III, p. 13 (eBook p. 302);
[8] 2023 GRA, Part III, p. 14 (eBook p. 303);
[9] MPI Exhibit 58, Slide 6;

and service, affordable rates and safer roads through public auto insurance" with 82% of respondents agreeing or strongly agreeing that MPI provides exceptional service and with 75% of respondents agreeing or strongly agreeing that MPI provides affordable rates; and

d) Fourth, MPI returned nearly $500 million to Manitobans in the form of rebates between May 2020 and February 2022,[10] and this GRA represents the fourth consecutive year that the overall rate indication was less than zero. MPI expects that Manitobans will receive additional rebates within the next few years.

11. Notwithstanding the above, MPI cannot lose sight of the fact that life in the wake of the COVID-19 Pandemic (Pandemic) is different. In its response to Undertaking No. 1,[11] MPI produced the results of its own surveys of Manitobans, which show that, prior to the Pandemic, 23-27% of Manitobans chose online as their preferred way of interacting with MPI. However, by 2022, that figure increased substantially to 47-52%.

12. Critics of MPI also claim that there exists a gap in its credibility. That its words do not always match its actions. That it failed to meet its own standard of being open and transparent. In response, MPI points to the following:

a) in the 2022 GRA, MPI advised that it had concerns regarding the timeline and budget of Project Nova and, without knowing the magnitude of the problem, identified a potential issue;

b) on March 31, 2022, MPI publicly confirmed its previously announced transfer of approximately $65 million from its Extension line of business to Driver and Vehicle Administration (DVA);

[10] 2023 GRA Transcript, Oct 19, 2022, pp. 162-163, lines 24-25 and 1-3;
[11] MPI Exhibit 72;

c) on April 27, 2022, the PUB and MPI participated in an IT Summit during which MPI detailed the results of its 2022 Re-baseline exercise, including the increases in its budget and flattening of its delivery timeline;

d) on June 2, 2022, MPI hosted an information session for the PUB pertaining to its implementation strategy for IFRS 9 and 17;

e) on June 23 and 24, 2022, MPI participated in a technical conference relating to the topic of Road Safety during which it outlined for the benefit of the PUB, intervenors and other stakeholders its progress on the development of a new Road Safety Strategy and the results of its Large Vehicle Study;

f) on July 12, 2022, MPI filed a GRA comprised of more than 3,000 pages of documents and narratives (now comprised of more than 7,000 pages);

g) on July 29, 2022, MPI hosted an information session for the PUB and intervenors regarding the results of its new Asset and Liability Management (ALM) study;

h) MPI responded to:

   a. 461 different information requests with a total of 1,120 questions;
   b. 4 pre-asks;
   c. 45 undertakings;

i) the confidentiality process allowed the PUB and intervenors to access more than 165 different commercially sensitive documents; and

j) MPI immediately disclosed errors and omissions in its filing, including the overstatement of $57 million in investment income in the rate update due an ALM mismatch.

13. Self-improvement requires a measure of reflection, acceptance of criticism, the courage to admit one’s errors and a desire to be better.

14. MPI is currently in the midst of its own self-improvement initiative.

15. Last year, MPI presented the PUB with MPI 2.0, a 5-year ambition with three aspirational statements that guide its decisions, its work and the kind of company it wants to become. The three aspirational statements from MPI 2.0 are:

> *"MPI understands my needs. They make it easy and effortless." – Customers*
>
> *"MPI is a rewarding and progressive place to work." – Employees*
>
> *"MPI is fair, transparent and does things right." – Stakeholders*

16. Success for MPI requires these statements to be true. The principles guiding the five-year ambition identified in MPI 2.0 are:

    a) Customer experience drives improvements;

    b) Improvements must make financial sense;

    c) Create a culture of continuous improvement through empowerment and automation;

    d) Be a fast follower of industry best practices and trends; and

    e) Actively engage stakeholders along the way.

17. MPI 2.0 is the 5-year path towards this improvement. In the 2023 GRA, MPI highlighted its progress towards achieving MPI 2.0, including enhancing its actuarial expertise, implementing its Flexible Work Program and ensuring the availability of required data.

18. As Mr. Herbelin confirmed in his testimony, MPI has yet to define all of the elements that MPI will require to attain the status of MPI 2.0.

> *"The focus right now for the corporation is mainly revolving around NOVA."*[12]

19. To summarize, the 2023 GRA is not about whether MPI is out of touch with Manitobans, it is about whether it has the conviction to do what is necessary to remain in touch with them.

2 RATE REQUEST

20. MPI applies to the PUB pursuant to Section 25(1) of *The Crown Corporations Governance and Accountability Act,* C.C.S.M. c. C336, for an overall rate decrease of 0.1%.[13]

21. This request is comprised of a 0.1% decrease in the break-even cost of vehicle premiums for its universal compulsory automobile insurance line of business (Basic), calculated in accordance with Accepted Actuarial Practice (AAP) and based on interest rates as of August 31, 2022.

22. This rate request no longer includes the 5% capital release previously approved by the PUB in Order 146/20 and extended in Order 1/21.

23. Khurram Masud, Director of Pricing for MPI, testified that this 0.1% overall rate decrease results from a required rate increase of 0.6% over existing rates (influenced by claims costs, new money yield, operating expenses, commission, driver premiums and other expenses) less a concurrent decrease of 0.7% due to natural upgrades (e.g., composition and aging of the fleet).[14]

24. This rate represents an update to the provisional rate indication MPI included with its GRA on July 12, 2022 (0.9% decrease), which MPI based on the interest rate forecast

[12] 2023 GRA Transcript, Oct 19, 2022, p. 184, lines 6-11;
[13] MPI Exhibit 50;
[14] 2023 GRA Transcript, Oct 21, 2022, p. 650-651, lines 24-25 and 1-20 (see also MPI Exhibit 59, Slide 17);

as of March 31, 2022. Khurram testified that MPI updated the provisional rate indication to factor in updates to the claims forecast, inflation assumptions, interest rates, expenses and to the definition for internal loss adjustment expenses (ILAE).[15]

25. MPI does not seek any changes to miscellaneous permits and certificates, driver premiums, service and transaction fees pertaining to Basic or any fleet rebates or surcharges.[16]

26. In its legal application, MPI sought the approval by the PUB of the continued use of its existing Capital Management Plan (CMP), albeit without a capital release provision.[17] MPI coupled this with a request that the PUB consider and approve a new CMP for future use. This new CMP replaces the capital build and release methodology with a capital rebate methodology. However, as MPI explained at the time, its ability to implement a new CMP incorporating a rebate was precluded by the *Reserves Regulation*, Man. Reg. 76/2019 (Reserves Reg). MPI further noted that it would require legislative amendments to incorporate its proposed new CMP.

27. On October 31, 2022, the Government of Manitoba (Government) passed Bill 45, *The Budget Implementation and Tax Statutes Amendment Act, 2022* (BITSA), Sections 56-58 of which repeal the Reserves Reg and amend the operative aspects of Section 18 *The Manitoba Public Insurance Corporation Act*, C.C.S.M. P215 (MPICA) to permit the payment of a rebate from the Rate Stabilization Reserve (RSR) maintained by MPI for Basic (provided that certain criteria are met). BITSA received royal assent on November 3, 2022, which means that MPI can request, and the PUB can approve its proposed new CMP.

28. MPI therefore amends its Legal Application to comply with the new legislation, and hereby respectfully requests that the PUB approve its proposed new CMP (and not extend the existing CMP for another year). In Section 5 below, MPI details its

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[15] 2023 GRA Transcript, Oct 21, 2022, p. 649-650, lines 22-25 and 1-23 (see also MPI Exhibit 59, Slide 16);
[16] 2023 GRA, Part I, p. 3 (eBook p. 7);
[17] 2023 GRA, Part I, p. 4 (eBook p. 8);

proposed new CMP, explains how it aligns with the BITSA amendments to the MPICA and why the PUB should approve its use going forward.

29. The relief sought by MPI in its Legal Application also includes the addition of another merit level to the Driver Safety Rating (DSR) scale, addressed more fully in the DSR section below.

30. Slide 18 of the Ratemaking and Claims Forecasting Presentation[18] outlines the distribution of the 0.1% overall required rate decrease on the different major classes, based on a static view of the fleet as it was on November 1, 2021.[19]

31. The result is that the majority of all vehicles in the fleet (53.73% or 660,736 vehicles) will experience either no change in their rates or an actual decrease in rates.[20] Of those who will experience an increase in rates, the majority (56.71% or 322,670 vehicles) will experience an increase of 5% or less.[21] Additionally, as Khurram noted in his evidence, these figures do not reflect the expected movement in the Driver Safety Rating (DSR) scale.[22] In other words, the actual amount that individual ratepayers can expect to pay next year will be different depending on where they end up on the DSR scale.

32. The Pub heard that removing the 5% ($57.9m) capital release provision extended by the PUB in the 2022 GRA would effectively add 5.54% to premium amounts payable by ratepayers.[23] Although technically not an increase in premiums, the effect of removing a discount is essentially the same. In his testimony to the PUB, Eric Herbelin noted that MPI unsuccessfully advocated for the removal of the 5% capital release in the 2022 GRA, stating:

> *"…I think we provided certainly the indication that this capital release provision is not sustainable because it's*

[18] MPI Exhibit 59;
[19] 2023 GRA Transcript, Oct 21, 2022, p. 651, lines 21-25;
[20] MPI Exhibit 58, p. 60 (Fig. RM-20);
[21] MPI Exhibit 58, p. 60 (Fig. RM-20) (46.27% of total vehicles will experience a rate increase, 26.24% will experience a rate increase of 5% or less, this is equal to 56.71% of all vehicles that will experience an increase);
[22] 2023 GRA Transcript, Oct 21, 2022, p. 711, lines 8-13;
[23] 2023 GRA Transcript, Oct 21, 2022, p. 714-715, lines 25 and 1-7;

> *not built in the rate; it's simply returning capital. It would have to be removed at some point in time, and that may be the timing of which was a good timing last year.*
>
> *The effects will be felt differently if this capital release provision is removed this year, but eventually it will have to be removed at some point as it is basically eating capital and it is not building a sustainable rate.*[24]

33. The reality is that, given its impact, removing a capital release will never be a popular move. Timing is essential. And although MPI would have preferred to have dealt with this issue last year, it continues to believe that now is an opportune time to do so. Further, in Section 5 below, MPI explains how the amendments to the MPICA resulting from the enactment of BITSA effectively preclude further capital releases. In other words, capital is to be retained for specific purposes and only returned to ratepayers by a defined process (that no longer includes a capital release provision).

3 RATEMAKING AND FORECASTING OF CLAIMS

34. The PUB heard from Cara Low, Vice President, Chief Actuary & Chief Risk Officer for the first time this year. Cara Low testified that she started with MPI in September 2021. Accompanying Cara were actuaries Cherity Ostapowich, Director, Valuation & Capital Management, who joined MPI in January 2022 and Khurram Masud, Director, Pricing, who joined in August 2022. In addition to Ms. Ostapowich and Mr. Masud, MPI added a fourth actuary to its complement in Christine Zhou, Director of Business Insights & Analytics, who joined MPI in September 2022. Cara provided the following explanation for the need of MPI for these different actuarial functions:

> *"So business insights and analytics is a new team that Christine is heading up. So it just was started last month. The primary focus of this team will be mainly claim forecasting and insights.*

[24] 2023 GRA Transcript, Oct 19, 2022, p. 256, lines 3-17;

This will mean that you will see more sophisticated trend analysis and (INDISCERNIBLE) measures over the next couple of GRAs.

In addition, Christine's team will be spending time on ensuring that the executive team and the Board of Directors have better insight into what's going on in the business, so we can move to a data-driven entity -- data-driven decision-making entity.

As we move on to the pricing slide, Khurram is new to MPI, but this function, obviously, is not new.

Khurram will continue to focus on the rate adequacy of all three (3) lines of business. So this is the Basic line of business, the Extension line of business, and the Special Risk Extension line of business. As well as enhancing the risk classification, especially the implementation of generalized linear modelling.

Khurram works very closely with the customer value proposition team on such projects as the Driver Safety Rating, fleet rating, and Vehicle for Hire.

Many of these projects have been very slow on being implemented because the actuarial team did not have the resources to support the products team.

And then on to valuation and capital management. Cherity is leading this team. This function has always existed. It's a core function of any insurance company. But we're adding additional senior leadership role. This will provide actuarial oversight in order to mature and expand the function.

This team works with the external appointed actuary to ensure the accuracy of the financial statements in regards to the unpaid claims liability.

It also prepares and stress tests the five (5) year financial forecast through the financial condition test.

> *And this team also manages the Capital Management Plan, so the Rate Stabilization Reserve, and our re-insurance program."*[25]

35. With this new team, the PUB can expect more from MPI in terms of its data, pricing, modeling, reporting and oversight.[26]

36. The PUB heard that while MPI continues to utilize the Minimum Bias Procedure as its current rating methodology, it intends to move towards the use of Generalized Linear Modelling (GLM), with the expectation that vehicles within the private passenger major class would transition to rates determined via the use of GLM in the 2025 GRA and the remaining major classes in the 2026 GRA.[27]

37. Please see the Investments section (Section 8) below for a detailed explanation as to why MPI chose to use the duration of premium liabilities (i.e., 2 years) instead of the duration for the unpaid claims reserve (i.e., 10 years) to calculate the new money yield.

38. On cross-examination, counsel for the Coalition of Manitoba Motorcycle Groups (CMMG) questioned MPI on its use of the Canadian Loss Experience Automobile Rating (CLEAR) rating system for passenger vehicles and light trucks. For more information on the use by MPI of the CLEAR rating system, please see page 9 of the Ratemaking Chapter of the 2023 GRA (Part VI). MPI confirmed that the CLEAR rating system does not account for third party injury claims. When asked why MPI does not have a rating group that is specifically designated for third party injury claims, Cara Low testified that it is an impossible task and that she has never heard of a fair rating group for third party bodily injury.[28]

39. Another issue canvassed this year was the issue of serious loss loading and whether the current methodology or an alternative methodology arising from Directive 11.03 PUB Order 134/21 is more appropriate for the purpose of rate setting. MPI takes the

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[25] 2023 GRA Transcript, Oct 21, 2022, pp. 640-642, lines 16-25,1-25 and 1-10;
[26] 2023 GRA Transcript, Oct 21, 2022, pp. 642-643, lines 11-25,1-14;
[27] MPI Exhibit 59, Slide 12;
[28] 2023 GRA Transcript, Oct 21, 2022, p. 835, lines 3-12;

position in this GRA that the PUB should continue to approve the use of the current methodology over the alternative methodology. As noted in its response to information request TC (MPI) 2-9, using the alternative methodology would significantly increase the indicated rate for the private passenger vehicle for hire group in Territory 1.[29]

40. MPI also confirmed that it had no current plans to group private passenger vehicle for hire with delivery.[30]

41. As it pertains to the credibility weighting for classification groups prone to serious losses, MPI confirmed that it is considering a review of its methodology for future GRAs.[31]

42. On the topic of claims forecasting, MPI notes that, in his opening remarks, counsel for the Consumers' Association of Canada (Manitoba Branch) (CAC) said:

> *"In terms of reasonableness of forecasts, the primary focus of our client in this hearing will be Manitoba Public Insurance's modelling of claims costs. And as our nationally recognized independent experts have identified, an approach by Manitoba Public Insurance to forecasting claims costs that really is out of step with standard Canadian practice and really displays limited statistical modelling of claims costs. And obviously that will be the focus of our independent expert's evidence when they present it on or about November the 3rd, and that is the -- an important issue in terms of the reasonableness of forecasting."*[32]

43. However, during the course of his testimony, Rajesh Sahasrabuddhe from Oliver Wyman, whom the CAC presented as their expert witness, never once indicated that MPI was making use of unreasonable forecasting methodology. Indeed, while some criticism was directed at MPI for making use of a linear model as opposed to a log-

[29] See also PUB (MPI) 1-8 for the disadvantages of the alternative methodology;
[30] 2023 GRA Transcript, Oct 21, 2022, p. 1122, lines 1-5;
[31] 2023 GRA Transcript, Oct 21, 2022, p. 747-748, lines 25, 1-2;
[32] 2023 GRA Transcript, Oct 19, 2022, pp. 118-119, lines 23-25, 1-10;

linear model, Rajesh Sahasrabuddhe testified that his *"eye test"* was the most important test performed on the reasonableness of the modeling conducted by his firm and stated:

> *"And, you know, we talk a lot about statistics and we talk -- but -- but I'll tell you, we -- we probably rely on the 'I' test more than we rely on anything else at the end of the day."*[33]

44. Of note, Oliver Wyman took aim at only eight (8) of forty (40) of the MPI methodologies used to forecast the frequency and severity of its coverages and perils. For the purpose of this argument, MPI will first raise as an issue whether Oliver Wyman can be said to be fair, objective and non-partisan, a standard that must be met if the expert evidence is to be given any weight by the PUB. MPI will then discuss whether the recommendations made by Oliver Wyman support an argument that some of the claims forecasting methodologies employed by MPI are unreasonable.

45. To begin, Rajesh Sahasrabuddhe testified that for all eight perils in which a different forecast was proposed, each of them, if followed, would result in lower forecasts and MPI requiring less revenue from its customers. None of the Oliver Wyman eight, as compared against the MPI forecast for the same peril, would result in an overstatement of the revenue required to cover the anticipated claims.

46. More importantly, Rajesh Sahasrabuddhe admitted that, of the remaining 32 coverages and perils, some that were modeled showed MPI understating its revenue requirement. However, because he did not believe the understatement to be material, he did not include his own forecasts for those perils in his report. The result of this means that only coverages and perils that lower the rate indication are included for the consideration of the PUB, even though some MPI forecasts were perhaps too low, according to Oliver Wyman.

47. In his report from last year, Rajesh Sahasrabuddhe asserted that if the p-value were greater than 5%, a statistically significant trend could not be discerned. Accordingly,

[33] 2023 GRA Transcript, Nov 3, 2022, p. 2359, lines 1-5;

Oliver Wyman selected a zero trend for each coverage that had a p-value of greater than 5%. However, Oliver Wyman departed from this approach in its current report, making use of models that would lower the frequency for Weekly Indemnity and severity for Property Damage (Third Party Deductible Transfer) notwithstanding p-values of 8% and 29% respectively. In other words, Oliver Wyman recommends that MPI collect less revenue even though the results of its forecast modelling for this peril are statistically insignificant.

48. The PUB should also carefully consider the reliability of the modeling used by Oliver Wyman. A comparison was made against the pure premium trends used in his report last year for both Collision and Comprehensive. While Rajesh Sahasrabuddhe was not certain that comparing his forecast against the actual trends from his evidence from last year was appropriate (without explaining his reasons), he admitted that the pure premium trends in his report from last year were included without a good understanding of how MPI calculates its pure premium trends:

> *"So, where it reads there, sir, in the first bullet, and there again it's referenced, the five hundred and fifty-five dollars and thirty cents ($555.30): "A visual inspection of the top right panel indicates that the projected pure premium of that amount is unreasonable given the pure premium history for collision."*
>
> *Do you see that?*
>
> *MR. RAJESH SAHASRABUDDHE: Yes. Yes.*
>
> *MR. STEVE SCARFONE: So, that isn't in reference to MPIC?*
>
> *MR. RAJESH SAHASRABUDDHE: It's not in -- or it's -- again, we made -- we didn't have a complete understanding or a good understanding of MPI's modelling approach last year, and it is not in reference to the development of the MPI. I'm sorry, as written, it -- it – and when we wrote it, we thought it -- we -- we thought we were assuming to the -- referring to the*

> *overall ratemaking process. It's in a chapter of the GRA called 'Ratemaking'.*
>
> *MR. STEVE SCARFONE: Yes.*
>
> *MR. RAJESH SAHASRABUDDHE: But it's actually not -- which is, you know, part of what (INDISCERNIBLE). I mean, we look for ratemaking, we saw a ratemaking chapter, and we sort of ran with it. But -- but over -- over time, we sort of have come to recognize that -- that that ratemaking chapter is essentially a classification chapter – classification analysis chapter, it is not a development of the overall rate level. The development of the overall provision for loss is in the claims incurred section."*[34]

49. The pure premium trends from last year are summarized as follows (as against the actual trend from the evidence from this year):[35]

	MPI	Oliver Wyman	Actual
Collision	MPI was actually forecasting a pure premium trend of $387.12. Oliver Wyman suggested MPI was using a $555.30 forecast.	Oliver Wyman suggested instead that $484.15 forecast be used.	The actual pure premium trend from this year's evidence was $444.44.
Comprehensive	MPI was actually forecasting a pure premium trend of $80.19. Oliver Wyman suggested MPI was using a $112.75 forecast.	Oliver Wyman suggested instead that $102.64 forecast be used.	The actual pure premium trend from this year's evidence was $83.39.

50. Again, the Oliver Wyman numbers from last GRA had as too high what they mistakenly thought was MPI's forecast, so they recommended something lower. Had they understood the modelling employed by MPI, Oliver Wyman may have recognized

[34] 2023 GRA Transcript, Nov 3, 2022, pp. 2377-2378, lines 2-25, 1-10;
[35] MPI Exhibits 15 and 109;

that MPI was understating its revenue requirements for both Collision and Comprehensive.

51. In this GRA, PUB counsel questioned Rajesh Sahasrabuddhe about two coverages in particular (i.e., Collision Total Loss and Comprehensive Hail), in part because they have "the greatest potential impact on the current rate indication."[36]

52. Board counsel questioned Mr. Sahasrabuddhe about two coverages in particular, Collision Total Loss and Comprehensive Hail, in part because they have "the greatest potential impact on the current rate indication" (transcript page 2441).

53. For Collision Total Loss, PUB counsel pointed out that the Oliver Wyman estimate for 2023/24 was the same as the actual data in 2021/22 (i.e., no increase and about 12 – 14% lower than the MPI forecast). Concerning Comprehensive Hail (Total Loss – Frequency), the difference in estimates was even more dramatic (i.e., approximately $2.7M in both years), amounting to a 40% reduction:

> *"MS. KARA MOORE: Sure. So, my question was: MPI selected the average counts observed over the last ten (10) years which essentially implied a negative trend equal to the volume growth factor?*
>
> *MR. RAJESH SAHASRABUDDHE: Yes, I'd agree with that.*
>
> *MS. KARA MOORE: You maintain the position that a model that selects a frequency that's over 40 percent lower than the average observed claims frequency over the last ten (10) years is most appropriate?*
>
> *MR. RAJESH SAHASRABUDDHE: (INDISCERNIBLE) parse -- parse your question in my mind. So, again, this is an estimation exercise. There's -- there's -- the -- the approach that was suggested about this taking of this ten (10) year average, there's -- there's certain underlying assumptions in that approach about normality and consistency and not having -- not having*

[36] 2023 GRA Transcript, Nov 3, 2022, p. 2441, lines 11-13;

residuals in the same direction. And all of that stuff is generally not true with data as I look at it. Though -- so, that's the basis on which I would suggest that our estimate is -- is reasonable."[37]

54. MPI submits that such an estimate is not reasonable. The PUB cannot risk adopting such a forecast that will almost certainly mean a gross understatement of revenue required for these important coverages.

55. Counsel for the PUB also put the reasonableness of the Oliver Wyman estimates to Cara Low, who testified as follows: The reasonableness of the Oliver Wyman estimates was put to the Chief Actuary of MPI by Board counsel:

"MS. KATHLEEN MCCANDLESS: Does MPI have any views on the reasonableness of Oliver Wyman's alternate trend model?

MS. CARA LOW: Sorry. Yeah, we're well aware of the Oliver Wyman study. There is different ways of doing trend analysis. Where there's disconnect we feel is in understanding the business. So at MPI, we do talk to our claims team. We know that there's issues with total losses. People are not able to buy new cars, and so therefore they're negotiating to keep their current vehicles. There are supply issues. Prices are skyrocketing. So if anything, we think the total loss severity claim is understated at this point, and so we are selecting trends for the ratemaking years, so the rating year. And, yes, it is going to be volatile, but we think it's applicable, if not understated, trend needed for the appropriate rating year."[38]

56. Indeed, by virtue of being an American consulting firm, there are several examples of Oliver Wyman not understanding the unique operations of MPI. One example, from last year, as admitted by Rajesh Sahasrabuddhe, was failing to discount claims costs for the impact of the recent product changes under the Compulsory Extension Review

[37] 2023 GRA Transcript, Nov 3, 2022, pp. 2462-2463, lines 12-25, 1-13;

[38] 2023 GRA Transcript, Oct 21, 2022, pp. 741-742, lines 22-25, 1-17;

Project (CERP). Indeed, there is a tacit admission by Oliver Wyman to the comment above by Cara Low about the importance of understanding the business of MPI – specifically, the last slide of the Oliver Wyman presentation, which contains an acknowledgment that 'Company Insights' are valuable. These insights, MPI submits, are absent from what Rajesh Sahasrabuddhe claimed were more reasonable forecasts.

4 EXPENSES AND IFRS 17/9 ADOPTION

57. In the 2022 GRA, MPI projected its claims expenses for the Basic line of business to be $149.5M for the fiscal year 2022/23 and its operating expenses for Basic for that fiscal year to be $76.1M.[39]

58. This year, the PUB heard that, MPI is now forecasting its claims expenses for Basic to be $151.5M and its operating expenses for Basic to be $89.5M in the fiscal year 2022/23.[40]

59. In the case of Basic claims expenses, the difference between the projected/budgeted spend from the 2022 GRA to the 2023 GRA is approximately $2M (or a 1% difference). In the case of Basic operating expenses, the difference between the projected/budgeted spend is approximately $13.4M (or a 15% difference).

60. Salaries and benefits are the most significant component of the operating expenses of Basic. In the 2022 GRA, MPI budgeted approximately $135.0M for Basic total compensation for the 2022/23 fiscal year.[41] In the 2023 GRA, the PUB heard that the forecast budget for the 2022/23 fiscal year for Basic total compensation increased by $7.9M to approximately $142.9M.[42]

61. In the 2022 GRA, the PUB heard that MPI expected to increase its normal operations staffing levels to 1,939.0 FTEs for the 2021/22 fiscal year and noted that staffing

[39] PUB Order 134/21, p. 98;

[40] MPI Exhibit 50, p. 13;
[41] PUB Order 134/21, p. 99 (see also 2022 GRA, Fig. EXP App 2-1);
[42] MPI Exhibit 96, Undertaking 15, p. 11;

levels for normal operations were consistently below budgets by as much as 109.8 FTEs.[43]

62. In this GRA, the PUB heard that the actual FTE count for normal operations for the 2021/22 fiscal year was 1,815.3, or 123.7 FTEs less than anticipated. The PUB also heard that, at the time of the filing of the 2023 GRA in July, MPI had forecast budgeted 1,986.2 FTEs for normal operations[44] but had increased it by 9.1 FTEs to 1,995.3 FTEs following its October Update.[45]

63. First introduced at the oral hearing, the PUB heard about a budgeted increase in FTEs in the amount of 283 FTEs. This number refers to the difference between the 2022/23 forecasted budget FTEs for normal operations (i.e., 1,986), and the 2023/24 forecasted budget FTEs for normal operations (i.e., 2,269) from Slide 14 of the Expenses and IFRS Presentation.[46] In other words, MPI plans to increase the number of normal operations FTEs by 283 by the fiscal year 2023/24, assuming of course that it reaches 1,986 FTEs by the fiscal year 2022/23.

64. In terms of current FTE numbers, the most recent information available is from June 30, 2022, which indicates a total corporate staffing level of 1,959.7.[47] Although this appears close to the goal of 1,986 FTEs for the 2022/23 fiscal year, it must be remembered that this figure includes Specialty Programs and Improvement Initiatives staff, which typically include more than 60 FTEs. Coupled with a history of maintaining staffing levels that are consistently below budgets and a hot labour market, MPI submits that there exists a real possibility that it will be unable to achieve this target.

65. Regardless of whether MPI can attract and retain talent in sufficient numbers to get it to the desired number of 2,269 by the next fiscal year, the issue for the PUB is whether this admittedly significant increase is reasonable. MPI submits that the evidence overwhelmingly supports that it is.

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[43] PUB Order 134/21, pp. 99-100;
[44] 2023 GRA, Part V, Appendix 11, p. 1 (eBook p. 1209);
[45] MPI Exhibit 110, p. 1;
[46] MPI Exhibit 55;
[47] 2023 GRA, PUB (MPI) 1-52;

66. The PUB heard that the change in the budget for FTEs (i.e., the additional 283 FTEs) would increase the Budget by approximately $36M.[48]

67. Mark Giesbrecht explained the need for these additional 283 FTEs, by highlighting the two major concerns that they address: NOVA enablement and customer service level deficiencies.[49]

68. The NOVA section below (Section 6) reviews the evidence submitted to the PUB this year regarding the current state of the project and the need to fill identified capability and capacity gaps to ensure that NOVA will ultimately deliver on its objectives. However, the PUB heard that, of the 283 FTEs requested, 52 pertain to NOVA.[50] In the case of 30 new IT FTEs, the PUB heard that MPI had previously budgeted these roles to be completed by consultants, meaning the impact of these new FTEs on overall expenses should be neutral or lower notwithstanding the increase.[51]

69. Mark Giesbrecht also testified that MPI will deploy approximately 93 of the 283 additional FTEs to address wait times and improve the customer experience.[52]

70. Finally, the remaining increase of 138 FTEs will be in critical capability areas such as Actuarial, Finance and Human Resources.[53] Please see the Ratemaking section (Section 3) above for an overview of the additional value that the PUB can expect from the new actuarial team.

71. Of course, not all of the new 283 FTE positions will be permanent. Approximately 34 will be term or "bubble staff."[54] For normal operations, the evidence is that MPI views its steady state staffing level to be 2,174.6 FTEs for the 2023/24 fiscal year, which

[48] 2023 GRA Transcript, Oct 21, 2022, p. 415, lines 1-10;
[49] 2023 GRA Transcript, Oct 21, 2022, p. 348, lines 14-18;
[50] MPI Exhibit 55, Slide 15;
[51] 2023 GRA Transcript, Oct 21, 2022, p. 356-357, lines 23-25, 1-6;
[52] 2023 GRA Transcript, Oct 21, 2022, p. 357, lines 13-18;
[53] 2023 GRA Transcript, Oct 21, 2022, p. 358, lines 5-10;
[54] MPI Exhibit 55, Slide 14;

number MPI expects will decrease to 2,137.6 by the fiscal year 2025/26.[55] If accurate, this would mean a 131.4 decrease in FTE by that fiscal year.

72. Mark Giesbrecht testified that MPI will experience an increase in its operating expense ratio in the short term, but expects the increase to be temporary:

> *"…if you look at our -- the expense ratio in that trajectory, so we are seeing a blip up as we are incurring these costs as we're investing in the Corporation.*
>
> *And then, as all these costs run off, we will then be in a better place in terms of having the technology, having these gaps and these – these capability shored up, but then recognizing the benefits long-term to then bring back that ratio in terms of having more efficiencies that are reflected in our revenues as opposed to our expenses.*
>
> *MR. STEVE SCARFONE: I see. So, the - the Corporation expects to then settle back into its more traditional number as it concerns FTE counts?*
>
> *MR. MARK GIESBRECHT: Yes. Yes. There are -- there are -- within the business case of NOVA, there are -- are some savings, obviously, it's not all costs. There are -- there are benefits. And we know that there is -- there's changes to the business case.*
>
> *But nonetheless, there are benefits, there are efficiencies that will be gained through the - through the program."*[56]

73. The PUB also heard that MPI is forecasting an increase in external consultants for the purposes of delivering NOVA. While the NOVA section below (Section 6) addresses the need for consultants, the available evidence shows that MPI retained 64 consultants for Improvement Initiatives in the 2021/22 fiscal year and plans to increase that

[55] MPI Exhibit 89, Undertaking 5;
[56] 2023 GRA Transcript, Oct 20, 2022, p. 369, lines 2-24;

number by 43 to 107 by this fiscal year and by 2 more to 109 in the next fiscal year.[57] Michael Gandhi, Corporate Controller for MPI, explained that MPI requires additional consultants for both Improvement Initiatives as well as for NOVA (as the project ramps up), with the expectation that the numbers will come down as those initiatives are completed.[58]

74. Another component to Basic operating expenses is the cost of data processing, which represents the costs associated with the maintenance and licensing of computer hardware, software and system applications.[59] The PUB heard that Basic total data processing costs were $38.6M in the 2021/22 and forecasted to grow by approximately $11.7M to $50.3M in the 2023/23 fiscal year.[60] Michael Gandhi explained that the increase in data processing costs is largely the result of NOVA:

> *"The major rationale around the increase is NOVA subscription costs. Historically we would have seen these costs capitalized and deferred over five (5) years.*
>
> *Now we see significant costs in terms of Cloud and license fees to service DVA, PNC functions overall; that's the major driver. We also have capability increases that we need to have overall.*
>
> *As you know, a lot of these system implementations that occur in -- occurrence -- in the -- in the market that we're in, they do have a significant cost attached to it. So, those are the primary drivers that are increasing the data processing as Mr. Giesbrecht has also highlighted.*
>
> *We also see them flowing into normal operation expenses, as they're no longer capitalized. So, there's two (2) pressure fold on that expense line."*[61]

75. During the oral hearing, PUB counsel questioned the rationale for not amortizing the NOVA-related expenses. The question and the response have both an accounting and

[57] 2023 GRA, Part V, Appendix 10, Fig. EXP App. 19-7, p. 13 (eBook p. 1249);
[58] 2023 GRA Transcript, Oct 20, 2022, pp. 420-422, lines 17-25, 1-25 and 1-19;
[59] 2023 GRA, Part V, p. 27 (eBook p. 1117);
[60] MPI Exhibit 96, Undertaking 15, p. 11;
[61] 2023 GRA Transcript, Oct 21, 2022, p. 379-380, lines 21-25, 1-14;

a ratemaking aspect to it. MPI submits that it is bound by IFRS Standards (IAS 38), and that this accounting methodology prevents MPI from completely deferring the total costs of NOVA. On the ratemaking side, the question is whether MPI can remove or "smooth" large one-time costs to ensure rate stability. MPI expressed concern that it may not be able to do so and still price for no net income in a given year (i.e., it may require pricing for profit at some point). However, MPI is prepared to consider this issue further and provide a more detailed response in the next GRA.

76. The PUB also heard that MPI is not capitalizing lean project management costs. In particular, Michael Gandhi explained that:

> *"The lien project management costs function in an AGILE environment and that is the best practices in doing overall projects.*
>
> *Those costs and projects are -- a lot of those are SAS (phonetic) based, Cloud infrastructure. IAS 38 requires you to have control over an asset to capitalize it.*
>
> *We do not have control, as those are not on our servers, they sit in servers out across the world and IAS 38 specifically breaks those pieces out as saying, if you do not have control over that infrastructure, you cannot capitalize those costs."*[62]

77. The PUB reviewed expenses relating to Broker commissions this year on account of confirmation by MPI that the delivery of NOVA will require an additional 20 months. The PUB heard that the current agreement between MPI and the Insurance Brokers of Manitoba (IBAM), effective from April 2021 to March 2026, will be renegotiated to account for this delay. For the 2023/24 fiscal year, this amounts to a $5.6M increase in Broker commissions, primarily driven by the change in the adoption rate of online transactions and the increase in the premium base.[63] The PUB heard that MPI is currently renegotiating its agreement with IBAM.[64] And this is important because, as

[62] 2023 GRA Transcript, Oct 20, 2022, pp. 380-381, lines 18-25, 1-4;
[63] 2023 GRA Transcript, Oct 20, 2022, pp. 428-429, lines 10-25, 1-23;
[64] 2023 GRA Transcript, Oct 20, 2022, p. 430, lines 11-13;

counsel for IBAM pointed out in cross-examination, the Broker commission amounts for 2023/24 do not contemplate any negotiated revisions and are not set in stone.[65]

78. In terms of positive developments, the PUB heard that MPI completed its initial phase of its Cityplace Space Plan. Specifically, Eric Herbelin testified that:

> *"…We now have a wonderfully, welcoming location from which many of our employees can work from. This allows MPI to provide the flexibility and collaboration space they need to perform.*
>
> *The new work space allows us to reduce our overall footprint at City Place and be more cost efficient."*[66]

79. Indeed, in combination with the introduction of a flexible work arrangement with its employees, MPI expects that it was able to reduce its overall project costs for the Cityplace Space Plan while increasing the revenue generated by this property.[67]

80. MPI acknowledges that Manitobans are increasingly feeling financial pressure resulting from rising inflation, interest rates and economic uncertainty. The criticism that MPI should be tightening its proverbial belt (like many Manitobans), must be considered in the appropriate context. Some of these additional budgeted expenses are required to attract and retain talent so that MPI can continue to provide key services to Manitobans in the wake of the COVID-19 Pandemic. Other expenses are required to address historic underfunding in capabilities that MPI requires to deliver NOVA, an essential project.

81. Finally, the PUB must consider perspective. Slide 8 of the Oliver Wyman presentation[68] provides a helpful chart showing the forecast rating year expenditures per unit. As can be seen, the impact of claims and operating expenses pales in comparison to the impact of claims costs. And this makes sense as Mark Giesbrecht testified that,

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[65] 2023 GRA Transcript, Oct 20, 2022, p. 541, lines 5-25;
[66] 2023 GRA Transcript, Oct 19, 2022, p. 170, lines 16-25
[67] 2023 GRA, PUB (MPI) 1-59;
[68] CAC Exhibit 6;

notwithstanding the 11% anticipated increase expenses, MPI is still able to apply to the PUB for a 0.1% decrease in the overall rate indication.[69]

82. In addition to expenses, the PUB received further information regarding the transition by MPI to International Financial Reporting Standards (IFRS) 17 and 9, which address the accounting treatment and financial reporting requirements for insurance contracts (IFRS 17) and financial instruments (IFRS 9).

83. Specifically, March 31, 2024 will see MPI adopt IFRS 17 and IFRS 9. The objective of these standards is to increase consistency and comparability in financial reporting from one insurance organization to another.

84. These standards will have no material impact on the pricing methodologies MPI uses. Rate setting is based upon determining future expenses and the funds necessary to meet those expenses. Those expenses and funds do not change with how MPI calculates and presents its balance sheet.

85. To establish consistency and comparability in financial reporting, insurance companies are required to make several accounting policy decisions (based upon options provided by the IFRS Foundation) on how they will present various matters on a go forward basis. One of the key policy decisions MPI made (and that the PUB canvassed during the oral hearing) was its selection of Risk Adjustment over the current provision for adverse deviation (pfAD). MPI explained that it will use a Quantile method for Risk Adjustment calculations.[70] During the hearing, Cara Low explained that MPI selected the 90th percentile, which is close to the current pfAD method.[71]Cara Low also explained the benefits of the selection of the higher percentage as:

> *"All we're -- by doing a higher percentile, you're taking out a retained earnings and you're putting into the claims liabilities. Because it's saying that there is known*

[69] 2023 GRA Transcript, Oct 20, 2022, p. 367, lines 1-23 (see also p. 351, lined 6-12);
[70] 2022 GRA, PUB (MPI) 2-10, p. 6;
[71] 2023 GRA Transcript, Oct 20, 2022, pp. 474-475, lines 4-25, 1-8;

uncertainty in the claims liability. So these are the past claims.

And we want to ensure that we have enough money to pay for past claims. So we're ensuring that there's financial stability and, therefore, rate stability, so we don't have to go with a capital build.

MS. KATHLEEN MCCANDLESS: How does the risk adjustment increase the possibility of a capital build? You had mentioned you wouldn't want to have to go to a capital build.

So can you explain the impact of the risk adjustment percentile on the possibility of a capital build?

MS. CARA LOW: There will be less -- there's more certainty that there's enough money sitting in liabilities, so we won't have to dip into the RSR in order to cover past claims."[72]

86. MPI retained expert consultants, reviewed matters with its external auditor, external actuary, and Saskatchewan Government Insurance (SGI) and Insurance Corporation of British Columbia (ICBC) to develop policy position papers on which options it should adopt. These policy position papers were ultimately approved by the MPI Board of Directors; however, a number are still awaiting approval.

87. When insurers around the world implement these new reporting standards there will be a year of transition from the previous way the insurer presented its financial statements to the new standards. A consequence of the transition is that in the first year there will be changes to how the capital position of the insurer is presented. Depending on the various policy decisions made the capital position of the insurer will either increase or decrease. MPI does not believe it is prudent or reasonable to make its long-term policy decisions based upon the capital implications in the transition

[72] 2023 GRA Transcript, Oct 20, 2022, pp. 754-755, lines 24-25, 1-20;

year. MPI believes long term policy decisions should be based upon the long-term implications of those decisions.

5 CAPITAL RESERVES AND CAPITAL MANAGEMENT PLAN (CMP)

88. The financial strength and stability of MPI is largely a product of appropriate premiums based upon AAP and of it maintaining adequate capital reserves. The importance of appropriate premiums is discussed in the Ratemaking section (Section 3) above. However, based upon the questioning MPI witnesses received at the oral hearing this year, MPI is concerned that the importance of maintaining adequate capital reserves may not be fully appreciated.

89. In the past 6 months, MPI transferred $134 million from the RSR to its claims reserve to cover the increase liabilities related to Personal Injury Protection Plan (PIPP) indexation to the Consumer Price Index (CPI)[73]. As Cara stated, the transfer was limited to $134 million based upon the assumption that inflation will return to 2% within the next 3 years. And, if inflation remains higher than 2% for more than 3 years, MPI will require additional transfers to cover existing claims costs.

90. Having an adequate capital reserve is prudent fiscal management. Cara Low described the RSR as a "savings account." Without this savings account, MPI would have sought $134 million from ratepayers. This would represent an approximate 11% increase in rates, simply to cover inflationary costs of existing claims.

91. Now compare the magnitude of this transfer to the costs of NOVA, the largest transformational project in the history of MPI. The 2022 Re-Baseline Budget is $224 million (with an additional $33 to $66 million in contingency). As of March 31, 2022, MPI expended approximately $77 million of this budget[74] and, all else considered, expects to expend the remaining $212 million (inclusive of the contingency, if necessary) by fiscal year 2027/28 (with the payment of the final legacy decommissioning costs). In the case of the PIPP indexation transfer of $134 million,

[73] 2023 GRA Transcript, Nov 2, 2022, p. 2154, lines 14-21;
[74] Figure Nov-17, GRA Nova Chapter

MPI transferred two payments from the RSR within a 6-month period. This is to say that an unforeseen increase in inflation could have a greater immediate impact on rates than the costs of the largest transformational project in the history of MPI.

92. As previously indicated in the Rate Request section (Section 2) above, BITSA received Royal Assent on November 3, 2022. BITSA amends the MPICA in order to create certainty around the requirements and purposes of separate claims reserves and capital reserves. Reserve funds are for specified purposes and cannot be used for other purposes. The BITSA amendments to the MPICA establish the rules for the returning capital in the RSR to ratepayers.

93. MPI based its proposed CMP on the obligations set out in BITSA. As such, it is important to understand its impact.

94. The modern approach to statutory interpretation is that "…there is only one principle or approach, namely, the words of an Act are to be read in their entire context and in their grammatical and ordinary sense harmoniously with the scheme of the Act, the object of the Act, and the intention of Parliament."[75] In addition, this approach must be followed, with necessary modifications, when interpreting any accompanying regulations."[76] Finally, *The Interpretation Act,* C.C.S.M. c. I80*,* provides at Section 6 thereof that "[e]very Act and regulation must be interpreted as being remedial and must be given the fair, large and liberal interpretation that best ensures the attainment of its objects."

95. When applying the above principles of statutory interpretation to the BITSA amendments, MPI submits that it is important to compare and contrast the legislative landscape before and after their introduction.

[75] *Rizzo & Rizzo Shoes Ltd., Re,* [1998] 1 SCR 27 at para. 21;

[76] *Glykis c Hydro Quebec*, 2004 SCC 60 at para. 5;

96. The previous version of Section 18[77] of the MPICA mandated a general requirement that MPI establish and maintain reserves. BITSA repealed and replaced this version with subsections that require the establishment and maintenance of specific claims and capital reserves for each of the different MPI insurance lines.[78]

97. Subsection 18(3) of the MPICA requires the establishment of capital reserves for various lines of insurance.[79] The meaning of capital reserve is set in the definition Section of 18(1) and states:

> *"Definitions*
>
> *18(1) The following definitions apply in this section.*
>
> *"capital reserve" means a reserve for the purpose of enabling the corporation to satisfy unknown or unforeseen liabilities that may arise with respect to any line of insurance.*
>
> *"extension reserve" means the corporation's capital reserve for extension insurance.*
>
> *"line of insurance" means universal compulsory automobile insurance, extension insurance or special risk extension insurance.*
>
> *"MCT ratio" means the MCT ratio described in the Minimum Capital Test (MCT) Guideline issued by the Office of the Superintendent of Financial Institutions (Canada), as amended or replaced from time to time.*

[77] Prior version of Section 18(2) stated: "The corporation shall establish and maintain reserves in such amounts that, at all times, it has sufficient funds to meet all the payments as may become payable under this Act and regulations."

[78] Current version of Section 18(2) states: "The corporation must establish and maintain a reserve for each line of insurance sufficient to pay future claims-related expenses associated with incurred claims under that line of insurance."

[79] Section 18(3) states; "In addition to the reserves under subsection (2), the corporation must establish and maintain the following capital reserves: (a) a rate stabilization reserve, with a target MCT ratio of 100%; (b) an extension reserve, with a target MCT ratio of 200%; (c) a special risk extension reserve, with a target MCT ratio of 300%."

"rate stabilization reserve" means the corporation's capital reserve for universal compulsory automobile insurance.

"special risk extension reserve" means the corporation's capital reserve for special risk extension insurance.

98. MPI submits that these reserves are established for the specific purposes specified in Section 18 and that any funds held in those reserves can only be used for those specific purposes and no other (except as set out below). Read together, the definition of the terms "capital reserve" and "rate stabilization reserve" mean that the sole purpose of the RSR is to enable MPI to satisfy unknown or unforeseen liabilities that may arise with respect to its Basic line of business. By necessary implication, MPI cannot use funds within the RSR to reduce premiums by any other means, as doing so would be inconsistent with this stated purpose.

99. Subsection 18(4) creates a second limited permitted use of RSR funds (i.e., a rebate) and outlines when the funds can be used for that purpose:

"Rate stabilization reserve surplus

18(4) A rebate must not be paid from the rate stabilization reserve unless

the reserve's MCT ratio exceeds 120% at the beginning of a fiscal year;

the corporation applies to The Public Utilities Board for approval to the pay the rebate;

The Public Utilities Board approves the application; and

the rebate is not projected to reduce the reserve's MCT ratio to less than 100%."

100. Therefore, only if the MCT ratio of the RSR exceeds 120% at the beginning of the fiscal year can MPI apply to the PUB for leave to rebate funds from the RSR in an

amount that cannot exceed the amount that would be required to reduce the MCT ratio of the RSR 100%.

101. Section 3 of the Reserves Reg authorized the use funds in the RSR in excess of 100% MCT "only for the purpose of reducing the rate indication required for the plan of universal compulsory automobile insurance in a subsequent year." This provision authorized the use of RSR funds for what was commonly referred to as a "capital release." Section 58 of BITSA repealed Reserves Reg in its entirety.

102. Consequently, there is no longer any authority within the applicable legislative scheme to support the use of the RSR for the purposes of reducing the Basic rate indication. Further, doing so would be contrary to the purpose of the RSR as defined by the BITSA amendments.

103. As a result, MPI submits that the application of the principles of statutory interpretation invariably lead to the conclusion that, following the introduction of the BITSA amendments, a capital release is no longer an option available to the PUB to address the accumulation of capital in the RSR above the 100% MCT target.

104. A potential concern was raised that the BITSA amendments do not require MPI to automatically apply for a rebate when the MCT ratio of the RSR exceeds 120%. Given how quickly events impacting the RSR can occur (e. g., $134 million transfer for PIPP Indexation), MPI submits that it would not be prudent for MPI to automatically seek a rebate based upon a point in time snapshot of the RSR, without consideration of relevant factors that could weigh against such an application. There must always be a degree of discretion. One major criticism of the Reserves Reg was that it removed all discretion in terms of an application for a rebate.

105. Should the PUB be concerned about this discretion? MPI submits that its financial statements are transparent and reviewed annually by the PUB through the GRA process. The PUB and other stakeholders could criticize any decision by MPI not to apply for a rebate if unsupported. MPI submits that it is unrealistic to believe that it would refuse to apply for a rebate without any good reason.

106. As a general rule, MPI will not plan to maintain the balance of the RSR above 120% MCT. Once the RSR reaches this level, MPI will apply to the PUB for leave to issue rebates sufficient to bring the RSR back to its target level of 100% MCT. As indicated, MPI may not apply for a rebate only if it reasonably believes there to be a readily apparent threat to the RSR that, if realized, would reduce its MCT ratio below 100% if in the event that the PUB permitted a rebate of any amount to be issued.

107. MPI urges the PUB to recall how MPI approached the rebating of excess capital that resulted in the immediate aftermath of the Pandemic. Notwithstanding legal hurdles, MPI found a way to return excess capital to ratepayers. MPI remains committed to only holding the minimum capital necessary to achieve the aims of the RSR.

108. This, MPI submits, is consistent with its corporate vision statement to be the trusted auto insurance provider for every Manitoba.

109. The BITSA amendments also require MPI to take steps when the balance of the RSR is below the target MCT ratio of 100%:

> *"Rate stabilization reserve deficiency*
>
> *18(5) If the rate stabilization reserve's MCT ratio is less than, or is projected to be less than, its target MCT ratio at the beginning of a fiscal year, the corporation must ensure that its revenue from universal compulsory automobile insurance is sufficient to allow the reserve's target MCT ratio to be achieved within the five-year period beginning with that fiscal year."*

110. The CMP provides a cohesive plan to maintain adequate capital in the RSR by setting out clear rules around the releasing and rebuilding of capital.

111. On its own, the RSR grows or shrinks every year depending upon the nature of any unforeseen events. However, capital from the Extension capital reserve often exceeds

its own target MCT ratio of 200%. As such, MPI can use these funds to conduct its powers.[80]

112. Historically, MPI has only used those funds for two purposes – supporting the RSR or its DVA operations.[81] Under the proposed CMP, if the Extension capital reserves exceed 200% MCT at fiscal yearend, MPI will transfer those excess funds to the RSR. However, if MPI is otherwise required to use those excess funds elsewhere. MPI retains the option to use the funds for those purposes.

113. Currently, MPI is forecasting that it will transfer $52.8 million to the RSR at the end of the current fiscal year and $36.7 million and $41.4 million in the next two year-ends, respectively. As a result, if this forecast is ultimately accurate, MPI expects that it will apply to the PUB in 2026 for leave to rebate approximately $110 million from the RSR.[82]

114. On the other hand, if unforeseen liabilities occur (such as interest rate forecasting errors) and the RSR MCT ratio is below its target, the first source of revenue that MPI would look to achieve its target is the transfer of excess Extension capital reserves. If transfers from excess Extension capital reserves were not available or not sufficient to raise the RSR to its target ratio within 5 years, the CMP would require MPI to apply to the PUB for a capital build (surcharge).

115. Given the controversy that arose in the 2022 GRA around the transfer of excess capital from the Extension reserve to DVA, the PUB may question whether it should expect future transfers of that nature to occur. The short answer is that MPI is presently working with the Government of Manitoba on a solution but notes that it did

[80]Section 16 of the MPIC states: "All moneys required by this Act and the regulations, or any other Act or regulations, to be paid to the corporation and all premiums and other consideration payable for insurance provided by the corporation, and any other moneys that may become due and payable to the corporation by the regulations or otherwise shall be paid to the corporation, and may be retained by the corporation and shall be used and dealt with for no other purpose than to carry out the powers of the corporation in accordance with this Act and the regulations."
[81] 2023 GRA Transcript, Nov 2, 2022, p. 2141-2142, lines 24-25, lines 1-9;
[82] MPI Exhibit 92, Slide 14;

receive a direction from the Government to hold further transfers to DVA for the next two years.[83]

116. The past ten years have taught MPI about the importance of appropriate premiums based upon AAP and maintaining adequate capital reserves. The legislative scheme is based on appropriate premiums being collected in the first instance.

117. Most claims are short term and are paid by MPI from its cash accounts. The longer-term claims are paid from the claims reserve established to pay future claims-related expenses associated with incurred claims under Basic. The RSR is established to satisfy unknown or unforeseen liabilities that may arise with respect to Basic when funds set aside in the claims reserve are not sufficient.

118. In light of the above circumstances, MPI submits that the PUB should approve its proposed new CMP.

6 PROJECT NOVA

119. In its closing submission last year, MPI included the following quote by Eric Herbelin from the testimony delivered in his opening presentation in the 2022 GRA:

> *"…as I can tell today, which is new information that this Board does not necessarily have evidence on yet, but I want to be upfront and transparent so we don't have a discussion in a year from now, we will most likely experience delay in delivering NOVA, and with that, probably some deviations in terms of its overall costs."*[84]

120. Additionally, in the current GRA, the PUB was reminded that Shayon Mitra, Vice President and Chief Transformation Officer for MPI similarly testified in the 2022 GRA

[83] 2023 GRA Transcript, Nov 2, 2022, p. 2141-2142, lines 1-25, lines 1-25;
[84] 2022 GRA, MPI Exhibit 123, p. 20-21;

that he too had his reservations about the $128.5M NOVA budget (as it was then), given that MPI had yet to complete its due diligence.[85]

121. MPI ultimately explained in its 2022 GRA closing that what separates NOVA from earlier BI[3] or PDR projects was the ongoing commitment of MPI to being transparent, stating:

> *"NOVA represents a change in not only how MPI carries out the planning and implementation of its project, but also how it reports it progress, risks and obstacles to its stakeholders and is accountable for the results."*[86]

122. That MPI was open and transparent about the current state of NOVA and its own shortcomings was evident prior to and during the course of the 2023 GRA. In particular, the PUB received evidence before[87] and in the 2023 GRA that the MPI BoD approved a re-baseline of NOVA in February 2022 (2022 Re-baseline), the result of which:

a) flattened (extended) the project timeline by up to 20 months (i.e., from 40 in the 2022 GRA to 60 months[88]) with delivery of the final release (i.e., R4B) now scheduled for October 2025[89];

b) increased the overall budget by approximately $112.4M (i.e., from $111.7M reported in the 2022 GRA to $224.1M)[90];

c) increased the overall budget contingency by approximately $49M (i.e., from $16.8M in the 2022 GRA to $65.8M)[91]; and

[85] 2023 GRA Transcript, November 1, 2022, pp. 167-168, lines 1-25 and 1-4 [Confidential];
[86] 2022 GRA, MPI Exhibit 123, p. 21;
[87] MPI also provided this information to the PUB in a presentation delivered at the IT Summit on April 27, 2022;
[88] MPI Exhibit 85, Slide 5;
[89] 2023 GRA, Part IV, p.11, Fig NOV-4 (eBook p. 377);
[90] 2023 GRA, Part IV, p.25 (eBook p. 391);
[91] 2023 GRA, Part IV, p.12 (eBook p. 378);

d) decreased the net present value (NPV) of NOVA by $207.3M (i.e., from $18.4M in the 2022 GRA to -$188.9M).[92]

123. In addition to the update in costs, the PUB heard that MPI also updated its NOVA Cost Allocation Methodology, the result of which now allocates less than 20% of the total cost of NOVA to the Basic line of business.[93] To be clear, notwithstanding the increase in NOVA costs overall, the amount of the budget allocated to Basic is not increasing in proportion due to this change.[94]

124. The results of the 2022 Re-baseline are clearly not what MPI wanted them to be. In fact, Eric Herbelin testified in his opening presentation that NOVA should have been done differently:

> *"In all honesty, I think if we knew everything that we know today, at the time, we would have decided not to start NOVA. We would have decided to first build some of our critical capabilities in the business and in the technology area, before embarking on the program."*[95]

125. This is not to say that NOVA is unnecessary or incurable. Quite the contrary. The PUB heard from Eric Herbelin that NOVA is an absolute necessity for MPI:

> *"That is a question of survival. If we are failing at replacing the technology, the current technology is not going to be able to sustain the business."*[96]

126. The PUB will also recall that Keegan Iles, Partner at PricewaterhouseCoopers (PwC) and the lead consultant on for the NOVA Program Governance vendor also testified on

[92] 2023 GRA, Part IV, p.29 (eBook p. 395);

[93] 2023 GRA Transcript, Oct 31, 2022, pp. 1925-1926, lines 21-25, 1;

[94] 2023 GRA Transcript, Oct 20, 2022, p. 560, lines 8-15;

[95] 2023 GRA Transcript, Oct 19, 2022, p. 206, lines 6-11;

[96] 2023 GRA Transcript, Oct 19, 2022, p. 203, lines 10-15;

the topic of whether NOVA must be completed and is encouraged to review his thoughts on the matter.[97]

127. But why is it essential that MPI replace its core technology? The PUB heard that many of the essential software applications MPI uses for its business are approaching their "end of life". In his testimony to the PUB, Siddhartha Parti, Vice President and Chief Information & Technology Officer for MPI, defined the phrase "end of life" as follows:

> *"What it really means is that the support from vendors for particular technology, as an example, has ended or is about to end at whatever particular date.*
>
> *The skill set required to support those technologies are (INDISCERNIBLE). Training schools are not training people on those technologies anymore.*
>
> *We combine a bunch of those reasons, really, you know that there's an expiry date. And, at some point in the future, when those technologies will no longer be supported and -- and the risk can be managed for the Corporation."*[98]

128. Siddhartha Parti also reiterated the risk to MPI of not implementing NOVA, stating:

> *"Specifically, with regards to NOVA, I think Mr. Herbelin said the same thing as part of his cross and his part -- presentation, not implementing NOVA, seriously puts MPI to risk, from a business sustainability standpoint.*
>
> *The public insurance model that MPI provides to Manitobans, not bringing in the capabilities that NOVA is bringing into the core business change and transformation, it seriously hampers and risks the -- the MPI business model.*

[97] 2023 GRA Transcript, Nov 1, 2022, pp. 102-103, lines 20-25 and 1-8 [Confidential];
[98] 2023 GRA Transcript, Oct 31, 2022, pp. 1995-1996, line 25 and 1-11;

*Now, would we have done it, if it was a negative M --
MPV and if we had known? Absolutely.*

We have to because that's about a sustainability issue."

129. MPI appreciates that the costs of delivering NOVA have significantly increased from the original business case. However, if the original business case did not capture the true costs of the project, the concern is not that the costs of the project are spiraling out of control. Rather, the real concern is that the original business case, developed with the assistance of two respected external consulting firms, failed to adequately account for the complexity of the project, the capabilities of MPI and the considerable amount of discovery to be completed. The increased costs of NOVA, as estimated by the 2022 Re-baseline, are not a product of mismanagement. They are a more accurate reflection of what its costs should have been from the start.

130. As Alex Ramirez, Program Director, NOVA Program Delivery, testified, the initial business case was not a final business case and MPI did not expect to have a final business case until it has selected the products and system integrators that would be needed to begin delivery.[99]

131. This highlights the importance of the use of the value management and Agile delivery processes. Through them, MPI identified concerns at an early stage of the project and was able to take action to avoid potentially greater impacts.

132. The PUB heard further evidence from Keegan Iles about whether it is typical for projects similar in size and scale of NOVA to undergo multiple re-baselines and to significantly increase in budget as a result thereof.[100] MPI again encourages the PUB to review his evidence on this issue.

133. What were the issues that ultimately led to the $112.4M increase in the budget for NOVA (excluding contingency) in 2022?

[99] 2023 GRA Transcript, Oct 31, 2022, pp. 1815, lines 1-7;
[100] 2023 GRA Transcript, Nov 1, 2022, pp. 92-93, lines 21-25 and 1-25 [Confidential];

134. NOVA was initially conceived as a project to modernize the core legacy systems of MPI but evolved into a holistic business transformation aimed to address business continuity risks but also to provide modern self-service experiences for Manitobans.[101]

135. The objectives of NOVA are well known and have remained unchanged since its implementation.[102] MPI must address its technology risk, broaden and enhance its customer service options, protect unauthorized access to information, become more agile as a business and find new ways to save costs and improve efficiencies.[103]

136. However, the PUB heard from Eric Herbelin and Siddhartha Parti that as MPI began working through the planning and execution phases of NOVA, it quickly identified unforeseen issues:

From Eric Herbelin:

> *"…essentially, around the maturity levels of business capabilities, ability to define our business requirements, the lack of defined and commonly described or -- or documented processes, as well as all the technology enablers which I referred to as an analogy as the plum being in -- in the foundation of the land related to data management.*
>
> *As an example, bringing in new systems, and you don't even understand how you manage data.*
>
> *You don't have a data model and not data architecture, not even a data architect in the Corporation. It's a big challenge.*
>
> *Same goes when you purchase platforms that are operating in clouds and that the Corporation doesn't even have a cloud architect or a cloud expert in-house. It becomes a little bit difficult to have conversation as to*

[101] 2023 GRA, Part IV, NOV Appendix 12, p. 2 [Confidential];
[102] 2023 GRA, Information Request CAC (MPI) 1-27;
[103] MPI Exhibit 58, Slide 2;

> *how this technology's going to integrate in the broader ecosystem."*[104]

From Siddhartha Parti:

> *"So as we started with the implementation of the project, a number of capability gaps were encountered. Technology side, we had gaps around enterprise architecture. We had gaps around our cloud capabilities to bring our core business -- core ecosystem to the cloud, but we didn't have the peripheral ecosystem build around it to support it.*
>
> *There were data capabilities -- I did allude to it in my presentation last week as well.*
>
> *Our data maturity is quite low.*
>
> *And that's a very, very integral part - very important part of making NOVA a success or the program a success. Those capabilities were just weren't (INDISCERNIBLE) envisioned even.*
>
> *Then we had our very, very important cyber capability. Now we're moving our data from an on premise ecosystem to the cloud. Data of Manitoba is going to sit in the cloud.*
>
> *How do we structure the technology ecosystem from a cyber (INDISCERNIBLE) gap.*
>
> *Apart from that, there were other maturity gaps that were discovered in areas of our enterprise processes. We had -- document around business architecture around lean. You would want to lean out your processes before you start migrating into the new platforms.*

[104] 2023 GRA Transcript, Oct 19, 2022, pp. 186, lines 2-19;

So our Agile delivery mechanism is just such an important aspect of delivering any kind of software project in today's day and time.

And then, of course, we had our organizational change management, as well that should have thought about or thought through.

And overall, it was a number of gaps that were encountered that were discovered which contributes to where we are today…"[105]

137. On the advice of PwC, in 2021, MPI began an internal assessment of NOVA and engaged an external consultant to conduct a simultaneous diagnostic assessment.[106] MPI retained McKinsey to perform this service in September 2021.[107]

138. MPI explained that, through its own assessment of NOVA, it became evident that MPI would be unable to deliver NOVA within the original 40 month timeline. The timeline would need to be extended to 60 months. Costs of the project would increase and that MPI would need to significantly increase its capacity and capability levels within NOVA, within other critical business areas and with respect to its technology enablers.[108]

139. McKinsey completed its assessment over a five month period (October 2021 to January 2022) and validated MPI's internal assessment findings regarding the need to change the delivery timeline and increase the project budget but also identified opportunities to get NOVA back on track towards a successful completion.[109] Shayon Mitra also confirmed that the scope of NOVA did not expand as a result of the McKinsey assessment and recommendations.[110] MPI does acknowledge however that the assessment and recommendations made by McKinsey do add approximately $34.6M to the NOVA budget.[111]

[105] 2023 GRA Transcript, October 31, 2022, pp. 1777-11778, line 5-25 and 1-14;
[106] 2023 GRA Transcript, October 31, 2022, pp. 1779-1781, lines 21-25, 1-25 and 1-5;
[107] 2023 GRA Transcript, October 31, 2022, pp. 1858, lines 8-18;
[108] MPI Exhibit 58, Slide 5; (see also: 2023 GRA, Part IV, pp. 9-10);
[109] MPI Exhibit 58, Slide 7;
[110] 2023 GRA Transcript, October 31, 2022, pp. 1906, lines 2-18;
[111] 2023 GRA Transcript, October 31, 2022, pp. 11787, lines 3-19;

140. In or about March 2022[112], MPI engaged McKinsey a second time to support the de-risking and delivery of NOVA[113] for a period of six months with an option to renew for another six months.

141. An issue raised in this GRA is whether MPI appropriately decided to waive the requirement to tender the $2.2M[114] contract for services that it ultimately entered into with McKinsey for the internal assessment.

142. While issuing a request for proposals (RFP) is the preferred way for MPI to retain its service providers, the nature and urgency of the issues with NOVA meant that waiving the burden of an RFP was simply the most prudent course of action.[115] Further, the PUB heard evidence that, in addition to McKinsey, MPI also reached out to Ernst & Young[116] but believed that McKinsey was hands down the best candidate.[117] Finally, conflicts of interest precluded MPI from considering PwC and KPMG[118] and MPI had already consulted with Avasant and Deloitte in the preparation of the original business case.[119] Any criticism that MPI should have considered the possibility of an accelerated tender is also addressed by this fact. Simply put, MPI ultimately selected a top-tier consultant with extensive experience in a manner that permitted an expeditious assessment of the project at a critical time.[120]

143. The PUB heard that the Technical Committee of the BoD is currently reviewing the option to renew the McKinsey contract.[121] Further, Shayon Mitra informed the PUB of the content of his recommendation to the BoD in that regard.[122]

144. NOVA consists of four separate releases. The PUB heard that Release 1, which delivers the new solution for the Special Risk Extension (SRE) line of business, was delayed

[112] 2023 GRA, PUB (MPI) 1-91(c);
[113] 2023 GRA, Part IV, pp. 13-14;
[114] 2023 GRA, PUB (MPI) 1-88(a);
[115] 2023 GRA, CAC (MPI) 2-2;
[116] 2023 GRA Transcript, Oct 31, 2022, pp. 1859, lines 14-17;
[117] 2023 GRA, CAC (MPI) 2-2;
[118] 2023 GRA, CAC (MPI) 1-38(b);
[119] 2023 GRA, CAC (MPI) 1-33;
[120] MPI Exhibit 58, Slide 6;
[121] 2023 GRA Transcript, Oct 31, 2022, pp. 1970-1972, lines 25, 1-25 and 1-10;
[122] 2023 GRA Transcript, Nov 1, 2022, p. 177, lines 11-15 [confidential];

from October 2022 to January 2023 but is on schedule to meet that date.[123] For the remaining three releases, Shayon Mitra provided the following update:

> *"Now, with regards to the remaining releases, release 2, release 3, and release 4, because we're going live in Jan with release 1, it is going to impact the release date for release 2.*
>
> *So, release 2, to summarize, is the international registration plan as it pertains to our commercial customers. And our intent is to go live in the fall of 2023 with R-2, our release 2.*
>
> *Parallel, start the pre-discovery --discovery work for releases 3 and 4 in January. The plans are being developed as we speak on the resources needed to do the pre-discovery work for release 3 and 4 while we're going live at release 1. And then subsequently finish the work needed for release 2, fall of 2023."*[124]

145. MPI appreciates that the PUB is concerned that the costs of delivering NOVA could continue to escalate. MPI shares these concerns. When asked about his confidence in the 2022 Re-baseline budget, Eric Herbelin stated:

> *"I think we have a degree of confidence, not a hundred percent, but a degree of confidence in the re-baseline 2022 budgets.*
>
> *I look at different degrees of confidence, looking at the different releases. For release 1, we know quite precisely what this piece is going to cost by now.*
>
> *For release 2, there's -- there's a number of -- of works going on to try and – and better assess and -- and confirm, but we contingencies to cover for that*

[123] 2023 GRA Transcript, Oct 31, 2022, pp. 1788-1789, lines 2-25, 1-5;
[124] 2023 GRA Transcript, Oct 31, 2022, p. 1789, lines 6-20;

> *uncertainty. So relatively and relatively speaking, but relatively confident.*
>
> *For release 3 and 4, lots of assumptions have to be made. Pre-discovery, discovery have not been carried through, so we don't know all the details. But we have still contingency available for release 3 and release 4, based on our understanding of where we're at currently on release 1 and 2. And that is what gives me the relative comfort that, at this stage, you know, I could not make another prediction."*[125]

146. As discussed, NOVA allocates a contingency to each Release and the amount is based on the confidence of MPI in that Release.[126] At this time, MPI has no indication that its contingency for the Project is at risk[127] but cannot guarantee that the available contingency will be sufficient.[128] If MPI were in a position to exceed its contingency, the PUB heard that the options available to MPI would depend on how far it is to the "goalpost":

> *"If we are not too far from the goalpost and we need some -- a few more million dollars as an example -- and totally hypothetical, of course – we would go to the board and make a request to say, This is what we want because of these reasons.*
>
> *If we are very far from the goalpost and we have totally missed it, at that point, we would look at the scope, try to evaluate, is the scope real -- can we shrink the scope in terms of the program and take further responsibility into considerations and deliver some of those capabilities.*
>
> *So it's an it depends kind of an answer on the situation that's present at that point."*[129]

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[125] 2023 GRA Transcript, Oct 19, 2022, pp. 299-300, lines 23-25, 1-18;
[126] 2023 GRA Transcript, Oct 31, 2022, p. 1843, lines 4-17;
[127] 2023 GRA Transcript, Oct 31, 2022, p. 1846, lines 3-7;
[128] 2023 GRA Transcript, Oct 31, 2022, p. 1851, lines 11-15;
[129] 2023 GRA Transcript, Oct 31, 2022, p. 1852, lines 13-25;

147. Eric Herbelin also candidly admitted that it is possible that the budget for NOVA could be considerably higher next year.[130] Shayon Mitra also confirmed that the 2022 Re-baseline is the best estimate for now but could change with the results of discovery relating to Releases 3 and 4.[131] MPI also recognized that the NPV could also change. However, while NPV is an important consideration for any business project, MPI reiterates that there will always be cases where a project must continue notwithstanding the presence of a substantially negative NPV. To that end, MPI directs the PUB to the following statement from Siddhartha Parti:

> *"…NPV is one (1) of the factors that need to be looked at, an important factor, but it's not the only one.*
>
> *When it comes to programs of this size, the end-of-life considerations as an example, sustainability of the business model, various other aspects that need to be looked at, risk, various other aspects that need to be looked at. In my experience NPV is only a measure that's used to gauge the success or whether a program should go ahead or not."*[132]

148. And while MPI cannot guarantee that Releases 2-4 will not experience delays (potentially resulting in additional costs), the PUB did hear about the measures MPI is putting in place to prevent this from happening. For example, in June 2022, MPI initiated the NOVA Sponsor Steering Committee, comprised of Shayon Mitra, Siddhartha Parti and Marnie Kacher, Vice President and Chief Operations Officer for MPI.[133] Shayon Mitra explained the importance of this change along with others made in the recent months:

> *"The -- the Project NOVA operating modeling and governance, if you recall, from an executive sponsorship, previously it was -- the role of the Chief Transformation Officer to have oversight of the program. We have made changes since, now it's a collective responsibility between the Chief Transformation Officer,*

[130] 2023 GRA Transcript, Oct 31, 2022, p. 302, lines 11-19;
[131] 2023 GRA Transcript, Oct 31, 2022, pp. 1979-1980, lines 2-25, 1-25;
[132] 2023 GRA Transcript, Oct 31, 2022, p. 1995, lines 9-20;
[133] MPI Exhibit 106;

> *the Chief Information and Technology Officer, and Mr. Parti, and the Chief Operating Officer, and, I guess, Marnie Kacher.*
>
> *The three (3) of us, collectively, have oversight of -- of Project Nova, the reason being, as you go through releases, there will be impacts to different components of our lines of business, our staff, change management will be an important component, our stakeholders, broker network, and our customers. So, making that shift, enabled that level of due diligence, decision-making, and governance.*
>
> *Further to that, in order to address resource gaps and build new capabilities, we have strengthened our product ownership, project management components, the architecture components, customer experience and associated design components, and business process management, and -- and access 1 components. So, that was another recommendation.*
>
> *Adoption in change management continues to be an area that we -- we are looking at improving and, so, we are looking at change management from an enterprise lens, not strictly from a Project Nova lens, thereby ensuring that we're working with our stakeholder partners and our workforce as we go through this initiative.*
>
> *And, lastly, under Mr. Parti's leadership, the technology enablers specific to areas such as data migration, integration, testing, quality -- quality assurance, those are the areas that we are -- continue to bear from a capability standpoint."*[134]

149. The PUB also heard that Releases 3 and 4 will look different from Releases 1 and 2 in the sense that it will capitalize on the lessons learned from Releases 1 and 2 aim to

[134] 2023 GRA Transcript, Oct 31, 2022, pp. 1784-1785, lines 3-25, 1-13;

deliver Releases 3 and 4 in a series off "little releases"[135] which should ultimately place MPI in a better position to deliver them.[136]

150. To be clear, MPI must complete all of the NOVA releases. But the scope of these Releases is subject to change in light of further adverse developments.[137] As Alex Ramirez explained:

> *"The way we're bringing in controls is understanding our objectives at a -- at a release level broken down by release objective 1 all the way down to, let's say, release objective number 10.*
>
> *So, the off-ramps would be within those releases in understanding what is the definition of a minimal viable product and at what point in time that will suffice with regards to achieving that release's specific objective."*[138]

151. Though the most complex, Releases 3 and 4 will also be of the greatest benefit to Basic ratepayers:

> *"Where Manitobans will really see a difference is when we decide to start and implement release 3 and release 4. Release 3 being related to entrance driver, vehicle registration, and insurance registration aspects. So, in other words, being able to be insured and pay a premium and renew premium and manage the -- the policy. And release 4 related to claims management, physical claims, physical damage claims."*

152. The PUB can expect further updates regarding the progress of NOVA in the 2024 GRA.

[135] 2023 GRA Transcript, Oct 31, 2022, pp. 1883-1884, lines 18-25, 1-21;
[136] 2023 GRA Transcript, Oct 31, 2022, p. 1915, lines 3-21;
[137] 2023 GRA Transcript, Oct 19, 2022, pp. 282-283, lines 19-25, 1-24;
[138] 2023 GRA Transcript, Oct 31, 2022, p. 1825, lines 15-23;

7 INFORMATION TECHNOLOGY AND VALUE MANAGEMENT

153. This year, the PUB heard from Siddhartha Parti regarding the importance of IT:

> *"It's my firm belief that has [sic]-- insurance industry, or any industry, for that matter, that's going through a significant disruption and change are robust, capable, well functioning IT organization is the key differentiator between success and failure."*[139]

154. Siddhartha Parti also explained that his division underwent significant changes over the past year, including the addition of a Software Development and Operations Department in order to ensure that IT operations has the capability to receive NOVA.[140] Of the 283 new FTE positions that MPI will create in the next year, 89.65 will be within the IT Division, which would increase the FTE capacity of the Division to 389 FTEs (up from 299.35).[141] The PUB also heard that MPI completed the transition of 36 long term consultants to FTEs, resulting in a savings of $4.5M. Finally, of the existing IT FTEs, the PUB heard that 41 FTEs are working on NOVA versus Operations.[142]

155. MPI recognizes that the ongoing use by MPI of IT consultants continues to be an issue of concern to the PUB. The evidence in this GRA is that, in order to address capability and capacity gaps, MPI could not avoid the requirement to retain additional consultants. MPI increased its active IT consultants to 64 and its NOVA consultants to 44.[143] However, Siddhartha Parti testified that these are short-term engagements will be unlike engagements in the past:

> *"…one (1) of the key differentiators that I want to highlight and comparing to how we've done business in the past, where MPI has had a history of having some very, very long-term contractors and over having contractors a number of years, 10, 15, 20 years, perhaps, even.*

[139] 2023 GRA Transcript, Oct 27, 2022, p. 1637, lines 7-12;
[140] 2023 GRA Transcript, Oct 27, 2022, pp. 1641-1642, lines 6-25, 1-6;
[141] MPI Exhibit 107, Undertaking 32 (Figure 1);
[142] MPI Exhibit 117, Undertaking 31 (Figure 1);
[143] MPI Exhibit 74, Slide 10;

The shift in strategy over the last twelve (12) months has been around short-term contractors with very, very specific statement of goals. So, people that will come in to help us build certain capabilities, bring in certain technologies, six (6) months, twelve (12) months, perhaps, maybe a bit longer.

And, in the meantime, we have a very active strategy right now, which is also recognized by Gartner, in training our internal staff on those new capabilities. So, as these contractors come in for short-term gigs, they come in, they train, they build those capabilities, we are training our internal staff, they hand it over to us, for MPI full-time employees, and, then, they move out.

So, this is going to be a revolving door, in that sense, for short-term contractors, as we start maturing our processes.

Now, I wouldn't be able to commit to a fiscal year as to when this downward trend is going to happen; that totally depends on how successful we are over the next few years but that's the intention and the strategy."[144]

156. The IT Strategy outlines guiding principles to ensure that it can achieve its mission statement that includes workforce enablement and delivery of secure and reliable technology.[145] One of these guiding principles is "cloud-ready, cloud-first". Siddhartha Parti testified as follows regarding the importance of MPI adopting cloud capabilities:

"The concept of cloud has been in industry for many, many years now. And MPI is very behind the curve in that sense.

So when we talk about transforming IT, when we talk about building new business capabilities, there is no other choice but to go to the cloud. When you look at your core business applications, even in the case with NOVA, Duck Creek, Caltech (phonetic), Dynamax

[144] 2023 GRA Transcript, Oct 27, 2022, pp. 1695-, lines 6-25, 1-6;
[145] MPI Exhibit 74, Slide 5;

(phonetic), and so on, they're all cloud-based technologies. There is no option to actually have those technologies on prim (phonetic) anymore. What we don't have, unfortunately – or what we haven't invested in over the years, in building those fundamental capabilities and the ecosystems to support those core business applications, which is where this cloud adoption is extremely important. We need to understand how we will operate in this new paradigm of technology ecosystems for the future.

So with that point, yes, cloud adoption has been looked at as -- as a core enabler."[146]

157. And on the use of artificial intelligence (automation), Siddhartha Parti stated:

"…automation is an upcoming line of technology ecosystems. Very, very prevalent in the private sector insurance industry. And really, the idea here with automation is to be able to automate back-end processes that are manual, that are repetitive, that is taking away the time from our MPI teammates from serving Manitobans.

Now, in the absence of these disruptive technologies, the requirement for full-time employees at MPI would be significantly higher in the future if -- if they would not use these technologies. So, really, automation is helping us be more efficient. It is helping our teammates serve Manitobans better, because they are taking away their time from the day to day."[147]

158. Through its IT Strategy, MPI aims to ensure that its technology enables whatever type of business change it requires; not simply to chance the next shiny new object.[148]

159. MPI uses Gartner for the purposes of its IT Benchmark. The results of the Gartner analysis (using 2020/21 data) indicates that the MPI IT maturity level continues to

[146] 2023 GRA Transcript, Oct 27, 2022, p. 1644-1645, lines 9-25, 1-4;
[147] 2023 GRA Transcript, Oct 27, 2022, p. 1645-1646, lines 13-25, 1-2;
[148] 2023 GRA Transcript, Oct 27, 2022, p. 1638, lines 3-15;

outperform that of its peers in all of the comparison IT domains.[149] Additionally, its IT spend and IT staffing levels are also above peers, when the costs of NOVA are included.[150] When asked about where MPI would like to be in terms of its position on the Gartner scale, Siddhartha Parti replied:

> *"So we haven't calibrated it to a Gartner benchmarking number to say whether it's four point five (4.5) or is it four point seven five (4.75) or five (5) -- even five (5).*
>
> *But the reality is that, even with this three point three nine (3.39) maturity level, there's a lot of work to be done, including in that service level vertical around various technologies and ecosystems that we have today."*[151]

160. Regarding the 17 recommendations provided by Gartner in its previous report, the PUB heard evidence that MPI complied with each of the recommendations.[152]

161. Finally, MPI committed to providing the results of its 2021/22 IT maturity and financial benchmarking in the 2024 GRA.[153]

162. On the Value Management side of things, the PUB heard that MPI continues to actively review all its IT investments to determine whether the investment is achieving its forecasted or anticipated ongoing costs and benefits.[154]

163. Shawn Campbell, Director, Enterprise Architecture, testified that MPI has improved its value management practices via the adoption of a Scaled Agile Framework:

> *"The way that we see this improving is that it allows us to deliver technology earlier or changes to -- for the business earlier. So the business can see that value to evaluate whether that change has merit for them so that*

[149] 2023 GRA, Part III, Appendix 3, Slide 12;
[150] 2023 GRA, Part III, Appendix 3, Slide 12;
[151] 2023 GRA Transcript, Oct 27, 2022, p. 1747, lines 17-25;
[152] MPI Exhibit 74, Slide 12 and 2023 GRA Part III, Appendix 3, Slide 15;
[153] MPI Exhibit 74, Slide 12;
[154] MPI Exhibit 74, Slide 14;

we can make decisions on whether or not to proceed and continue on down that path.

Versus the old school way, which is we would deliver all of these features, spend all of the money upfront, and then we would deliver to the business and they would then have to make due with what they received because it was not always in alignment with everything that they expected."[155]

164. The PUB also heard that MPI moved towards the use of lean business cases. Shawn Campbell explained the importance of the lean business case as follows:

"…if we flip to a Agile process, it's meant to deliver faster, so, as opposed to taking years to deliver the whole package we'll deliver a little bit of a package within a, what's called a program increment. And with MPI, that's a three (3) month window.

And so, we'll start to see small deliveries come forward and that the business can start to saying yes, this is trending how we want it to go. It is delivering the value that we see it's going to deliver. It's going to improve process or enable capability that we did not have before in the way that we wanted to, and so it is delivering that expectation which then translates to a -- a financial benefit."[156]

8 INVESTMENTS AND ASSET AND LIABILITY MANAGEMENT (ALM) STRATEGY

165. What is old is new again, is an idiom that aptly describes the investment strategy of MPI. Like other crown corporations, MPI owes its shareholder, the Government of Manitoba, a duty to exercise prudent decision making; decisions that align with the risk profile of MPI.

[155] 2023 GRA Transcript, Oct 27, 2022, p. 1684, lines 12-24;
[156] 2023 GRA Transcript, Oct 27, 2022, p. 1689, lines 3-17;

166. For that reason, aside from some expected rebalancing of the asset mixes within the asset classes for each of the segregated portfolios, the overall strategy will closely resemble the existing strategy, particularly within the Basic Claims portfolio.

167. There will be no growth assets in the portfolio backing the claims liabilities. It will again be comprised of only fixed income assets (bonds). Equities are volatile, and while they offer the promise of greater returns, MPI can ill afford to have insufficient funds (investments) to pay its future claims costs. This remains the case notwithstanding the capital losses within the fixed income investment portfolio (increases in bond yields resulted in losses for the bond holdings of MPI last year). Mr. Bunston, explained it as follows:

> *"MR. STEVE SCARFONE: I see. Okay. Thank you for that. And so, given that and those performances that we see there, what was the main driver for the decision to maintain 100 percent fixed income in the Basic claims portfolio?*
>
> *MR. GLEN BUNSTON: Well, the Basic claims portfolio was about ensuring that we have capital in place to -- to pay claims as they come due and also to manage the risks associated with the liabilities, the Basic claims liabilities. And those risks primarily are related to interest rate changes and inflation. And the best hedge against interest rate risk is fixed income assets. And the best hedge against inflation would be real return bonds."*[157]

168. Section 18(2) of *The Manitoba Public Insurance Corporation Act* now requires MPI to ensure sufficient funds are maintained in the Basic Claims portfolio for this purpose:

[157] 2023 GRA Transcript, Oct 24, 2022, pp. 861-862, lines 22-25, 1-11;

Claim reserves

18(2) The corporation must establish and maintain a reserve for each line of insurance sufficient to pay future claims-related expenses associated with incurred claims under that line of insurance.

169. A Basic Claims portfolio that protects the liabilities of Basic against inflation, particularly the PIPP liabilities, is an important development in the aforesaid rebalancing. Real Return Bonds will form part of the fixed income portfolio when the new ALM Study is fully implemented.

170. The ALM Study, completed again by Mercer, is now before the Investment Committee for consideration of asset mixes for each of the portfolios.

171. There was some suggestion that a meaningful opportunity to provide input was not made available to the intervenors by MPI. However, MPI confirmed by way of letter to the CMMG[158] that all the reports from Mercer had been filed in the 2023 GRA. Further, Mr. Bunston testified that all the recommendations to be made to the Investment Committee are based on the advice received from Mercer (i.e., nothing outside of the GRA materials will be used by the Investment Committee Working Group) in formulating its recommendations for asset mixes.

172. As such, nothing prevented any stakeholders from sending MPI any independent input based on the Mercer documents. No such evidence was received.

173. In addition, as a courtesy to the CMMG, MPI asked Mercer to investigate whether a separate investment portfolio should be formulated for the motorcyclists, one that includes a specific asset mix to back the long term PIPP liabilities of motorcyclists, thereby offsetting premiums with potentially higher investment income from equities. Mercer completed the Motorcycle Line ALM in August 2022 with no such recommendation, largely because claims for motorcycles have a high degree of

[158] MPI Exhibit 28;

similarity with the claims under the new Basic Long portfolio, in the broader ALM analysis.

174. In Order 134/21, under Directive 20 (i.e., 2022 ALM Study), the PUB directed MPI to consider making use of a real liability benchmark. Such a recommendation was made by Mercer given the inflation protection now required in certain segregated portfolios, namely, Basic and Employee Future Benefits (EFB). However, for those portfolios that are not exposed to inflation risk (i.e., RSR, EXT, SRE), MPI confirmed that it will continue to use a nominal liability benchmark. MPI will focus on matching both real and nominal fixed income durations.

175. Use of a nominal liability benchmark under the 2018 ALM Study has come under some criticism, particularly now that inflation has climbed to levels not seen since the mid-1980s. However, as with any forecasting that includes investment income, the events that caused the current inflationary period were not foreseeable when MPI completed the existing ALM Study 4 years ago:

> *"MR. STEVE SCARFONE: You recall, Mr. Bunston, that Mr. Williams was asking you about the 2018 ALM study?*
>
> *MR. GLENN BUNSTON: Yes, I recall that.*
>
> *MR. STEVE SCARFONE: And that the Corporation had a choice of which liability benchmark it was to use?*
>
> *MR. GLENN BUNSTON: Yes, I recall that.*
>
> *MR. STEVE SCARFONE: And he suggested, without sounding too much like Brian Mulroney, that you had an option, sir, correct?*
>
> *MR. GLENN BUNSTON: Correct.*
>
> *MR. STEVE SCARFONE: And MPIC chose the nominal liability benchmark.*
>
> *MR. GLENN BUNSTON: Yes, we did.*

MR. STEVE SCARFONE: And do you recall at the time, what the long-term projected inflation forecast was?

MR. GLENN BUNSTON: I believe it was 2 percent, or very close to 2 percent.

MR. STEVE SCARFONE: Thank you. And you made reference to the eighteen (18) recommendations of Mr. Viola?

MR. GLENN BUNSTON: Yes, I did.

MR. STEVE SCARFONE: And do you recall the recommendation that the Corporation better include real return bonds 'cause there was an unprecedented world wide pandemic about to hit in 2019?

MR. GLENN BUNSTON: No, I don't recall that recommendation."[159]

176. A new methodology was used in the October update for calculating the new money yield, which has a direct impact on AAP ratemaking.

177. In its original filing, MPI used a 3.43% new money yield based on the average duration of the unpaid claims, which is approximately 10 years (as was done in previous years). This resulted in a provisional overall rate indication of negative 0.9%. However, in its October update, MPI adjusted for changes in interest rates, MPI used a 4.05% new money yield based on a two-year bond yield, which is the average duration of the premium liabilities. This results in the final overall rate indication applied for being negative 0.1%.

178. At the request of the PUB, MPI provided an alternative update using a new money yield of 4.17% (4.24% based on the average duration of the unpaid claims, i.e., 10 years, less the cost of investment management fees of .07%). This methodology, the

[159] 2023 GRA Transcript, Oct 24, 2022, pp. 1044-1045, lines 18-25, 1-24;

same one used in prior GRAs, results in a final overall rate indication of negative 0.3%.

179. The difference between the two methodologies is two basis points (.02%).

180. Cara Low, Chief Actuary, testified that a 4.05% new money yield, based on a two-year duration, is the better methodology.

181. When MPI prices premiums required for business not yet written, the majority of those are for physical damage of the new business. Physical damage claims, are paid out in approximately six months, so they have a very quick run-off. PIPP claims, which make up a much smaller percentage of new business, are paid out in approximately nine or ten years. A weighted average between those two means the proper duration is not nine or ten years but is instead much closer to two years.

182. Cara Low explained the proposed change in methodology as follows:

> *MR. STEVE SCARFONE: And just – I know that this has been canvassed, but it's an important point. Explain why the two (2) year duration versus ten (10) year duration is an important factor for you to consider?*
>
> *MS. CARA LOW: The ten (10) year duration is based on the balance sheet. So that's a buildup of PIPP claims. So often, people will stay on benefits for a long time. Not always. Some of them recover and go back to work. But when we're pricing, we're pricing for the vast majority of it being short-tail claims. So this is collision and comprehensive. So damage to your cars. And a lot of money comes in the door through premium on a daily basis, and it goes out the door as we pay out claims. So it never goes into the Basic claims portfolio. So for example, if your car is damaged, we're not going out and buying a ten (10) year bond and waiting for ten*

> *(10) years to pay for your claim. So we're not earning 4.24 percent.*[160]

183. Now is the best time to incorporate a new methodology for the new money yield calculation. Normally, the 10-year yield would be much higher than the 2-year yield, meaning that such a change would have a major impact on rate setting. However, with the inverted yield curve referred to by Mr. Bunston, the impact of the change is limited. The timing is excellent. A change of this kind, which is necessary based on the actual expected claims in the rating year, would normally lead to meaningful rate increases, but the current yield curve mitigates this effect

184. Concerning performance of the investment fund, prefaced again by Mr. Bunston confirming that returns are not the main objective, he noted that for 12 months (ending March 31, 2022), Basic Claims, RSR and EFB outperformed the Transitional Benchmark by 2.0%, 1.0% and 1.5% respectively. Basic did however sustain capital losses of $47.2 million over this same period given its portfolio is comprised entirely of fixed income assets, with increasing yields causing bond prices to fall.

185. A further objective of the Basic Claims portfolio is to match as closely as possible the assets against the liabilities to protect MPI from losses due to changes in interest rates. Mr. Bunston referenced a new strategy first introduced last year to help accomplish this, "moment matching". MPI now matches both the duration and convexity between Basic claims assets and liabilities.

186. Last year, the strategy was said to reduce interest rate risk by up to 40%. This year Mr. Bunston provided evidence in his slide presentation that the net impact of interest rates from March 31, 2022 to August 31, 2022 (the difference between a budgeted loss of $9.7 million due to falling interest rates and the resulting actual gains of $9.5M in the bond portfolio) was a mere $200,000.

187. MPI again makes use of the naïve forecasting methodology for interest rates as it remains the best indicator of where interest rates will be throughout the rating year. However, there may be changes afoot with recommendations by Mercer for MPI to

[160] 2023 GRA Transcript, Oct 24, 2022, pp. 1042-1043, lines 14-25, 1-10;

consider a forward rates methodology. While an information request submitted by the PUB[161] showed a favourable impact to the rate indication, there are some important factors for MPI to consider before abandoning a methodology that has served it well over the past number of years.

9 ROAD SAFETY AND LOSS PREVENTION

188. MPI presented its 2022-2025 Road Safety Strategy to reduce traffic fatalities and serious injuries by implementing more targeted and effective road safety initiatives, through:

a) Improved Road Safety Data Sources;
b) Enhanced Analytical Capabilities; and
c) Partnerships with External Stakeholders.

189. Three principles guiding the implementing the strategy are:

a) Decisions on road safety initiatives must make sense based on a data-driven understanding of the root causes of traffic fatalities and serious injuries in Manitoba, and the effectiveness of specific initiatives in addressing those root causes.

b) Acknowledge that First Nations in Manitoba face unique road safety challenges and commit to engaging with First Nations to understand and address those challenges.

c) Continuously improve the road safety data ecosystem to support the MPI's initiatives and those of external road safety stakeholders.

190. MPI wishes to leverage its greatest strength – data. It has information on every driver and on every collision resulting in fatalities or serious injuries in Manitoba. It has also

[161] 2023 GRA PUB (MPI) 2-59;

collected information on distracted driving, speeding and impairment. This information enables MPI to be data driven in its road safety initiatives decisions.

191. MPI intends to roll-out its road safety initiatives in a more flexible manner that is not tied to the traditional program funding budget cycle process. Having set aside $2 million will enable MPI to identify emerging issues, develop initiatives and implement new programming in a matter of months as opposed to 18 to 24 months.

192. MPI does not support further research related to the Large Vehicle Study as directed by the PUB in Order 176/19 (Directive 13.17). Analysis by MPI of its own data demonstrates that there are four main factors contributing to fatal accidents:

a) Distracted Driving
b) Speed
c) Impaired Driving
d) Lack of Use of Occupant Restraints

193. Analysis of fatal accidents also shows that a significant common factor was the history of risking driving behaviour; whereas the type of vehicle involved in these collisions was not an indicative factor. Simply stated, MPI does not believe that further research into large vehicles will produce any meaningful data that can be used to reduce fatal and serious injury collisions.

194. MPI supports collaborative relationships with its stakeholders to work on ways of improving road safety. It also supports providing them with updates on the status of its road safety programs. The Road Safety Technical Conference and time dedicated to road safety at GRA served the purpose of bringing MPI and the intervenors together to discuss road safety issues. However, the relationships have matured over the years and MPI submits that there are means outside the purview of the GRA that can attain better results with less resources being expended.

10 DRIVER SAFETY RATING (DSR) SYSTEM

195. There appear to be two main issues concerning the DSR:

a) Whether the existing registered owner model or another driver-based model should be used, and

b) whether the existing divide between actuarially indicated rates and the current rates on the DSR scale (i.e., cross-subsidization) should be addressed by MPI more expeditiously.

196. To be clear, a transition from one driver model to another, which determines how any discounts are applied to the account of a registered owner, will not resolve the aforesaid divide.

197. During the course of the oral hearing, a decision was rendered by the Manitoba Court of Appeal that confirmed the jurisdiction of the PUB to direct MPI to provide its regulator with information to allow for steps to be taken should implementation of a primary driver model (or some variation thereof) become a reality. MPI has not yet had an opportunity to fully consider the decision of the Honourable Justice Steele and the implications thereof.

198. Questions from the PUB to the DSR Panel witnesses included specific dates for the implementation and launch of the primary driver model. MPI does notes however, as does the Court of Appeal, that PUB Order No. 134/21 refers to a five-year plan and lays the foundation of such a model, <u>if</u> approved by the PUB. In dismissing the Review and Vary Application brought by MPI, the PUB confirmed, in Order No. 21/22, that it did not intend to peremptorily direct MPI to implement a new DSR program based upon the Primary Driver model but rather, put in place a process to allow for a review in advance of any new model for the DSR program.[162]

199. The Court of Appeal in its discussion and analysis repeats the submission of the PUB in that regard (i.e., seeking information for a potential change) before stating that Directive 11.13 asks that a plan be developed, and a foundation laid in the event it

[162] PUB Order 21/22, p. 21;

wishes to consider a potential change at a later time. The Court of Appeal agreed that the Directive does not order the change at this point in time.

200. All of this is to say that the tentative launch date in the DSR transition plan submitted by MPI is not the issue at hand. Gathering information, analyzing data, pricing the necessary changes and identifying the changes necessary legislative requirements are all priorities for MPI in the near term.

201. Although MPI challenged Directive 11.13 from PUB Order No. 134/21, it did comply with said directive by filing a 13-page plan, complete with a timeline showing each of the key initiatives and milestones over the next 5 years.[163]

202. In summary, the major steps of the 5-Year DSR transition plan include:

a) Collection of primary driver information from registered owner;

b) Develop business rules;

c) Stakeholder consultations;

d) Alignment of data with Nova Release 3;

e) System design changes to accommodate collection of primary driver information;

f) Collection of primary driver information;

g) Pricing examination;

h) Government approval to implement primary driver model (legislative changes);

[163] 2023 GRA, Part VI, Appendix 1, p. 1 (eBook p. 2054);

i) Communication plan to customers; and

j) Launch primary driver model.

203. MPI indicated, both in its application and during the course of the oral hearing, that the plan now in place for implementation of a primary driver model (or some variation thereof) contains steps that are outside of its control.

204. For the consideration of the PUB, the DSR panel set out various other driver model options that MPI would like to assess, including the Listed Driver model and a hybrid of the Primary Driver and Lister Driver models (the latter of which is currently used by ICBC). The evidence from the DSR panel was that the hybrid model is superior to the Primary Driver model in terms of accurately capturing risk. The evidence was that each of the alternative models would include a surcharge on the account of the registered owner if someone other than the listed driver was involved in an accident (in contrast to a denial of the claim). Fault for the accident would also be a factor in applying any surcharge.

205. While the considerations are many, Curtis Prystupa, Customer Value Proposition Lead, summarized the DSR model options presented by the DSR panel as follows:

> *Customers told -- have told us that they value simplicity. This conflicts with the desire to rate risk more accurately. As we further move towards risk rating accuracy, the further we move away from simplicity. Our goal is to strike a balance between improved risk rating accuracy and customer experience, while demonstrating fiscal prudence for Manitobans.*[164]

206. Addressing the divide between the current rates and the actuarially indicated rates formed part of Order 134/21 (Directive 11.15), which asked MPI to bring forward a DSR Transition Plan, including an increase to the base rate. However, as part of its application, MPI asked the PUB to defer the DSR Transition Plan given the pending

[164] 2023 GRA Transcripts, October 25, 2022, p. 1081, lines 14-21

adoption of Generalized Linear Modeling. Cara Low provided the reasons for the request:

> *…So I'm just talking about the registered owner model and the expansion of the DSR scale. I'm not talking about a move to the primary driver.*
>
> *I'm both an actuary and also a DSR level 16 driver and a registered owner, so I would like to move to actuarially sound DSR levels and to expand this scale.*
>
> *There are two (2) issues we are currently dealing with. First, as we talked about the other day at the rate-making panel, we are going to be running generalized linear models over the next couple of days -- or couple of years, I should say. So these are called GLM models.*
>
> *We're going to be putting DSR levels in there as a rating variable; that means what comes out of the model could be different than what we get right now with our minimum bias model. So really hard to figure out how we're going to get to the end point when we don't know what the end point looks like yet.*
>
> *The second thing we're wrestling with is understanding our database. So about a third of the population is at the highest DSR level, so that was DSR 15. And over this rating year, the majority of them are transitioning over to DSR 16.*
>
> *So if you look at the indication, it was showing a 56 percent discount for DSR 15; that has been highly influenced by people that are actually DSR 16, 17, 18, 19, 20.*
>
> *We have to work with our data management team to understand how to subdivide the highest level, whether it's DSR 15 or now DSR 16. We have to figure out how to subdivide that and get the actuarially-based discounts for each of those sub-levels, and that's something we're still working through.*

> *So that is -- those are the two (2) reasons that we're requesting to divert -- defer the DSR Transition Plan to be part of the GLM Transition Plan which we will be filing in the 2025 GRA.*[165]

207. Having made that request, MPI provided evidence that an immediate move to actuarially indicated rates would mean a 15.6% increase to base rates. Such a move would be unacceptable to MPI as it would result in rate shock.

208. The relief sought in this GRA is limited to increasing the maximum merit level of the DSR Scale from +16 to +17 but with no changes to discounts.

11 VEHICLES-FOR-HIRE (VFH)

209. With the inception of ride sharing in Manitoba in 2018, MPI responded by implementing an insurance model that captured all classes of VFH, including two main competitors, Private Passenger VFH and Taxis. The existing Time Band model is expected to soon be replaced by a new Blanket Policy, an industry standard in other provinces that have Transportation Network Companies (TNCs).

210. PUB Order 134/21 directed that MPI file its VFH Framework Review in the 2023 GRA, touching upon a number of matters including time bands, data collection and any regulatory changes that might be required to give effect to the VFH framework.

211. The VFH Framework Review included engagement with stakeholders to gain further insight into their business needs, particularly concerning the time band model. The results of this engagement revealed that the time bands, while providing flexibility, are largely ineffective.

212. External Consultation (SGI and ICBC) revealed that a different model is used for TNCs in these provinces as against the other VHF groups (i.e., Taxis, Limos and Accessible),

[165] GRA 2023 Transcript, October 25, 2022, pp 1084-5, lines 3-25 and 1-18

whereby coverage is based on class declaration for the latter and blanket policy for the former.

213. The VFH Framework Review, again in response to the needs of its customers, will see further changes to the VFH landscape with the introduction of a Basic Blanket Policy and the abandonment of the Time Band Model. MPI will now offer two products to its VFH customers, a Basic Blanket Policy for TNCs and VFH Insurance Use for Taxis, Limousines and Accessible VFH. However, it should be noted that these VFH groups are not excluded from making use of the blanket policy, so long as they can meet the minimum requirements.

214. The Basic Blanket Policy will be mandatory for all TNCs with the dispatcher paying for coverage during the VFH operation and the registered owner paying for coverage when the application is offline or when the driver is available for hire.

215. The VFH Insurance Use model will see all Taxis, Limousines and Accessible VFH move to full-time models, where the large majority (~90%) already belong through selection of all four time bands. While some taxi operators have indicated a desire to maintain a part-time option, this flexibility is not currently contemplated under the new framework, but also not outright rejected.

216. In her evidence, Satvir Jatana, Vice-President and Chief Customer Officer, explained that without more data that shows when taxis are on the road, it would be difficult to price a product that would allow a taxi operator to work part-time at reduced premiums, especially for what amounts to 100 or 125 vehicles:

> *MS. SATVIR JATANA: So, then, at that point, we looked at as to, if a product was to be developed, what is the pricing, and one of the data that we do know, from claims experience, that that is still 67 percent of the claims do occur in that time-frame of when the part-time model was being asked.*
>
> *So, unfortunately, the pricing difference would not be, you know, we could not ha -- for that uptake to be, their request would have also been that the pricing should be*

> *dramatically different than what a full-time driver or full-time policy-holder would be paying, and we were not able to show that in the pricing model and, therefore, that part-time model was not necessarily acceptable.*
>
> *So, where we ended up, that we would, through the telematics project, where we would have much more accurate data as to when the vehicles are on road, would give us an indication that what that model could look like in the future and -- and, hence, why we have not developed this and we're not developing that product at this point, without proper data, and we do hope that we can have that data, through the telematics, and, then, like I said, we're engaging with that group on a regular basis and, if there is merit and it improves that customer experience, we'd be looking at it.* [166]

217. Analysis and development of the blanket policy is currently underway by MPI, and complete product development (which includes regulatory change) and pricing information will be filed in the 2024 GRA for PUB approval.

218. MPI is confident that the new VFH framework will result in VFH rates that are just and reasonable. For premium design, MPI believes that use of a kilometer-based metric in designing VFH premium will ensure just and reasonable rates. This is the same metric currently used by SGI and ICBC for TNCs.

219. Concerning the claims experience for taxis, MPI will soon have data available from the telematics study to further understand the high loss ratios and how best to reduce accidents.

220. In compliance with the PUB Order following the 2021 GRA, MPI has again increased premiums for Passenger Vehicle for Hire by 20% to bring that class closer to actuarially indicated break-even rates.

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[166] 2023 GRA Transcripts, October 25, 2022, pp. 1241-2, lines 8-25 and 1-8

12 BENCHMARKING

221. The PUB heard that MPI maintains a series of key performance indicators (KPIs) in order to track and measure its performance in achieving its strategic objectives.[167] Further, as confirmed in its Annual Business Plan, MPI is currently developing a Balanced Scorecard that will highlight its performance in four key areas: financial, customer, internal processes and learning and growth.[168]

222. MPI recognizes the value of measuring and evaluating its performance. Eric Herbelin also confirmed this in his testimony that MPI is focused on being more data-driven.[169] Essential to this exercise is collecting robust, quality data that can be easily accessed, interpreted and presented.

223. And although conducting an internal comparison of actual to expected performance is important, it is only half of the exercise of determining whether MPI is attaining is mission statement of "providing exceptional coverage and service, affordable rates and safer roads through public auto insurance." The other half is comparing the performance of MPI to that of its peers.

224. Benchmarking, if done right, gives MPI and its stakeholders the ability to determine where MPI stands in its industry and whether there is any room for improvement. For MPI, Benchmarking also offers the ability to reassess and improve its own objectives, standards, plans and practices.

225. The PUB heard that MPI organizes its external benchmarks under four main areas:

a) Canadian Vehicle Rates Comparisons and Average Premium Growth;

b) Serving Manitobans; and

[167] 2023 GRA Transcript, Oct 27, 2022, pp. 1714-1715, lines 12-25 and 1-19;
[168] 2023 GRA, Part VIII, p.17 (eBook p. 3410);
[169] 2023 GRA Transcript, Oct 19, 2022, pp. 163-164, lines 25 and 1-3;

c) Operational Efficiency (alternatively referred to as the Crown Benchmark); and

d) The IT Benchmark (the results of which MPI discusses in the IT Section above).

226. Comparing premium rates from MPI in 2022 to those offered by public and private automobile insurers in Canada for comparable coverage shows that MPI continues to offer some of the lowest rates in the country.[170] Moreover, over the past 20 years, passenger vehicle premiums grew at a slower pace in Manitoba than elsewhere in Canada.[171] The importance of these findings cannot be overstated. MPI respectfully submits that the PUB should consider the GRA through the lens of Benchmarking to ensure that it maintains an appropriate perspective.

227. MPI measures customer satisfaction in a variety of ways. The primary method discussed in the GRA is through tracking surveys offered to customers who had recent experiences with MPI. According to these surveys, in the last fiscal year (2021/22), MPI customers were generally very satisfied with many of the services received by on behalf of MPI. One area of concern however was with booking road test appointments. In the case of that item, only 53% of respondents indicated overall satisfaction with that process.[172]

228. MPI also uses the assistance of Forrester Research Inc. (Forrester) to measure the overall customer experience. Forrester provides MPI with a Customer Experience Index (CX Index™) score that ranges from zero to 100. As per Forrester, a score of 80-100 is considered excellent, 70-79 good, 60-69 okay, 50-59 poor and below 50 as very poor. In 2022, MPI received a CX Index™ score of 76.8 (good).[173] However, this rating is lower than the 80.5 score MPI received last year[174] and Forrester identified

[170] MPI Exhibit 56, Slide 5 (Fig. BMK-1);
[171] MPI Exhibit 56, Slide 4 (Fig. BMK-4);
[172] 2023 GRA, Part III, p.16 (eBook p. 305);
[173] PUB (MPI) 1-28 – Attachment A (Confidential), p. 7;
[174] PUB (MPI) 1-28 – Attachment A (Confidential), p. 9;

noticeable declines customer service-related drivers and recommended that MPI focus its attention on them in order to improve its score in the future.[175]

229. During the oral hearing, Mark Giesbrecht testified as to the need to address recently emerging issues relating to customer service, stating:

> *"We're also seeing rising transaction counts, firstly with the natural volume of – of growth with -- with our vehicles and our customers across the province, but also as we come out of the pandemic and moving closer to pre-pandemic levels, definitely a lot of rising transaction counts.*
>
> *And we are seeing, obviously, with the supply-chain issues, we are seeing long customer wait times, vehicle repair times have lengthened dramatically, and we're having customer impact, whether that be calling into the call centre and calls, you know, hitting a -- a busy signal, because there's not enough attendants to answer those calls. Whether it be coming into the service centre and having an hour or two (2) wait in some cases. We also have lengthy delays in terms of setting up driver examining and driver testing.*
>
> *These are issues that are having direct impact on our customers that we have to address and resolve and resource accordingly to live up to our – our mandate and to be a customer-centric organization."*[176]

230. MPI cannot rest on its laurels. While Manitobans can be proud of the value, they receive from MPI, recent studies and surveys suggest that, if MPI does not act now, it will be increasingly difficult for customers to agree that MPI provides exceptional service.

231. Comparing MPI to its peers in terms of operational efficiency, that is, the ability of MPI to deliver products and services to customers in a cost-effective manner while

[175] PUB (MPI) 1-28 – Attachment A (Confidential), pp. 5 and 15;
[176] 2023 GRA Transcript, Oct 20, 2022, p. 352, lines 2-22;

maintaining high quality, can be a difficult exercise. MPI is a unique organization and comparisons to private insurers who are profit-driven, offer different products and operate in different legal environments generally yielded unsatisfactory data.

232. Last year, MPI introduced the Crown Benchmark, an attempt by MPI, SGI and the Insurance Corporation of British Columbia (ICBC) to create a better system of measuring the performance of public automobile insurance providers. The Benchmark compares MPI to SGI and ICBC on 60 different internal measures. MPI admitted then that the methodology had yet to mature and that the three initial benchmarking reports (comparing the respective corporations in the fiscal years 2017/18, 2018/19 and 2020/19) did not account for variations in the products, business structures or economies of scale of the three crown corporations.

233. This year, the PUB heard that MPI collaborated with SGI and ICBC to further mature the Crown Benchmark. Michael Gandhi testified that even when limited to crown corporations, determining the appropriate metrics can still be difficult:

> *"…the major item there is looking at ICBC being significantly larger. They have a lot of economies of scale and, you know, we -- we asked them, what do you guys see as differences, and when we were going through our discussions with them and they're saying that there's a lot of economies of scale that they have in their enterprise.*
>
> *Being three (3) times the premium base will allow you to absorb a lot of additional work efforts overall. So, that was one (1) side.*
>
> *On the SGI side, they have a two (2) company structure. One a prof -- profit entity and one a non-profit entity. So, it beco – comparatives become a little bit harder to do. How they break out the FTE analysis overall, those do create challenges, because it doesn't*

> *allow the -- the exact science of having an apple-to-apple comparative, are items that we faced overall."*[177]

234. Within the 2021/22 Comparative Benchmark Report (Q3)[178] MPI compares favourably to SGI and ICBC in terms of its ratio of staff to management and total gross expenses per FTE. MPI does not compare favourably to either on metrics such as FTEs per $100 million of gross written premium. MPI explains that this partly a function of its unique business model, the fact that some companies outsource more insurance functions than others and the economies of scale.[179]

235. In addition to further refining the Crown Benchmark with SGI and ICBC, MPI indicated that it retained AON (Ward Group) to assist it with future benchmarking efforts that will again broaden the scope of the comparator group of peers:

> *"we've engaged with AON Consulting. They're obviously a – a large company that does benchmarking throughout the world.*
>
> *And what we've engaged with them to do is provide us guidance in terms of what other companies and the insurance P&C space are doing and how we compare against them with both our operational metrics and our people metrics overall.*
>
> *So, that's an activity that we're doing this year and then for our next rate filing, that's something that we'll be able to see, you know, what's private industry doing, what are Crown comparatives and then continue to build on our internal mandates"*[180]

236. While the comparison that AON will provide will include IT-related metrics, the report will not seek to duplicate the work already done by Gartner but instead to provide a holistic approach.[181]

[177] 2023 GRA Transcript, Oct 20, 2022, p. 585-586, lines 9-25 and 1;
[178] 2023 GRA, Part III, p.23, Fig. BMK-8 (eBook p. 314);
[179] 2023 GRA, Part III, p.25-26 (eBook p. 316-317);
[180] 2023 GRA Transcript, Oct 20, 2022, p. 586, lines 6-19;
[181] 2023 GRA Transcript, Oct 20, 2022, p. 1676, lines 5-16;

13 CONCLUSION

237. In this inflationary period, unseen in the past 40 years, MPI applies to the PUB to provide Manitobans with a 4th consecutive negative overall rate indication. MPI does so while engaging in its largest transformational project in its 50 year history.

238. It is easy to be in touch with one's strengths - satisfying the desire of Manitobans to have amongst the lowest cost of insurance coverage in the country.

239. It is not so easy being in touch with one's weaknesses. Throughout this GRA, MPI has candidly acknowledged its weaknesses and has voluntarily signaled where it must improve in order to continue to meet its obligations to Manitobans.

240. MPI does not contend that all is well. So doing would be a disservice to Manitobans. But that does not mean that MPI is incapable of making things right. This GRA illustrates the steps that MPI is taking to do so. The PUB can expect MPI to return next year replete with examples of actions taken to reduce risk, improve the quality of its services and to achieve its mission and vision statements.

241. To quote Apollo 13 once again:

> *"Failure is not an option."*

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

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S. Scarfone

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A. Lafontaine Guerra

Bill 45, *The Budget Implementation and Tax Statutes Amendments Act, 2022*, 4th Sess, 42nd Leg, Manitoba, 2022.

The Interpretation Act, SM 2000, c 26.

Rizzo & Rizzo Shoes Ltd, Re [1998] 1 SCR 27.

Glykis c Hydro Quebec, 2004 SCC 60.