

Order No. 4/23

MANITOBA PUBLIC INSURANCE (MPI OR THE CORPORATION):

**COMPULSORY 2023/2024 DRIVER AND VEHICLE
INSURANCE PREMIUMS AND OTHER MATTERS**

January 11, 2023

BEFORE: Irene A. Hamilton, K.C., Panel Chair
Robert Gabor, K.C., Chair
George Bass, K.C., ICD. D, Member
Susan Boulter, Member
Susan Nemec, FCPA, FCA, Member

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1.0 SUMMARY

The Board issues this Order in respect of the 2023 General Rate Application (GRA or Application).

The Application as filed by Manitoba Public Insurance (MPI or the Corporation) sought an overall rate decrease of 0.9%, on a provisional basis, to be updated in advance of the public hearings in order to reflect interest rates and operating results to August 31, 2022. On October 12, 2022, MPI filed the updated rate indication and sought an overall rate decrease of 0.05%. In addition, the Capital Management Plan approved in Order 176/19 has now expired and MPI requested that the 5% capital release be removed for the 2023/24 insurance year. The effective impact of the removal would have created an average increase of 5.54% in premiums payable by ratepayers upon renewal.

The Board has varied MPI's Application, and has ordered an overall 3.8% rate decrease to universal compulsory automobile insurance premiums (Basic or Basic Insurance) for the 2023/24 insurance year, effective April 1, 2023, for all major classes combined, and no changes in permit and certificate rates, service and transaction fees, or fleet rebates or surcharges. The Board has approved MPI's request to remove the 5% capital release for the 2023/24 insurance year. The combined effect of the overall approved rate decrease with the removal of the 5% capital release provision is an average increase of 1.54% in premiums payable by ratepayers upon renewal.

The Board's reasons for these decisions, among others, are set out in detail below.

Expenses

The Board has in the past characterized one of the key elements of its independent review function and rate-setting role as ensuring that actual and projected costs incurred are necessary and prudent, in the context of setting just and reasonable Basic rates.

The key themes in this GRA related to: MPI's significant increases in the budget for MPI's major IT initiative, Project Nova; in the staffing complement to meet the demands of Nova and throughout the organization; and in items such as wages and benefits, data processing expenses, and special services. On a corporate-wide basis, including all lines of MPI's business, budgeted staff positions have increased from 1927.9 in the pre-COVID fiscal year 2019/20 to 2348.1 in 2023/24, an increase of 420.2 positions, or 21.8%.

Project Nova

The predecessor to Project Nova was MPI's Legacy Systems Modernization (LSM) project. Both LSM and Project Nova were conceived to modernize the core legacy systems of MPI. The project has now evolved into a holistic business transformation aimed to address business continuity risks and provide modern self-service experiences for Manitobans.

The original business case for Project Nova filed in the 2020 GRA had a budget of \$106.8 million, which was comprised of \$85.4 million in project costs and a \$21.4 million contingency. The original business case was based on a top-down budget analysis, prior to MPI having received any pricing from vendors.

Following the 2021 GRA, MPI undertook a re-baseline exercise (2021 re-baseline), which resulted in an increase to the budget. The re-baselined budget was \$128.5 million, comprised of \$111.7 million in projected costs and \$16.8 million of contingency. At that time, MPI advised the Board that the business case for Project Nova was more refined because MPI had received pricing from vendors. The net present value (NPV) for the 2021 re-baseline was based on a 15-year period from project initiation, March 1, 2019,

and the NPV was \$18.4 million. MPI assessed Project Nova as medium-high risk and applied a 7.5% discount rate. MPI reported that, while a positive NPV was projected, this was highly dependent on many factors and the margin of error was very slim.

In this GRA, detailed evidence was filed about the state of Project Nova as of mid-2021. By mid-2021, six months after the start of the project's implementation, and before the commencement of the 2022 GRA public hearings, MPI management had recognized that the complexity and scale of the project were greater than anticipated and that, if the scope of work were to remain the same, it was unrealistic that the project could be completed on time and budget. The Corporation's Project Nova Governance Advisor, PwC, expressed similar concerns.

This led to a flattened timeline for the project, to de-risk the delivery of four planned project releases, extending the project timeline from 40 months to 60 months. The budget was also increased to \$224.1 million plus a contingency in the range of 20-40% (\$32.9 to \$65.8 million) (2022 re-baseline). The 2022 re-baseline budget range is \$257 to \$289.9 million, with the midpoint cost estimate at \$273.5 million. This re-baseline budget is only a best estimate as it takes the project to the third of the four releases, and the total final budget is currently unknown. The CEO of MPI, in testimony, analogized the task to climbing a mountain: MPI is attempting to reach the summit, is currently in the "dead zone", and must proceed through.

The evidence in this GRA indicates that many of the expected benefits set out in the 2022 re-baseline are now lower than identified in previous iterations of the business case. This was attributed to the flattened delivery plan, which delays the realization of benefits. With the new higher estimated project cost and revised lower project savings benefits, the NPV of the Project Nova business case has been revised to negative \$188.9 million. This amounts to a \$207.9 million decrease from the 2021 re-baseline.

The Board is concerned with the rate at which the Corporation plans to increase its staffing complement. In particular, the Board is not persuaded that the mobilization of staff

devoted to delivering on Project Nova will ultimately prove to be a prudent decision on the part of the Corporation, when the project appears to remain somewhat undefined and lacking in management control. While the Board is concerned with Project Nova increases, it is not concerned with increases in actuarial resources as that department has historically operated with a relatively small complement and needs to be augmented.

In Order 134/21 the Board found that there was a significant risk that MPI's IT initiatives would increase in scope and cost and cautioned that the 2021 re-baseline might not be a reliable indicator of future project costs. The Board's concerns were confirmed in this GRA. The Project Nova budget has now more than doubled from the initial business case and significant uncertainty remains. NPV, which has now turned to a negative value, is no longer being used by the Corporation as a measure of the value of the project. In addition, the flattened delivery period has caused an increase to broker commission expenses given the delay in the availability of online transactions.

While MPI's CEO has stated that the work associated with Project Nova must be completed regardless of NPV, it remains unclear to the Board where the Corporation is making necessary investments to modernize outdated technology, and where it is going beyond these necessary improvements and into modernizing the business operating model in excess of the original LSM scope. The Board is also concerned with an apparent lack of management control over IT expenses.

The Corporation should be proceeding with prudence and focusing on critical business needs, while avoiding cost overruns associated with increasing the scope of Project Nova beyond the core need to modernize technologies to run the business. This applies to costs associated with IT infrastructure and systems costs, as well as increased staff and consultant expenses.

If MPI cannot demonstrate that it has made prudent choices in its plans for Project Nova and is making efforts to contain costs, there is a significant risk that MPI's next rate request will be found to be not just and reasonable. The Board is aware that the 2022 re-

baseline budget has been approved by Treasury Board. The Board has serious concerns about any increases to the Project Nova budget beyond what has already been approved.

In order to continue monitoring the reasonableness of MPI's Project Nova initiatives and expenses, the Board has directed MPI to:

- File a five-year budget for the project in the 2024 GRA;
- Provide the Board with a revised project scope for the Board's information by April 15, 2023, or such other date as agreed upon by MPI and the Board, which provides clear definition of legacy systems modernization elements of the project specifically, the associated cost, and the target dates for achievement of those elements of the project;
- Provide the Board with a report of funding envelopes developed for Project Nova 14 days following approval by the MPI Board of Directors;
- Meet with Board staff and advisors to review all aspects of Project Nova and the MPI 2.0, including but not limited to project deliverables, timeline, budget, discount rate, and any new elements added to the initiative, within 30 days after funding envelopes have been presented to the MPI Board of Directors;
- File a report in the 2024 GRA from the Project Nova governance consultant addressing the following topics:
 - The funding envelopes for the project, including description and size of each;
 - The lean business cases for the project and their status (e.g., approved, in review, rejected);
 - Status of releases and program increments;
 - Gate reports for each release;

- Current risk assessment or matrix;
- The project expense to date; and
- Details of the internal and external resources working on the project, current to the date of the report and projected for the next 24 months, and information about the aspects of the project to which the resources are assigned.

Cost Allocation Methodology to Basic

The Board last reviewed MPI's integrated cost allocation methodology (ICAM) in detail in 2012. With ten years having passed and with significant changes proposed in the allocation of Project Nova costs, the Board finds that an update to the Corporation's ICAM is required. Accordingly, the Board has directed the Corporation to file, in the 2024 GRA, a third-party review of MPI's integrated cost allocation methodology and to bring forward revisions to the ICAM for approval by the Board in the 2024 GRA. The Corporation must also file a five-year financial forecast incorporating recommended changes to the ICAM.

Rates

Under *The Crown Corporations and Accountability Act*, C.C.S.M. c. C336 (CCGA Act) the Board must set rates paid by ratepayers of MPI. MPI has a monopoly on Basic Insurance in the Province of Manitoba. The rates approved by the Board and charged by MPI must be just and reasonable and in the public interest. As confirmed by the Manitoba Court of Appeal, in setting rates the Board balances the interests of ratepayers and the financial health of the monopoly. Together, and in the broadest interpretation, these interests represent the general public interest.

A vehicle's base premium depends on where in Manitoba the ratepayer lives, the type of vehicle, and the vehicle's use. The Driver Safety Rating (DSR) may provide a discount on the vehicle's base premium. The vehicle base premium, adjusted for the DSR, is the

annual rate that a ratepayer pays for vehicle insurance. Each year, the Board orders an overall rate change that is applicable to the annual rate of vehicle insurance.

The Board's order for a rate decrease of 3.8% results from the Board's approval of rates calculated in accordance with Accepted Actuarial Practice in Canada (AAP) based on a Naïve interest rate forecast, taking into account actual interest rates as at August 31, 2022.

The Board's order for a decrease of 3.8% does not mean that rates for all motorists within each major vehicle class decrease by that amount. Rates paid by individual ratepayers within each Major class are determined by their driving record and actual claims experience, the kind of vehicle (make and model and year) registered, the purpose for which the vehicle is driven and the territory in which the ratepayer resides. As a result, some individuals will experience increases in insurance rates, and others will experience decreases.

With respect to ratemaking, the Board supports the Corporation moving towards an approach that incorporates the use of Generalized Linear Models (GLMs) and directs MPI, in the 2024 GRA, to provide an update on the progress made to date, as well as an update to the GLM project plan.

In the 2024 GRA, MPI must file an analysis and proposal for modifications to the fleet program to better reflect cost causation.

The Board has also directed that, in the 2024 GRA, if the Corporation revises its investment strategy as it has indicated and splits its investment portfolio supporting the Basic claims into two parts, Basic short, and Basic long, the Corporation is to provide its rate indication based on two new money yields that each reflect the characteristics of their respective investment portfolios, and that are each applied to the appropriate cash flows. In this circumstance, the Board has directed that in the 2024 GRA the Corporation provide an alternative rate indication on an Overall basis and by Major Class using the yield based

on the weighted yield of provincial and corporate bonds with durations equal to that of the overall claims duration.

Interest Rate Forecast

The Board's approval of the use of the Naïve interest rate forecast is consistent with its decisions in the 2020, 2021, and 2022 GRAs.

The Board finds that the volatility in market interest rates and the uncertainty in forecasting their movement are self-evident. The Board acknowledges that Basic insurance operations are less sensitive to interest rate movements because of the recent ALM initiatives, and that the use of AAP ratemaking has reduced interest rate forecasting risk by shortening the length of the interest rate forecast needed in the derivation of rate indications.

None of the parties in this GRA made the case for the use of a forecast other than Naïve despite rising interest rates and there was insufficient evidence for the Board to deviate from the use of the Naïve forecast at this stage. Given recent trends in inflation and interest rates, the Board intends to revisit the issue of interest rate forecasting in detail in the 2024 GRA.

Capital Management Plan and Rate Stabilization Reserve

In prior GRAs, the Board has deliberated on and ordered the appropriate level of and methodology for setting MPI's Basic Rate Stabilization Reserve (RSR) and Total Equity target capital range. The purpose of the RSR is to protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from non-recurring events or factors.

In the 2020 GRA, prior to the filing of that application, the Government of Manitoba enacted the *Reserves Regulation*, M.R. 76/2019 (the Regulation), which set out the manner of determining the amount to be maintained by the Corporation in its reserves for the Basic, Extension and Special Risk Extension lines of business for the purposes

of *The Manitoba Public Insurance Corporation Act*. The Regulation also restricted the use of any surplus reserve funds in the Basic RSR, requiring that any amounts in excess of the amount required by the Regulation be used only for the purpose of reducing the Basic rate indication in a subsequent year. The effect of the Regulation was to set the Basic RSR at a minimum level of the amount determined using a MCT ratio of 100%, rather than having the Basic RSR set by the Board through the GRA process.

In Order 176/19, the Board found that the Regulation was invalid and therefore not binding on the Board for the purposes of setting Basic's target capital level, or in its assessment of the merits of MPI's Capital Management Plan (CMP). The Board found, however, that the CMP and the proposed Basic target capital level reflecting a 100% MCT ratio were just and reasonable in the circumstances and approved the Corporation's CMP for a two-year trial period, allowing the Board to fully assess the performance of the CMP and the Basic target capital level.

In this Application, the Corporation has applied for approval for a new CMP, which would include the continuation of the following components: AAP ratemaking; capital targets by line of business (now set by legislation), capital transfer rules, and a capital build provision. The Corporation proposed the removal of the capital release provision contained in the 2019 CMP and proposed the addition of a capital rebate provision. The revisions requested to the CMP aligned with new legislation, which came into force in early November 2022, during the GRA hearing.

The legislation amended the *MPIC Act* and came into force through the passage of Bill 45, *The Budget Implementation and Tax Statutes Amendments Act, 2022* (BITSA). The effect of the BITSA amendments is to remove the Board's previously held jurisdiction to set the level of the Basic RSR, to prescribe the level of the Basic RSR at a minimum of 100% MCT, and to permit MPI to apply to the Board for a rebate when the MCT exceeds 120% at the beginning of the fiscal year.

The Board finds that MPI's proposed new CMP requires greater clarity, transparency and accountability. The *MPIC Act* was amended near the conclusion of the public hearings, which did not provide the parties or the Board with an adequate opportunity to fully consider the impacts of this new legislation, or to explore in detail how MPI proposes to implement these legislative requirements. The Board finds that a more robust presentation of the proposed CMP is required from MPI and has therefore declined to approve the new CMP at this time. The Board has directed that the Corporation file a proposed CMP in the 2024 GRA, which is to include specific criteria and processes under which the Corporation will apply to the Board for a capital rebate and criteria for a capital build.

Vehicles For Hire

On March 1, 2018, MPI introduced a new vehicle for hire (VFH) insurance model for insurance coverages for the various subcategories of VFH, including taxis, limousines, accessible vehicles and private passenger vehicles.

The Corporation acknowledged, at that time, that this rating class had not previously existed in Manitoba. Therefore, it had no internal data to support its ratemaking.

In Board Order 1/21, following the 2021 GRA, the Board directed consecutive rate increases of 20% for the Passenger VFH Major Class in the 2022/2023 and 2023/2024 GRAs, unless MPI could demonstrate that the Passenger VFH Major Class was no longer being subsidized. Board Order 134/21 following the 2022 GRA, directed a rate increase of 20% from current rates for the Passenger VFH category, along with a rate increase of 20% for the Passenger VFH Major class in the 2023 GRA, subject to the Board's ability to vary such increase based upon the experience filed within that GRA and as the Passenger VFH rates approach actuarially indicated break-even rates.

In this GRA, the Corporation confirmed that the Passenger VFH category will receive a rate increase of 20% from current rates.

The Corporation has also advised that it has been developing a blanket policy for

transportation network companies (TNC) that dispatch Passenger VFH. It is the Corporation's intention that this blanket policy will replace the current Passenger VFH category. The Corporation is planning on submitting the blanket policy for approval in the 2024 GRA.

Driver Safety Rating

History

MPI introduced the Driver Safety Rating (DSR) system in 2010 to replace the Merit Discount Program. The DSR was made possible after MPI assumed the role of administrator of DVA in 2004.

Two aspects of the DSR have been under review for the last number of GRAs: the rating scale and the rating model. The rating scale is the levels of driver demerits and merits used to set the amount of driver premium payable or the vehicle premium discount to be applied (if any) to a policy of vehicle insurance, respectively.

The rating model is the method by which MPI determines which driver record will be used to set the amount of any vehicle premium discount. Currently, MPI employs the Registered Owner model, which calculates the vehicle premium discount based on the DSR scale level of the registered owner of the vehicle, as opposed to, for example, the primary driver of the insured vehicle.

Rating Scale

In the 2022 GRA MPI filed proposed driver premium rates and vehicle premium discounts that were more statistically consistent with the estimated claims cost per driver for each level of the DSR scale. Given the gap between the discount/premium charge and the indicated discount/premium charge, MPI recommended a gradual implementation to remedy the cross-subsidization of drivers with low DSR ratings by those with high DSR ratings. MPI indicated a plan to increase the upper limit of the DSR scale from +15 to +20 over the next five years and proposed to move one-fifth of the difference between current and indicated vehicle premium discounts each year.

Directive 11.15 from Order 134/21 following the 2022 GRA required the Corporation to bring forward a DSR transition plan to manage the required increase in the base rate and year-to-year rate dislocation, while moving the DSR vehicle discounts and driver premiums to actuarial targets in a timely manner.

Rating Scale Changes

MPI indicated in this GRA that it will seek adjustments to DSR discounts depending on the size of the overall rate indication in each GRA. While MPI intends to adjust to actuarially-indicated percentages and resolve the cross-subsidization between DSR levels, its plan includes a reassessment of the discounts every year. The pace of the changes will be influenced by the rate indication of the GRA. Where possible, MPI intends to continue allocating rate decreases to the DSR levels that are furthest from the actuarially indicated percentage.

In order to manage the required increase to the base rate and the year-to-year rate dislocation, changes to the DSR must occur over several years. However, MPI advised that at this point MPI is not able to create a long-term plan with specific timelines or discounts it intends to use.

In its closing submission, MPI stated with respect to DSR that the relief sought in this GRA was limited to increasing the maximum merit level of the DSR Scale from +16 to +17, but with no changes to discounts. This was the first indication to the Board that MPI had changed its position on the DSR scale discounts.

The Board finds that the Corporation has not provided a satisfactory plan to address cross-subsidization, and its position in this GRA is not consistent with its submission in the 2022 GRA that it would seek to move the discount/premiums closer to their actuarial targets over the next five years.

The Board has therefore directed MPI to move all DSR discounts one-fifth of the way to actuarially indicated rates, which applies to all positive DSR levels. The calculation of the change is to be one-fifth of the difference between the current and the actuarially indicated discount for each DSR level, rounded down to the nearest whole number, with base rates adjusted to balance these changes.

Rating Model

In the 2022 GRA, MPI advised that it intended to continue to use the Registered Owner model and would not be considering any changes to its model for five years. The Board therefore found that MPI had not complied with Order 1/21, that a change in the rating model was required. Directive 11.13 of Order 134/21 required the Corporation, in this GRA, to bring forward a five-year plan for the implementation of the Primary Driver rating model. Directive 11.13 was the subject of an application for leave to appeal filed by MPI in the Manitoba Court of Appeal on March 29, 2022. The court dismissed MPI's application on October 19, 2022.

In response to Directive 11.13 of Order 134/21, the Corporation has filed a plan with a six-year time frame for the implementation of the Primary Driver rating model. The Corporation advised that the time frame was based on estimates. The steps identified by MPI to transition to a Primary Driver rating model prior to applying to the Board for approval include obtaining government approval of regulatory changes, developing

business rules, consulting with stakeholders, coordinating with the launch of online systems, and finalizing pricing.

MPI advised however that it plans to assess several rating models before deciding on a future direction. The Board has directed MPI to bring forward a detailed plan for a transition to a new rating model in the 2024 GRA.

Investments

The Corporation's funds available for Investment are primarily the assets supporting the unearned premium reserves and unpaid claims reserves. MPI previously had a single, commingled investment portfolio that backed all liabilities and surplus. As a result of recommendations made by Mercer (Canada) Ltd. (Mercer) in a 2017 ALM Study, MPI separated its co-mingled investment portfolio into five unique portfolios including Basic Claims, Basic Rate Stabilization Reserve (RSR), Employee Future Benefits or Pension (EFB), Extension, and Special Risk Extension (SRE). Each has unique asset allocations and allows the Corporation to develop investment portfolios better reflecting associated liabilities and investment goals of each portfolio.

The Basic Claims portfolio is invested in 100% fixed income assets, with 60% in Provincial bonds and the remainder (40%) invested in both Corporate and nonmarketable municipal, universities, schools and hospitals (MUSH) bonds. The portfolios backing Extension, SRE and RSR are balanced portfolios with 50% growth assets and 50% fixed income assets, and the portfolio backing Employee Future Benefits has a higher allocation to growth assets, at 60%.

The Corporation's total investment assets at March 31, 2022, were over \$3.5 billion. The size of the Basic portfolio, including Basic Claims, RSR, and EFB, is \$2.9 billion for 2021/22, is forecast to be \$3.0 billion in 2022/23 and is projected to grow to \$3.1 billion for 2023/24.

Throughout 2021, the COVID-19 pandemic continued to have a major impact on the economy and increased the volatility of MPI's investment income. In January 2022, the Omicron variant wave had a negative impact on investment markets and caused worldwide supply shortages. The Russian invasion of Ukraine put further stress on the supply lines and propelled the consumer price index to 6.7%, the highest year-over-year increase in 30 years. This environment led to sharp increases in interest rates. The yields on Corporate Bonds rose between 148 to 149 basis points on March 31, 2022, while Provincial bonds increased by 99 basis points and the Government of Canada's ten-year bond increased by 85 basis points. As a result, the Corporation reported negative returns on its fixed-income investments within the Basic claims portfolio. Corporate bond returns were -5.1%, while provincial bonds returned -5.6%. MPI reported marketable bond unrealized losses of \$123 million on March 31, 2022.

The Corporation reported a Basic investment loss of \$47.2 million in 2021/22. Contributing to this loss was the Corporation's decision to write down \$29.2 million in fixed-income assets in the EFB and RSR portfolios on Corporate and Provincial bonds and private debt. Basic's share of this write-down was \$22 million.

From March 31, 2022 to August 31, 2022, the yields on Corporate Bonds held by the Corporation increased by between 116 and 117 basis points, the yield on Provincial bonds increased by 89 basis points and the Government of Canada's ten-year bond increased by 71 basis points. This sharp rise in interest rates in the last eight months has resulted in a further devaluation of the Corporation's fixed-income holdings. The forecast Basic investment income for 2022/23 decreased from \$136.1 million to \$1.3 million. The Corporation's update projected a Basic investment income of \$120.7 million for 2023/24 and \$119.7 million for 2024/25.

Historically, MPI has commissioned Asset Liability Management (ALM) studies in four-year intervals. Prior to this GRA, MPI's most recent ALM study was presented in the 2018 GRA.

In the 2022 GRA, MPI indicated that it would require a new ALM study as the Corporation needed to review its investment strategies before adopting International Financial Reporting Standards (IFRS) 17 (Insurance Contracts) and 9 (Financial Instruments), which are to take effect April 1, 2023.

MPI engaged Mercer to conduct the 2022 ALM study. Mercer's ALM study covered issues including the implications of adopting IFRS 9 and 17 and the impact on investment strategy, consideration of adding new fixed-income asset classes, merits of adding non-fixed income asset classes for long tail Basic liabilities, asset class optimization and review of new assets classes such as real return bonds, commercial mortgages, real estate, three times levered long provincial bonds, three times levered real return bonds and Canadian and global equities. The study considered the impact of various inflation scenarios on MPI assets and liabilities using a real liability benchmark. Mercer's analysis indicated that real return bonds improved returns and lowered risk related to inflation scenarios evaluated.

Mercer's analysis demonstrated that MPI has an opportunity to earn a greater return on its investments by making adjustments to its asset mix, while maintaining its current level of risk. The Board does not have the jurisdiction to direct MPI's investment strategy; however, if MPI has not made any meaningful changes to its portfolio by the 2024 GRA, MPI will need to justify why it is choosing a portfolio mix with same or more risk but less return. The Board has therefore directed MPI to file with the Board the recommendations made by Mercer to its Investment Committee on November 10, 2022, as soon as reasonably practicable, and by January 31, 2023, file the recommendations made by the Investment Committee to the MPI Board and the resulting decisions approved by the MPI Board.

The Board has accepted Mercer's recommendation that MPI should discontinue its comparison against peer organizations due to the differences in asset allocation among the peers. The Board has therefore directed MPI to file, in the 2024 GRA, a report from

Mercer comparing MPI's investment returns against suitable peer investment managers selected by Mercer.

Road Safety

The issue of road safety was reviewed in detail in this GRA, following the Board's direction set out in Order 176/19, which directed MPI to hold a Technical Conference on road safety and loss prevention that would be wide-ranging, covering the Corporation's road safety priorities and programming, budget and continued progress of its efforts to address road safety through engagement with stakeholders. The Technical Conference was held on June 23 and 24, 2022.

MPI has developed the 2022-2025 Road Safety Strategy. The new road safety strategy is divided into two phases. The first phase of the strategy was to take place throughout 2022 and is centered around improving understanding of the current road safety situation in Manitoba through research and data analysis. MPI anticipates completing the first phase of the strategy at the end of the fiscal year of 2022/23. The second phase of the strategy is to cover 2023 through to 2025 and will involve implementing targeted programming to address those issues identified in the first phase.

The new road safety strategy is organized by three main guiding principles: first, decisions on road safety must make sense based on data both relating to the causes of fatalities and serious injuries, as well as the effectiveness of MPI initiatives; second, a commitment to engaging with First Nations on road safety issues, with the understanding that First Nations face unique road safety challenges; and third, continuously improving the road safety data ecosystem.

In the budget for 2022/23, MPI has based its forecasted expenses on the expectation that road safety programming and initiatives will return to a pre-pandemic level. In the October rate update, MPI had increased its forecasted expenses related to road safety for the 2023/24, 2024/25 and 2025/26 years by approximately \$2 million per year. The evidence provided by MPI was that this increase would allow a cushion in the budget so that MPI

would be able to implement new programs and initiatives as soon as the need arose, without having to go through a lengthy budget approval process. This will allow MPI to respond to new road safety concerns quickly.

The Board echoes the concerns raised by the Intervener, Bike Winnipeg Inc., that MPI's previous Vision Zero approach, which aimed to increase road safety efforts until there were no fatalities in Manitoba caused by road safety, is not an identified priority in the road safety strategy.

With respect to the additional expense that MPI has added to its road safety budget for the next few years, which amounts are to be used for road safety initiatives and programming as they become necessary, the Board has directed MPI to provide information in the 2024 GRA and all future GRAs regarding how these additional funds are ultimately used. The Board has also directed MPI to provide updates on the road safety pilot projects that it has undertaken in the 2024 GRA.

Process Issues

The Board notes some concerns with the process in this GRA.

The Board sets rates for the 2023/24 insurance year based upon projections presented by MPI during the GRA. In setting rates, the Board needs to review certain metrics; however, the Board's process has been frustrated by the changes in metrics that MPI uses from year to year. Instances of changing metrics include:

- MPI ending its engagement with Ward for operational benchmarking and relying on Crown benchmarking, then advising in this GRA that it has again engaged a third party consultant for benchmarking;
- With respect to Project Nova, MPI previously relied on an NPV analysis and has now advised that the project will proceed regardless of NPV;

- Previously, MPI focused on cost containment, now given the forecast increase in staffing levels, and negotiating wage increases above the rate of inflation, that appears to frustrate past cost containment efforts;

MPI presented significant changes to forecasted staffing levels and operating expenses after the public hearings had commenced. As well, a substantive change to the ratemaking methodology was made in the October 12, 2022 update. This posed significant challenges for the Board in its ability to analyze the information provided.

Further, as noted above, MPI changed its position on its DSR request in closing submissions. If MPI is going to make material changes to its request, it must give reasonable advance notice to the Board and interveners.

The Board notes that key internal MPI decision making often takes place shortly after the conclusion of the GRA. As a consequence, the Board is often reviewing information in the GRA that becomes obsolete soon after, and then is provided with updated, accurate information many months later once a new application is filed. As an example, in the 2022 GRA MPI was having internal discussions about the direction of Project Nova, and had retained McKinsey & Company (Canada) (McKinsey) to provide a Project Nova program review, while the public hearings were taking place. The Board was not made aware of the full extent of these issues until the 2023 GRA was filed.

Given this, the MPI Board of Directors could make key decisions altering the evidence on the 2023/24 budget within a month of the conclusion of the public hearing. That means the projections relied upon by the Board to set rates may no longer be valid, but the Board will not be made aware until MPI files its 2024/25 GRA in late June, some eight months after the previous hearing and three months into MPI's fiscal year.

In recent GRAs, the volume of Commercially Sensitive Information has become significant, and the GRA timetable leaves little time for robust analysis of the claims for confidentiality made by MPI and its third-party consultants. Board hearings and evidence are presumptively open to the public. The Board is concerned that a rigorous analysis of

the legitimacy of some of these claims for confidentiality is being compromised due to time constraints. The Board recommends that MPI include a provision in its contracts with third-party consultants that their findings and scope of their review will form part of the public record and that they may be called as witnesses to present their findings in future GRAs.

Given these concerns, the Board has directed that a meeting take place between MPI and Board staff and advisors, no later than April 30, 2023 to discuss the issues noted by the Board and to explore potential improvements to the GRA process.

If the MPI Board of Directors approves material changes to MPI's budgeted expenditures, including to its operating expenses or to the Project Nova budget, it must provide the Board with written notice within 14 days of MPI Board approval, and such change will be the subject of discussions at the process review meeting to take place no later than April 30, 2023.

Lastly, the Board finds the recommendations made by the presenters in this GRA persuasive. The Board anticipates that the Minimum Filing Requirements for the 2024 GRA will include a requirement for a master table of contents in the format suggested by the presenters from the Faculty of Law, Robson Hall Rights Clinic, University of Manitoba, in order to make the GRA more accessible to the public.

2.0 THE RATE APPLICATION

2.1 *Procedural History*

On July 12, 2022, the Corporation filed with the Board the 2023 General Rate Application (GRA or Application), seeking approval of premiums for universal compulsory automobile insurance (Basic), commencing April 1, 2023 and ending March 31, 2024.

The Application as filed sought an overall rate decrease of 0.9% on a provisional basis, to be updated as at August 31, 2022. The 0.9% rate decrease was calculated in accordance with Accepted Actuarial Practice (AAP) and grounded in a Naïve interest rate forecast as at March 31, 2022.

Prior to the filing of the Application, the Board issued Interim Procedural Order 60/22, in which it approved an Issues List for the Application on a preliminary basis. In doing so, the issues were placed in one of three categories: issues to be considered in the scope of the 2023 GRA in the normal course; issues requiring more detailed examination in the 2023 GRA; and issues deferred from the 2023 GRA to future applications, or which would be the subject of a technical conference or another process.

After the filing of the Application, and following the Pre-Hearing Conference, by Order 85/22 dated July 29, 2022, the Board approved the Issues List on a final basis, and granted intervener status to the following parties:

- Consumers' Association of Canada (Manitoba) Inc. (CAC);
- Coalition of Manitoba Motorcycle Groups (CMMG); and
- Duffy's Taxi Ltd. and Unicity Taxi Ltd. (Taxi Coalition).

In addition, the Board approved the application for Intervener status filed by Insurance Brokers Association of Manitoba (IBAM) on a limited basis, in respect of broker commission expenses and the MPI-IBAM Future Services Agreement.

On August 4, 2022, Bike Winnipeg Inc. (BW) filed an application for Intervener status in the GRA, advising that it had missed the deadline to apply due to a miscommunication between it and its counsel. By Order 94/22 dated August 12, 2022, the Board approved BW's application to intervene in the 2023 GRA in respect of road safety, and cost containment and loss prevention related to road safety.

In Order 85/22, the Board provided direction to MPI on the documents that it was required to file in support of the final rate indication. The Board also approved the process for the treatment of Commercially Sensitive Information (CSI) in the Application (CSI Process). Pursuant to the CSI Process, MPI was not required to bring a motion for confidential status each time it filed material claimed as such with the Board. Rather, once all material claimed as confidential in this GRA was filed with the Board, MPI filed an omnibus motion seeking a Board order approving the confidential status of all the material. Prior to then, when MPI filed material claimed as confidential with the Board, it provided copies of that material to interveners and Board Advisors who had executed undertakings and confidentiality agreements. Publicly available information was redacted by MPI to prevent the release of any information claimed as confidential. MPI filed the omnibus motion on October 3, 2022. By Order 112/22, dated October 12, 2022, the Board found that the material claimed as confidential by MPI would be received in confidence.

Thirteen days of public hearings took place, during which the Board heard evidence from witnesses appearing on behalf of MPI and CAC. The Board also received submissions from presenters. The public hearings began on October 19, 2022, and concluded on November 9, 2022.

2.2 The Application

The Board's jurisdiction applies to rate-setting for MPI's Basic insurance line of business and not to MPI's other optional lines of business, namely, Extension and Special Risk Extension (SRE).

The GRA requires the Board to set just and reasonable insurance rates. In this Application, MPI did not request the continuation of the capital release provision and did not apply for a rebate. It is important to distinguish among each of these concepts.

Rates

A vehicle's base premium depends on where in Manitoba the ratepayer lives, the type of vehicle, and the vehicle's use. The Driver Safety Rating (DSR) may provide a discount on the vehicle's base premium. Currently, MPI employs the Registered Owner rating model in order to determine the applicable discount on the vehicle's base premium. The Registered Owner rating model assigns the vehicle premium discount based on the placement of the registered owner of the vehicle on the DSR scale.

The vehicle base premium, adjusted for the vehicle premium discount, is the annual rate a ratepayer pays for vehicle insurance. Each year, the Board orders an overall rate change that applies to the annual rate of vehicle insurance.

Capital Release

In the 2021 and 2022 GRAs, when MPI's capital reserve fund had excess capital, the Board ordered a capital release. Based on MPI's Capital Management Plan (CMP) in effect at the time, the capital release in one year could be as high as 5%. The capital release was applied to the rate to be paid in the next (i.e., upcoming) insurance year and was not applicable to any future years. The capital release served to reduce the amount of a vehicle's insurance premium in the upcoming insurance year.

Rebate

In two Special Rebate Applications in 2021 and one Special Rebate Application in 2022, the Board ordered a rebate when MPI's capital reserve fund had excess capital. A rebate is an amount refunded to a ratepayer from premiums that the ratepayer had already paid in the current or prior insurance year. The amount of the rebate paid to the ratepayer depends on the premium the ratepayer paid in the current or prior year.

2.2.1 Rate Request

In its provisional rate request filed on July 12, 2022, the Corporation requested an overall 0.9% rate decrease in Basic vehicle premium revenue, calculated in accordance with Accepted Actuarial Practice in Canada (AAP), based provisionally on the interest rate forecast as at March 31, 2022.

MPI did not apply to use the capital release or build provisions of the existing CMP. The Corporation's rationale was that it was not just and reasonable to seek a capital build when it forecasts the Basic Rate Stabilization Reserve (RSR) to be above 100% Minimum Capital Test (MCT) at the commencement of the rating year, nor is it just and reasonable for it to apply for a capital release when the RSR is below the target of 100% MCT.

MPI filed its rate update with the Board on October 12, 2022, in which the provisional rate request was updated to a final rate request for a decrease of 0.1% (-0.05% rounded to one decimal).

The vehicle premium rates applied for by MPI include experience-based rate adjustments largely ranging from -15% to +15%, based on adjustment rules. In addition, the Corporation combined classification offsets for all vehicles except off-road vehicles to achieve revenue neutrality and implemented rate group, rate line and classification changes for 2022.

Rates paid by individual ratepayers within each major class are determined by their driving record and actual claims experience, the kind of vehicle (make and model and

year) registered, the purpose for which the vehicle is driven and the territory in which the ratepayer resides. As a result, some individuals will experience increases in insurance rates, and others will experience decreases.

The Corporation sought no changes to miscellaneous permits and certificates, the DSR system, service and transaction fees, or fleet rebates and surcharges. In its provisional rate request, the Corporation did request a change to vehicle premium discounts applied to DSR levels +9 to +14 and +16. MPI did not seek changes to driver premiums, but sought approval of an increase to the maximum merit level under the DSR from +16 to +17. In its closing submissions, MPI stated that it was no longer requesting any changes to vehicle premium discounts applied to DSR levels +9 to +14 and +16.

The history of the percentage rate changes applied for by the Corporation and ordered by the Board is as follows:

Year	Applied For (%)	Ordered (%)
2023/24	-0.1	-3.8
2022/23	-1.2	-1.57
2021/22	-8.8	-8.8
2020/21	-0.6	-0.6
2019/20	2.2	1.8
2018/19	2.7	2.6
2017/18	4.3	3.7
2016/17	0.0	0.0
2015/16	3.4	3.4
2014/15	1.8	0.9
2013/14	0.0	0.0
2012/13	-6.8	-8.0
2011/12	-4.0	-4.0
2010/11	0.0	0.0
2009/10	-1.0	-1.0
2008/09	0.0	0.0
2007/08	-2.6	-2.6
2006/07	0.0	0.0
2005/06	0.0	-1.0
2004/05	2.5	3.7
2003/04	0.0	-1.0
2002/03	-1.2	0.0

2.3 *Basic Revenue Requirement*

The Corporation derives revenue from four main sources to fund Basic: vehicle premiums; driver premiums; service and transaction fees; and investment income. The Corporation's projected operating results for 2023/24 and 2024/25 (the years affected by the

Application) based on the October 12, 2022 update and final rate request of -0.1% were as follows:

	2023/24 Projection Per October 12, 2022, Update (\$ millions)	2024/25 Projection Per October 12, 2022, Update (\$ millions)
Motor Vehicle Premiums	\$1,136.8	\$1,177.5
Capital Release Provision	(28.4)	0.0
Drivers' License Premiums	61.5	64.7
Reinsurance ceded	(16.8)	(17.3)
Total Net Premiums Earned	1,153.1	1,224.8
Investment Income	120.8	119.7
Service Fees & Other Revenues	27.9	27.3
Total Earned Revenues	\$1,301.5	\$1,371.8
Claims Incurred	\$938.1	\$986.3
Claims Expenses	157.4	158.0
Road Safety Expenses	15.0	14.1
Operating Expenses	107.5	108.1
Commissions	51.8	58.6
Premium Taxes	35.1	37.3
Regulatory/Appeal expenses	4.8	4.4
Total Claims and Expenses	\$1,309.7	\$1,366.8
Net income (loss) – Basic	(\$8.1)	\$ 5.0

The above forecast was based on a Naïve interest rate forecast (assuming no changes in current interest rates) as at August 31, 2022, which MPI requested the Board use for rate-setting purposes.

The Application as initially filed was based on market interest rates as of March 31, 2022 with a new money yield of 3.43%, a breakeven rate indication, excluding the impact of coverage changes, of -0.86%, and combined with the impact of the removal of the 5% capital release provision (which results in a 5.54% increase) was an overall 4.68% premium increase.

The Corporation updated the 2023 GRA rate indication with interest rates as of August 31, 2022, reflecting more recent yields. However, this update was based on two-year Corporate and Provincial bond duration indices published by FTSE Russell, with a reduction of seven basis points for investment manager expenses. These two changes were a departure from past practice. In the initial filing, the 2023 GRA was consistent with the approach followed in the 2022 GRA. The new money yield was based on a weighted average of estimated provincial and corporate bonds yield with a duration equal to that of the investment portfolio supporting the Basic claims, or about 10 years. The October 12, 2022 update departed from the past practice and was based on the two-year bond duration indices yield as of August 31, 2022, reduced seven basis points for investment manager expenses and generating a new money yield of 4.05%, an increase of 62 basis points. The determination of new money yield is discussed in Section 3 of this Order. The combined impact of the change in new money yield and changes in forecast expenses and claims was an increase in the breakeven rate indication of 0.81%, resulting in the revised breakeven rate indication of -0.05%. The combined effect of the -0.05% indicated rate and the removal of the capital release provision, estimated to increase rates by 5.54% (based on how MPI implemented the capital release in 2022) would result in an effective 5.49% increase in premiums payable for renewal ratepayers.

MPI also updated its forecast for the 2022/23 fiscal year, the subject of last year's GRA. Based on the October 12, 2022 update, which included updated interest rates, expenses and claims, the forecast was revised from \$26.7 million net income to a net loss of \$16.1 million, a decrease of \$42.9 million.

2.4 Vehicle Premiums

Total premiums earned were forecasted to be \$1.14 billion in 2023/24, increasing to \$1.18 billion in 2024/25. The revenue earned by Basic in respect of vehicle premiums can change due to any of four factors: rate changes as ordered by the Board; growth in the number of vehicles in the fleet (Volume Factor); changes in the average premium per vehicle caused by factors (other than rate changes) such as the gradual upgrade of the

fleet (Upgrade Factor); and the impact on vehicle insurance premiums from changes in the average DSR level of registered vehicle owners (DSR Upgrade Factor). MPI's combined Vehicle and DSR Upgrade factor (Total Upgrade Factor) is forecast to be 2.41% for 2022/23 and ranges from 2.42% in 2024/25 to 2.55% in 2023/24 reflected in the table below.

The Volume Factor is based upon the historical growth rate of HTA vehicles only (including the Private Passenger, Commercial, Public and Motorcycle Major classes, and excluding trailers and off-road vehicles), which account for 75% of the total earned units and over 98% of MPI's total Basic written premiums. Therefore, the HTA unit forecast is the most relevant to the overall Basic vehicle premium forecast.

Volume growth is forecasted using policy year earned units rather than the earned year units methodology used in prior GRAs. MPI made this change because the policy year earned unit is a leading indicator of volume growth when compared to the prior methodology. MPI forecasted Volume Factor growth of 1.11% in 2022/23. Volume Factor growth for 2023/24 and thereafter was forecast at 1.07% per annum. The combined impact of the forecast premium revenue growth due to Upgrade Factor and Volume Factor is as follows:

Year	Vehicle Upgrade Factor	DSR Upgrade Factor	Total Upgrade Factor	Volume Factor	Total Upgrade & Volume Factor
2021/22	2.69%	-0.25%	2.44%	1.25%	3.69%
2022/23	2.45%	-0.04%	2.41%	1.11%	3.52%
2023/24	2.45%	0.10%	2.55%	1.07%	3.62%
2024/25	2.45%	-0.03%	2.42%	1.07%	3.49%
2025/26	2.45%	0.03%	2.48%	1.07%	3.55%
2026/27	2.45%	0.03%	2.48%	1.07%	3.55%

2.5 Driver Premiums

The amount of Driver Premiums paid by licensed drivers is set based on their placement on the DSR scale. In Order 130/17, issued after the 2018 GRA, the DSR scale was changed to a range from \$15 at level +15 to \$3,000 at demerit level -20. MPI proposes to expand the DSR scale in 2023/24 to include a level +17 but has not proposed any changes in the driver premiums payable.

Driver premiums were forecast to be \$60.4 million in 2022/23, to increase to \$61.5 million in 2023/24, and \$64.7 million in 2024/25. The forecast considers five components: the number of earned driver units by DSR level; the expected movement of drivers on the DSR scale; the average number of earned driver units by DSR level; the driver premiums by DSR level; and a percentage reduction in drivers' premiums from appeals.

2.6 Investment Income

The Corporation's funds available for investment are primarily the assets supporting the unearned premium reserves and unpaid claims reserves. As a result of the full implementation in 2021 of the Corporation's 2017 Mercer Asset Liability Management (ALM) Study, these funds have now been separated into five investment portfolios. The funds within the investment portfolios support the payment of Basic Claims, the Basic RSR, and Employee Future Benefits, primarily the pension obligations of the Corporation (EFB). As well, the Corporation now has separate investment portfolios to support its Extension and SRE lines of business. Each of these portfolios has unique asset allocations, which has allowed MPI to set appropriate investment goals for each.

The Corporation had short and long-term investments, including cash and equities, for the Basic Line of Business (Basic Claims, Basic RSR and EFB) totaling \$2.9 billion in 2021/22, which is forecast to grow to over \$3.4 billion by 2026/27.

Investment income earned from the Corporation's investment portfolio reduces the revenue that it is required to collect through premiums. The Corporation's investment

income was allocated to the Basic line of business based on a monthly averaging of the funds available within each division. MPI realized \$47.2 million in net investment losses in 2021/22.

Based on the August 31, 2022 updated Naïve interest rate forecast, MPI forecasted investment income allocated to Basic of \$1.3 million in 2022/23, \$120.7 million in 2023/24 and \$119.7 million in 2024/25. Further discussion on MPI's investment portfolios and returns is found in Section 8 of this Order.

2.7 Service Fees and Other Revenues

The Corporation reported that service fees and other revenues account for approximately 2.0% to 2.5% of annual revenues for the Basic program, and that there are approximately 25 to 30 service fees and revenue types that are allocated to Basic. Service fees and other revenues include revenue from quarterly and monthly pre-authorized payment plans, late payment fees, motor vehicle transaction fees, dishonoured payment fees, pre-authorized default fees and other fee-related items. MPI is projecting income to Basic from Service Fees and Other Revenues of \$28.1 million in 2022/23, \$27.8 million in 2023/24, and \$27.3 million in 2024/25. MPI did not apply for any changes in service fees.

2.8 Extension Operations

The Corporation filed historical financial information and forecasts for Extension operations. The CMP, which was approved by the Board in Order 176/19 and was in effect through the 2022 GRA, assumed the transfer of excess retained earnings from Extension to Basic, to assist with the building of Basic capital.

	2023/24 Projection Per Oct 12, 2022 Update (\$millions)	2024/25 Projection Per Oct 12, 2022 Update (\$millions)
EXTENSION		
Motor Vehicles	\$190.6	\$196.7
Reinsurance ceded	(2.1)	(2.1)
Total Net Premiums Earned	188.5	194.6
Investment Income	7.0	6.8
Service Fees & Other Revenues	13.3	13.4
Total Earned Revenues	\$208.8	\$214.8
Claims Incurred	\$92.1	\$93.3
Claims Expenses	15.3	16.5
Road Safety Expenses	1.5	1.3
Operating Expenses	12.1	12.9
Commissions	34.0	34.5
Premium Taxes	5.7	5.9
Total Claims and Expenses	\$160.9	\$164.4
Net income – Extension	\$47.9	\$50.4

In the 2021 GRA, MPI committed to implementing Compulsory and Extension Revision Project (CERP) changes with no impact on Basic ratepayers. MPI advised that it expected a reduction in the Extension profit margin to ensure that changes related to CERP are both revenue and rate neutral.

The target net income profit margin for Extension was forecast last year to be 33.8% in 2021/22 and 26.5% in 2022/23. MPI revised its forecast net income profit margin to 28.2% in 2022/23, 25.0% in 2023/24 and 25.5% in 2024/25.

2.9 Extension Transfers to Driver and Vehicle Administration

Over fiscal years 2020/21 and 2021/22, MPI transferred \$117 million from Extension to DVA. As a result, DVA's retained earnings were \$84.3 million at March 31, 2022.

In the 2022 GRA, MPI indicated these transfers would pay for the Project Nova costs and five years' operating deficits, and would carry the DVA line of business to near the end of the 2026/27 fiscal year. Based on an updated forecast cost of Project Nova, provided at this year's application, DVA's share of the project's costs has increased from \$51 million to \$93.4 million. Given this \$42.4 million increase in cost attributed to DVA operations, MPI is forecasting deficits of \$16.9 million in 2022/23, \$23.9 million in 2023/24 and \$40.9 million in 2024/25 and \$35.9 million in 2025/26. DVA retained earnings are forecast to be in a deficit in 2025/26 without additional funding from the Province.

MPI is in ongoing discussions with the provincial government about making the DVA line of business self-sufficient. By letter dated March 30, 2022, the provincial government advised the MPI Board of Directors not to approve any further transfers to the DVA line of business for 2022/23 or 2023/24, while the government undertakes a full review of the DVA program and its funding model.

3.0 RATE INDICATIONS

3.1 *Accepted Actuarial Practice in Canada*

Ratemaking in accordance with AAP involves determining the indicated rate level such that, for a given future rating year, the present value of expected future revenue cash flows (e.g., premiums and fees) is equal to the present value of expected future expense cash flows (e.g., claims, adjusting expenses and non-claims-related costs, including any profit provision).

In Order 162/16, the Board approved the rate indication prepared by the Corporation based on AAP and directed that the Corporation follow AAP as the basis for its rate indications in future rate applications, which the Corporation commenced doing in the 2018 GRA and continued in this Application.

The Corporation's estimate of its overall rate requirement is sensitive to the methods and assumptions used in its derivation. In the October update to this Application, one change was introduced by the Corporation with respect to methodology or the basis of selection of assumptions in this regard. This was with regards to the new money yield determination.

Four aspects of the AAP ratemaking methodology were explored in some detail through this GRA process: the new money yield, claims costs forecasts, expense forecasts, and alternative rate indications.

3.1.1 *New Money Yield*

The 2023 GRA forecast was initially based on a Naïve interest rate forecast as at March 31, 2022, using a weighted average of provincial and corporate yields of bonds with durations of about ten years. The initial new money yield assumption was 3.43%, based on provincial bonds with a yield of 3.11% and corporate bonds with a yield of 4.13%.

The interest rate forecast was to be updated based on market information shortly before the start of the public hearing. The update was filed with the Board by the Corporation on October 12, 2022, and was based on a Naïve interest rate forecast as at August 31, 2022, with a new money yield of 4.05%, an increase of 62 basis points from the initial assumption, which reduced the rate indication by 1.3% (but other changes offset this reduction). The revised assumption was based on two-year corporate and provincial bond duration indices published by FTSE Russell and included a reduction of seven basis points for investment manager expense.

This approach is a change from the initial filing, in which both provincial and corporate bonds had an assumed duration of about ten years, and this new approach was based on the premium liability duration being about two years. The Corporation advised that the indicated new money yield would be 4.24%, based on bond durations equal to that of the investment portfolio supporting Basic claims, based on provincial bonds with a yield of 3.93% and corporate bonds with a yield of 5.01%. The use of a new money yield of 4.24% would change the AAP rate indication to about -0.43%. Reducing the 4.24% by seven basis points for investment management expense, to 4.17% would change the AAP rate indication to -0.29%.

The Canadian Institute of Actuaries Standards of Practice for Ratemaking: Property and Casualty Insurance states the following with respect to the time value of money, in section 2620.15: *The investment return rate for calculating the present value of cash flows would reflect the expected investment income to be earned on assets that might be acquired with the net cash flows resulting from the revenue at the indicated rate.* It continues in section 2620.16 with: *Among various possible sets of such assets the actuary would consider: Risk-free assets of appropriate duration; Fixed-income assets of appropriate duration; and assets which are expected to be acquired.* With respect to investment expenses, in Property and Casualty Insurance Valuation section 2240.01 indicates that the expected investment return depends on investment expenses.

3.1.2 Claims Costs Forecasts

The Corporation forecasts the accident year ultimate incurred losses. In general, it is assumed that the historical ultimate losses are the best predictor of future ultimate losses by accident year. There are instances in which this assumption may not be appropriate, due to significant changes in claims patterns (actual or expected). In such cases, the methodology differs in making the forecast.

For each coverage, and type of loss within each coverage, the Corporation forecasts claim counts and average claim severity based on a review of the historical experience, applying selected trends to historical claim levels to bring them to future accident year levels. The approach used by the Corporation for each coverage is consistent from one GRA to the next, unless a change is warranted. The Corporation uses a pure premium trend model to allocate the overall indicated rate level indication to each major class.

In the 2023 GRA, the 2023/24 total Basic ultimate incurred forecast (excluding interest rate impact) was \$16.6 million lower than the October 5, 2021 update in the 2022 GRA, primarily due to lower than forecasted PIPP and Liability claims. Similarly, the 2024/25 total Basic ultimate incurred forecast (excluding interest rate impact) was \$14.4 million lower than the October 5, 2021 update primarily due to lower than forecasted PIPP and Liability claims.

The October 12, 2022 update filed in this Application included increases in claims costs for 2023/24 and 2024/25 due to the revised impacts of the Light Vehicle Accreditation Agreement affecting Collision, updated inflation assumptions as of July 2023 affecting indexing for PIPP, and a reduction in internal loss adjustment expenses (ILAE). The combined impact of all of these updates was to increase the claims forecast and the AAP rate indication for 2023/24 by 0.6%.

In the Application as filed the Corporation forecasted net claims incurred for 2022/23 of \$885.5 million (excluding interest rate impact). In the October 12, 2022 update, the Corporation updated its forecast with an increase of \$38.3 million. This increase was due

primarily to a \$78.2 million increase in forecasted PIPP and Liability claims due to increased inflation assumptions, affecting all open claims with indexed benefits, \$8.2 million increase in ILAE due to increased claims costs, \$4.6 million increased forecasted Comprehensive claims, offset by a \$49.0 million reduction in forecasted Collision claims, due to a reduction in actual and forecast claim frequency (mainly total loss claims), offset by an increase in severity, and a \$3.0 million reduction in Property Damage claims.

The Corporation expects there will be permanent changes in driving behaviours and traffic congestion in 2022/23 and forward. The Corporation has applied a 5% work from home reduction to frequency for Collision, Property Damage, Weekly Indemnity, and Accident Benefits Other – indexed coverages for 2023/24 and 2024/25 years. This reduction is approximately half of the reduction in collision claim frequency observed over the 2021/22 accident year. The Corporation has also updated its Collision forecast claims frequency for 2022/23 in the October update downwards from 10.6% to 9.4% based on an observed reduction in claims to July 31, 2022.

3.1.3 Expense Forecasts

In the 2023 GRA as filed and in the October 12, 2022 update, the Corporation forecasted Basic expenses (in \$millions) in the rating years (2023/24 and 2024/25) to be higher than the 2022 GRA, as follows:

	2023/24				Total Change	2024/25				Total Change
	2022 GRA		2023 GRA			2022 GRA		2023 GRA		
	Initial	Oct.	Initial	Oct.		Initial	Oct.	Initial	Oct.	
Operating Expenses	78.1	86.8	96.0	107.5	+29.3	79.1	85.5	96.3	108.1	+29.0
Claims Expenses	151.2	157.6	162.8	157.4	+6.2	152.8	155.0	164.7	158.0	+5.2
Road Safety/Loss Prevention	12.9	12.5	12.7	15.0	+2.0	12.6	12.6	12.7	14.1	+1.5

The Corporation forecasted broker commissions, premium taxes, and regulatory/appeal expenses to be comparable to the estimates in the 2022 GRA for 2023/24 and 2024/25.

The expense increases are due primarily to large increases in forecast staffing levels, as well as increases in data processing costs. MPI indicated in the 2022 GRA that a new accounting standard (IAS-38 Intangible Assets) does not allow capitalization of cloud-based integration costs Software-as-a-Service (SaaS). The amount of initiative expenses (costs related to Nova) that are projected are \$21.6 million in 2023/24 and \$25.7 million in 2024/25.

The Canadian Institute of Actuaries Standards of Practice Ratemaking: Property and Casualty Insurance refer to the provision for expense costs in 2620.10 as follows: *The actuary would determine the provision for expense costs that is appropriate for the period during which the rates are expected to be in effect.* In addition, excerpted from 2620.11: *In selecting a provision for expense costs, the actuary would consider...That one-time expense costs may need to be amortized.* MPI indicated that they had not considered the amortization of one-time costs, and that they followed the accountants' position.

The Corporation holds a policy of catastrophe reinsurance with a limit of \$400 million, and casualty reinsurance covering losses from a single incident exceeding \$10 million. The previous policy limit for catastrophe coverage was \$300 million; MPI increased the limit by \$100 million a year ago because its modelling indicated that it was not adequately insured at \$300 million for a 1-in-100 year event.

The costs of reinsurance for the 2023/24 rating year are \$15.0 million for the catastrophe policy and \$1.9 million for casualty.

3.1.4 Financial Forecast – Impact of IFRS 9 and 17

The Corporation advised that the estimated restatements from IFRS 17 (Insurance Contracts) and IFRS 9 (Financial Instruments) are either not known or not available. As of November 1, 2022, MPI had not included the IFRS 17 impacts included in its financial model and had not yet completed the MCT model.

With respect to the financial impact of IFRS 9 and 17, MPI stated as follows:

- Adoption will not have an impact on MPI's AAP rate-setting, as rate setting is based on actuarial methodologies;
- The discount rate for discounting unpaid claims liabilities carried on the balance sheet will change with IFRS 17 as there will no longer be a connection between the company's asset portfolio and the discount rate. However, for AAP there will be no change to the methodology used for the discount rate;

- Acquisition costs are considered in the AAP rate indication, but whether the costs are deferred or not is an accounting adjustment and not relevant within the AAP rate indication. All costs associated with an insurance year are included in the AAP to ensure rate adequacy;
- Provision for adverse deviation is not included in the AAP rate indication. Risk adjustments under IFRS 17 will not be included in the AAP rate indication; and
- IFRS 9 and 17 investment mix will not affect AAP rate indications because MPI uses the new money yield in forming the AAP rate indication which will remain stable and not be affected by IFRS 17/9 adoption.

With respect to EFB, upon adoption of IFRS 17 and 9, assets backing EFB will be classified as Fair Value Through Profit & Loss (FVTPL). As a result, mark-to-market movements of the assets will no longer flow through Other Comprehensive Income (OCI), but rather, through Profit and Loss. This will introduce more net income volatility for MPI.

MPI adds or removes invested assets from the RSR depending on the net income of Basic. The IFRS 17 accounting policy changes will have some overall impact on equity, hence MPI would add or remove invested assets from the RSR.

MPI has yet to determine the impact of the adoption of IFRS 17 on its Integrated Cost Allocation Methodology (ICAM), but will review and confirm these impacts in its financial modeling.

3.1.5 Alternative AAP Indications

In Order 134/21, the Board provided two directives in respect of alternative rate indications.

Directive 11.6: In the 2023 GRA, the Corporation shall provide an alternative rate indication on an Overall basis and by Major Class using the yield that corresponds to each Major Class's average duration of its projected unpaid

claim liabilities as at October 1, 2023. The average duration by Major Class shall be calculated using only the claims for a particular Major Class. The Overall indication should be consistent with the Corporation's filed rate indication. MPI first determined the duration of the unpaid claims for each Major Class, and the result was that for all Major Class other than Trailers, the duration was between 9.01 and 10.10 years, with Trailers at 2.02 years. The indicated New Money Yield for each class was between 3.41% and 3.44% for other than Trailers, which was at 2.85%. Due to the very minor change in indicated yield, there was no significant difference in the rate indication by Major Class relative to the standard rate indication.

Directive 11.3: In the 2023 GRA, the Corporation shall provide an alternative rate indication by use and territory. For this alternative rate indication: a. The Corporation shall remove actual serious losses (consistent with the current approach) and allocate serious losses based on the frequency of collision claims for each vehicle type; b. The Corporation shall split vehicle type among passenger vehicle, light truck, heavy truck, bus, motorcycle, trailer, and off-road vehicle; and c. The Corporation shall consider whether this approach is expected to result in less volatility for smaller uses or territories, and whether an adjustment to its credibility standard or minimum credibility may be warranted.

In response to Information Request PUB (MPI) 1-8 the Corporation provided the required rate indication. MPI indicated that an advantage of the alternative method was that it allocates serious losses across all segments of the business. A disadvantage of the alternative method was that it spreads the costs of expected serious losses proportionally, based on the total number of claims and does not recognize that some segments may be more prone to serious losses than others. An advantage of the existing methodology was that it reflects the applicable serious loss loading based on true loss experience for each insurance use. A disadvantage of the existing methodology was that it utilizes the actual experience, which may not have a sufficient number of large loss claims, in particular for

newer or smaller segments. Possible ways to modify the alternative method included drawing comparisons with the segments that are expected to have similar loss behavior, assuming a statistical distribution on the severity of the losses, or credibility rating could be used where the experience is not large enough. A weighting between the existing and the alternative methodology would recognize actual large losses in a given use and territory and also reflect a potential for large losses in all uses and territories.

3.2 *Interveners' Positions*

CAC

CAC called Rajesh Sahasrabuddhe as an expert witness in the public hearings. Mr. Sahasrabuddhe is a Principal with the actuarial consulting practice of Oliver Wyman Limited (OW). He is a Fellow of the Casualty Actuarial Society, an Associate of the Canadian Institute of Actuaries, and a Member of the American Academy of Actuaries. CAC asked that he be qualified as an expert in actuarial analysis with particular focus on pricing, ratemaking and risk related to automobile insurance generally. MPI did not object to his qualification to provide expert evidence in this field.

CAC filed a report prepared by Mr. Sahasrabuddhe, Paula Elliott, and Chris Schneider. Ms. Elliott is a Fellow of the Canadian Institute of Actuaries and a Fellow of the Casualty Actuarial Society and is a Principal with OW. Mr. Schneider is a Senior Manager with OW and is also a Fellow of the Casualty Actuarial Society, an Associate of the Canadian Institute of Actuaries, and a Member of the American Academy of Actuaries. Although CAC did not call Ms. Elliott or Mr. Schneider to testify or ask that they be qualified as experts in the field of actuarial analysis, Mr. Sahasrabuddhe confirmed that the report was prepared jointly with them under his care and control.

The OW report provided actuarial commentary with respect to loss trends. OW's concerns related to MPI's limited statistical modeling of claims costs. The report recommended that, at a minimum, MPI should consider estimates based on statistical models fit to data. Mr.

Sahasrabuddhe indicated that they appreciate that, at times, it may be appropriate to employ actuarial judgment and deviate from the model indications. However, in those situations, the rationale for the deviations should be included in the rate application.

The report provided evidence of alternative indications for eight different frequency or severity trends, affecting a total of seven coverages. For each alternative trend, OW provided its estimate of the frequency or severity as well as the projected incurred claims for each of 2023/24 and 2024/25. Alternative trend models were provided for Weekly Indemnity frequency, Collision Total Loss frequency, Collision Total Loss severity, Comprehensive Hail Total Loss frequency, Comprehensive Theft Repair severity, Comprehensive Vandalism Total Loss frequency, Property Damage Third Party Deductible Transfer severity, and Property Damage Third Party Loss of Use severity. OW estimated that substituting all of the alternative trends for the Corporation's selected trends would result in a rate indication that would be lower by about 5%.

Mr. Sahasrabuddhe indicated that the use of a log-linear model for frequency was industry standard and was preferred to the linear model typically used by MPI, as frequency changes tend to occur on a percentage basis rather than an amount basis.

The following were some observations of the alternative models:¹

1 With respect to statistical modeling, there are some terms that may not be familiar to the reader:

1. A regression is a statistical technique that relates a dependent variable to one or more explanatory variables. In this case, the dependant variable would be the observed frequency or severity for each year, and the explanatory variable would be the time in years.
2. A Log-linear model is a form of statistical trending model in which the logarithm of each value is calculated, and then a linear trend is fitted to these resulting values.

P-value is a number, calculated from a statistical test, that describes the probability that the observed trend could occur if the true underlying trend is zero. Lower values are considered better.

- For Weekly Indemnity frequency, the OW model relied on more years of data and resulted in a lower p-value that was closer to their preferred acceptable value of 0.05 than the MPI model.
- For Collision Total Loss frequency, the OW model relied on fewer years of data. Both the MPI model and the OW model exhibited high p-values, indicating poor fitting models.
- For Total Loss severity, OW took issue with the use of an average of three year-to-year trends, and the use of the most recent data point from which to project future claims. OW selected more years of data and used the fitted regression line to project the claim severity. The resulting severity for 2023/24 was approximately equal to the actual severity for 2021/22.
- For Comprehensive Hail Total Loss frequency, OW used a log-linear model, but determined that the trend parameter was not significant. The resulting frequency was approximately 40% lower than the average frequency over the last ten years.
- For Comprehensive Theft Repair severity, OW determined that the trend parameter was not significant and selected a trend of 0%.
- For Vandalism Repair frequency, OW selected a model using more years, and with the fitted trend, whereas MPI selected an average of the last three years of frequency.
- For Property Damage Third Party Deductible Transfer, OW took issue with the use of the 2021 severity to estimate future severities, and the use of the highly variable observed rates of change between 2012 to the present, which is not a statistical model. The OW model is a log-linear fit to CERP-adjusted severity data for 2014/15 through 2020/21, and results in average severities of about \$780 for each of 2023/24 and 2024/25.

- For Property Damage Third Party Loss of Use, OW took issue with the use of a two-year weighted average of 2020/21 and 2021/22, with potentially too much noise in the values. OW, based on visual examination, selected a 0% trend rate, and a starting point based on the average of multiple years.

CAC made the following recommendations for this GRA:

- Taking into account unreasonable increases in MPI's Full Time Equivalent (FTE) complement and in operating expenses, the unsubstantiated room in placeholder budgets, the lost opportunity and undue risk in the current investment portfolio, as well as challenges with certain claims incurred forecasts, CAC argued that a rate reduction of 5-6% from the current indication would be appropriate.
- The Board should accept seven of the eight OW recommendations in terms of claims incurred (with the exception of comprehensive hail frequency) on the grounds that they better fit the claims incurred data.
- That MPI should improve its projection of claims incurred through data visualization, modeling, testing, and reporting to better reflect statistical significance and residual analysis.

CMMG

CMMG recommended that in the 2024 GRA, MPI report on any Canadian jurisdictions or American private insurers, where vehicle insurance providers have a rating group for third-party liability.

Taxi Coalition (TC)

TC submitted that MPI's existing approach to serious loss loading requires modification and it recommended that MPI be directed to adopt a revised methodology to its serious loss loading calculations.

TC also recommended that MPI should be directed to accelerate its preliminary investigation into GLMs without further delay, and be prepared to present preliminary results at the 2024 GRA. The preliminary results can inform its approach to DSR discounts revisions.

TC requested that the Board direct MPI to adopt a serious loss loading for all insurance uses that do not have a serious loss experience in the past ten years, and in particular, the Alternative Serious Loss Loading approach defined in Directive 11.3 of Order 134/21, which has been shown to be both effective and implementable.

3.3 Board Findings

The Application as filed by MPI sought an overall rate decrease of 0.9%, on a provisional basis, to be updated in advance of the public hearings in order to reflect interest rates and operating results to August 31, 2022. On October 12, 2022, MPI filed the updated rate indication and sought an overall rate decrease of 0.1% (-0.05% rounded to one decimal).

The Board hereby varies MPI's request and orders an overall rate decrease of 3.8% (-3.79% rounded to one decimal), based on the Naïve interest rate forecast updated to August 31, 2022. This rate decrease is a combination of the 0.05% rate decrease as requested by MPI, along with the additional impact on the AAP rate indication of the following items:

	Description	Rate Impact
1	AAP rate indication filed by MPI	-0.05%
2	The Naïve interest rate forecast to be determined in a fashion consistent with prior GRAs and based on the duration of the invested assets supporting the Basic claims portfolio. This is a new money yield of 4.24%. The new money yield of 4.24% is to be reduced by 7 basis points for investment management expense, resulting in a final new money yield of 4.17%, a decrease of 0.12% from the 4.05% proposed by MPI	-0.24%
3	The claims forecast for 2023/24 and 2024/25 is to be adjusted, using the OW recommendations for Weekly Indemnity frequency, Collision Total Loss frequency, Property Damage Third Party Deductible Transfer severity, and Property Damage Third Party Loss of Use severity	-1.26%
4	The expense forecast for 2023/24 and 2024/25 for rate-setting purposes is to be adjusted by the removal of all initiative expenses	-1.92%
5	The expense forecast for 2023/24 and 2024/25 for rate-setting purposes is to be adjusted by the removal of the Special Services placeholder budget	-0.32%
6	Final AAP rate indication	-3.79%

Further explanation of these variances is provided in detail, below.

With the CMP not being extended beyond 2022/23, the capital release provision of 5% in place for the 2022/23 year is discontinued for the 2023/24 year.

The Board's approval of the use of the Naïve interest rate forecast is consistent with its decisions in Order 134/21, Order 1/21, Order 176/19, and Order 159/18. The Board finds

that the volatility in market interest rates and the uncertainty in forecasting their movement are self-evident. The Board acknowledges that Basic insurance operations are less sensitive to interest rate movements because of the recent ALM initiatives, and that the use of AAP ratemaking has reduced interest rate forecasting risk by shortening the length of the interest rate forecast needed in the derivation of rate indications. None of the parties in this GRA made the case for the use of a forecast other than Naïve despite rising interest rates and there was insufficient evidence in this GRA for the Board to deviate from the use of the Naïve forecast at this stage. Given recent trends in inflation and interest rates, the Board intends to revisit the issue of interest rate forecasting in detail in the 2024 GRA.

The Board has considered MPI's proposal of the use of yields based on a two-year bond duration, based on the duration of the premium liabilities, and compared this to the existing approach based on the yields based on bonds with duration equal to that of the outstanding claims liabilities as well as the investments backing the Basic claims portfolio. The Board considers that both approaches would fall within AAP, but the existing approach is more consistent with the wording of the Standards of Practice. The cash flow from insurance operations is currently invested in one investment portfolio which has a duration equal to that of the claims liabilities, that backs all Basic claims.

The Board approves the use of a reduction of seven basis points in the new money yield due to investment management expenses, as this is consistent with AAP.

The Board accepts the Corporation's position that a work from home reduction of 5% of Collision, Property Damage, Weekly Indemnity, and Accident Benefits Other – indexed coverages for 2023/24 and 2024/25 years is a reasonable assumption.

The Board accepts the qualifications of Mr. Sahasrabuddhe as presented by CAC. With regards to the alternative trend models recommended by OW, the Board finds as follows:

- For Weekly Indemnity frequency, the alternative trend model better reflected the longer-term reduction in claims frequency. This reduces incurred claims for 2023/24 by \$5.3 million, and by \$6.7 million in 2024/25

- For Collision Total Loss frequency, the alternative trend model better reflected general trends observed in Collision claims across Canada, and specifically, better reflected the continued lower claims frequency for 2022/23, and on the balance of probabilities, appears more likely. This reduces incurred claims for 2023/24 by \$7.1 million and for 2024/25 by \$8.7 million.
- For Collision Total Loss severity, although the alternative trend model appears to be more robust in its methodology, given global inflationary issues as well as the current forecast severity for Collision Total Loss for 2022/23 of \$9,262, the indicated severities appear low, and hence not supportable.
- For Comprehensive Hail Total Loss frequency, the alternative trend model results in a selected frequency about 40% lower than that observed over the last ten years, and hence, consistent with CAC's recommendation, it is not considered an improvement over the MPI model.
- For Comprehensive Theft Repair severity, the selected trend of zero appears low given the current inflationary environment, and hence it is not considered an improvement over the MPI model.
- For Comprehensive Vandalism Total Loss frequency, the selected trend, although it better fits the historical frequency trend, is not considered an improvement over the MPI model.
- For Property Damage Third Party Deductible Transfer severity, given the new standard deductible of \$750, and comparing the old deductible of \$500 to the average observed historical average severities of slightly over \$500, the alternative trend model appears to generate a more reasonable severity. This reduces incurred claims for 2023/24 by \$0.7 million, and for 2024/25 by \$0.8 million

- For Property Damage Loss of Use severity, the alternative trend model of zero trend appears reasonable based on the eyeball test. This reduces incurred claims for 2023/24 by \$0.1 million, and for 2024/25 by \$0.3 million.

The total impact of the above changes to incurred claims is a reduction of \$13.3 million for 2023/24 and a reduction of \$16.4 million for 2024/25. Including ILAE based on the selected ILAE ratio of 9.50% in the 2023 GRA, and discounting based on the 4.17% new money yield, the total incurred claims reduction would be about \$13.7 million and \$16.9 million for 2023/24 and 2024/25, respectively. The average of these two amounts would be about \$15.3 million for the 2023/24 rating year. Taking into consideration the 1,282,369 units in the 2023/24 rating year, the claims cost per unit would reduce by about \$12, reducing the AAP rate indication by about 1.26%.

With respect to initiative expenses, the Board considers it appropriate and consistent with AAP to defer costs that are for systems that do not benefit current ratepayers.² Based on MPI Exhibit #96, the total for 2023/24 is \$21.6 million, and is \$25.7 million for 2024/25, or an average of \$23.7 million. Taking into consideration the 1,282,369 units in the 2023/24 rating year, and including the impact of discounting, the total expense cost per unit would reduce by about \$18, reducing the AAP rate indication by about 1.92%. The Board therefore directs MPI to defer these integration costs, through a regulatory deferral account for rate-setting purposes. The account will accumulate the integration costs and will be recovered when Project Nova is fully in-service. The period of recovery will be

2 Intergenerational Equity, from <http://www.pubmanitoba.ca/v1/about-pub/regulatoryprinciples.html>:

Under this principle, customers in a given period should only pay the costs that are necessary to provide them with services in that period. They should not have to pay any costs incurred to provide services to customers in any other period. This principle is consistent with setting rates that are just and reasonable. For example, a regulated entity is usually not allowed to earn a return on projects under construction because any costs incurred are incurred in order to provide services to future customers. Instead, the costs are capitalized and recovered through depreciation over the period that the assets are used to provide the service.

established in the 2024 GRA, when MPI is expected to provide an updated timeline for the delivery of Project Nova.

With respect to the \$5 million placeholder budget for Special Services (which is assumed to be the Corporate amount), the Board finds it is not just and reasonable to charge ratepayers for an amount for unknown business requirements. Relative to the Corporate Special Services budget, the Basic budget is approximately 76% of the total. The Board therefore declines to take into account the corresponding amount, \$3.8 million, from the expense costs. Taking into consideration the 1,282,369 units in the 2023/24 rating year, the total expense cost per unit would reduce by about \$3, reducing the AAP rate indication by about 0.32%.

With respect to serious loss loadings used by the Corporation in its ratemaking, the Board directs the Corporation to combine the current methodology used by the Corporation with the alternative rate indication provided in Information Request response PUB (MPI) 1-8. For each use and territory, the serious loss loading to be applied is to be a credibility weighted combination of the two indications. The credibility to be assigned to the current methodology is to be based on MPI's credibility weighting methodology used for relativities. A credibility of $N/(N+K)$ is to be assigned, where N is the ten-year earned units for the use and territory. The constant, K, is equal to 60,000. The credibility assigned to the average of the actual serious losses for the last ten years for each use and territory is subject to a minimum of 10%. The complement of credibility, $1-N/(N+K)$ is to be assigned to the alternative serious losses based on collision claim counts.

The Board supports the Corporation moving towards an approach that incorporates the use of GLMs and directs MPI, in the 2024 GRA, to provide an update on the progress made to date, as well as an update to the GLM project plan.

Deferred from the 2023 GRA, the Board therefore directs that in the 2024 GRA MPI shall file an analysis and proposal for modifications to the fleet program to better reflect cost causation.

Lastly, the Board directs that, in the 2024 GRA, if the Corporation revises its investment strategy as indicated at the 2023 GRA, and splits its investment portfolio supporting the Basic claims into two parts, Basic short, and Basic long, the Corporation provide its rate indication based on two New Money yields that each reflect the characteristics of their respective investment portfolios, and that are each applied to the appropriate cash flows. In this circumstance, the Board directs that, in the 2024 GRA, that the Corporation provide an alternative rate indication on an Overall basis and by Major Class using the yield based on the weighted yield of provincial and corporate bonds with durations equal to that of the overall claims duration. The difference between the two rate indications will be considered to be the impact of the change in investment strategy with regards to the New Money yield.

4.0 RATE STABILIZATION RESERVE (RSR) AND CAPITAL MANAGEMENT PLAN (CMP)

4.1 Overall Financial Strength

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

The Corporation's Board of Directors has approved risk-based capital target levels for its reserves for each line of business. The targets are based upon the capital management framework from the Office of the Superintendent of Financial Institutions (OSFI) and the Minimum Capital Test (MCT). The MCT is a ratio of capital available to capital required and uses a risk-based formula to assess the capital adequacy of an insurance company.

MPI has established an MCT target of 100% for Basic, 200% MCT for Extension and 300% for Special Risk Extension. This is consistent with the recent amendments to *The Manitoba Public Insurance Corporation Act* (the "*MPIC Act*"), which came into force on November 3, 2022 (discussed below).

As of March 31, 2022, the Basic RSR was at \$359.3 million and total equity was at \$410.7 million (higher than the Basic RSR due to accumulated other comprehensive income of \$51.4M). Included in accumulated other comprehensive income (AOCI) was \$40.6 million related to the change in the remeasurement of employee future benefits.

The Corporation had, as of March 31, 2022, \$661.1 million in retained earnings, including \$395.3 million in Basic, \$78.8 million in Extension, \$138.6 million in SRE and \$84.2 million in DVA. DVA received transfers of Extension retained earnings of \$60 million in 2020/21 and \$57 million in 2021/22.

In the October 12, 2022 update MPI forecasted 2022/23 Basic retained earnings to be \$401.4 million and, after AOCI of \$62.0 million, total Basic equity of \$463.4 million.

In Order 176/19, the Board approved the Corporation's CMP, including the 100% MCT Basic target capital level, on a trial basis for the 2020/21 and 2021/22 insurance years.

The CMP was comprised of the following:

- A single Basic target capital level based on a 100% MCT ratio;
- A commitment to transfer excess Retained Earnings from the Extension line to Basic, where excess is determined relative to the single Extension target capital level of a 200% MCT ratio;
- A phase-in approach to move towards the Basic target capital level over a number of years through capital build or capital release provisions;
- Determination of the need for any capital build or capital release provisions in each GRA after consideration of the Basic rate level change indication and the expected capital transfers from Extension;
- Use of judgmentally selected five-year and three-year phase-in periods for capital build and capital release provisions, respectively;
- The imposition of a judgmentally selected 5% cap on the combination of the overall Basic rate indication and any capital build provision; and
- The imposition of a judgmentally selected 5% cap on any capital release provision.

In Directive 11.10 of Order 134/21, the Board extended the CMP for the 2022/23 insurance year.

In this Application, the Corporation did not apply to use the capital build or release provisions. It has applied for approval of a new CMP, which would include the continuation of the following components: AAP ratemaking; capital targets by line of business (now set by legislation), capital transfer rules, and a capital build provision. The Corporation

proposed the removal of the capital release provision and proposed the addition of a capital rebate provision. The revisions requested to the CMP aligned with new legislation, which came into force on November 3, 2022, during the GRA hearing.

The legislation amended the *MPIC Act* and came into force through the passage of Bill 45, *The Budget Implementation and Tax Statutes Amendments Act, 2022* (BITSA). The effect of the BITSA amendments is to remove the Board's previously held jurisdiction to set the level of the Basic RSR, to prescribe the level of the Basic RSR at a minimum of 100% MCT, and to permit MPI to apply to the Board for a rebate when the MCT exceeds 120% at the beginning of the fiscal year.

MPI confirmed that, if it were to maintain the current capital release provision in the 2023/24 year it would still project an MCT ratio above 100% for 2023/24 and 2024/25, whether the indicated rate change was based on a new money yield of 4.05%, 4.17%, or 4.24%. The Corporation asked for a removal of the capital release provision as it has proposed a new Capital Management Plan, in which capital will only be returned to ratepayers through rebates, separated from premium payments, instead of capital releases which were combined with premium payments.

During the course of the public hearings, MPI provided an analysis that indicated that based on its projections, if the 5% capital release provision were extended for the 2023/24 rating year, its MCT ratio was projected to remain above 100% throughout the forecast period.

The amendments provide as follows:

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.

"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.

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.

Capital reserves

18(3) 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 surplus

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

- (a) the reserve's MCT ratio exceeds 120% at the beginning of a fiscal year;
- (b) the corporation applies to The Public Utilities Board for approval to the pay the rebate;
- (c) The Public Utilities Board approves the application; and
- (d) the rebate is not projected to reduce the reserve's MCT ratio to less than 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.

The *Reserves Regulation*, which the Board found to be invalid in Order 176/19, was consequentially repealed by BITSA.

The Corporation has indicated in its testimony that the decision to apply for a rebate will be at its discretion. MPI's interpretation of new legislation is that it prohibits the Board from issuing capital releases.

4.2 Financial Condition Testing (FCT)

MPI's adoption of a single Basic RSR target of a 100% MCT ratio severed the tie between the Basic Financial Condition Testing (FCT) and the setting of Basic target capital levels. Nevertheless, MPI has continued to annually undertake the FCT as a part of its prudent risk management and good governance processes. The FCT investigation entails development of a Basic financial forecast and stressing of that forecast under a number of plausible adverse scenarios covering a variety of risk categories. The report on the FCT investigation includes an opinion from the signing actuary on the financial condition of Basic.

In GRAs prior to the adoption of the CMP, the Corporation worked with the Board and interveners towards the development of a consensus approach to adapting the Basic FCT investigation, in order to estimate an appropriate Basic target capital range that directly reflected Basic experience and risk characteristics.

In Order 176/19, the Board made clear that its approval of the CMP was for a two-year trial period, stating:

The Board has therefore approved the Capital Management Plan as presented by MPI for a two-year trial period. Over this period, the Board will assess the impact of the Capital Management Plan on Basic ratepayers. The Board is of the view that the Capital Management Plan is consistent with the stated purpose of the Basic RSR, noting that the phase-in periods and capping levels effectively work to change the single target capital level into a target capital range, promoting rate stability... This will allow the Board to fully assess the performance of the Capital Management Plan, and the Basic target capital level over the trial period, after which the Board will reassess its position. Should the Board ultimately revert to a scenario-driven Basic target capital range or level (which the latest evidence from the prior GRA suggests is below 100% MCT), the Board acknowledges the practical impact of the current decision on the Basic target capital level would be to defer the otherwise appropriate Capital Release, given the current level of the Basic MCT ratio.

In Order 1/21 following the 2021 GRA, the Board directed MPI to file an analysis in this GRA supporting the level of the Basic target capital level (100% MCT) or the use of a single target capital level (vs. a range) to promote rate stability. MPI did not file the analysis, maintaining that the use of a single target capital level promotes rate stability, and that MPI is required to comply with the *Reserves Regulation*, which requires the Basic RSR to be maintained at a 100% MCT ratio.³ MPI also maintained that the FCT would demonstrate support for MPI's financial position.

³ In Order 176/19, the Board found that the *Reserves Regulation* was *ultra vires* and therefore invalid.

MPI filed the FCT with the Board on October 14, 2022, just prior to the public hearing. During the course of the hearing, the FCT analysis results were queried.

The Canadian Institute of Actuaries Standards of Practice Financial Condition Testing state in 2520.09 that:

The insurer's financial condition would be satisfactory if throughout the forecast period, under the solvency scenarios, the statement value of the insurer's assets is greater than the statement value of its liabilities; under the going concern scenarios, the insurer meets the regulatory minimum capital ratio(s); and under the base scenario, the insurer meets its internal target capital ratio(s) as determined by the ORSA.

MPI does not currently have an Own Risk and Solvency Assessment (ORSA) process, so the FCT was used to support MPI's target ratio of 100%. MPI stated that using the FCT is not ideal since the purpose of the FCT is about understanding the impact of select adverse scenarios on the company's capital and how management actions can lessen those effects. While the FCT can provide insight into MPI's capital requirements and certain risks, it does not assess the risk associated with the purpose of the RSR. The ORSA is better suited for this purpose.

The base scenario used the 2023 GRA projected financials and did not reflect the October 12, 2022 update. As such, the base scenario had an MCT ratio of 108% and Total Equity of \$451 million at the end of 2022/23, and assumed a premium rebate of \$119 million during 2025/26, and remained at or above 100% MCT throughout the forecast period. The October 12, 2022 update increased the MCT ratio to 114% and the Total Equity to \$463 million at the end of 2022/23.

Under the most adverse solvency scenario (deemed to be a 1-in-100 year event), a Combined scenario, the total equity of the Corporation would drop to \$0 at the end of 2026/27 after the benefits of management action, including the removal of the capital rebate. Total equity of zero does not pass the requirement that under the solvency

scenarios, the statement value of the insurer's assets is greater than the statement value of its liabilities. If the base scenario had been adjusted to reflect changes in the financial projections as shown in the October 12, 2022 update, with \$12 million greater equity, then the total equity under the Combined scenario would have remained above zero, and it would have passed the requirement that the statement value of the insurer's assets is greater than the statement value of its liabilities.

In the FCT filed in the 2022 GRA, the most adverse solvency scenario only required a starting MCT of about 50% in order to remain solvent. In the FCT filed in this Application, a starting MCT over 100% was required. The adverse scenarios have a materially greater adverse impact this year.

The Corporation's Chief Actuary confirmed that, based on her analysis, the capital corresponding to a MCT ratio of 35% would be sufficient for Basic to be compliant with the *MPIC Act* amendments, with an expectation that it could return to a 100% MCT ratio within five years with the use of the capital build provision. Under the most adverse going concern scenario (deemed to be a 1-in-10 year event), a Combined scenario, the MCT ratio of the Corporation fell to a low of 47% at the end of 2024/25. As such, the Chief Actuary was of the view that under going concern scenarios, MPI meets the regulatory minimum capital ratio.

The FCT was modeled under existing International Financial Reporting Standard IFRS 4 accounting standards. Due to the current IFRS 17 capability of the Corporation, no impacts of IFRS 17 or IFRS 9 accounting policies were reflected in a IFRS 17 pro forma statement. The FCT was also modeled under the Corporation's proposed CMP, incorporating capital build provisions into adverse scenarios.

4.3 *Intervenors' Positions*

CAC

CAC submitted that, over the past two decades, the Board's authority related to financial targets for rate setting purposes and rate rebates has incited risk-based analysis rather than mechanistic formulas for financial targets, deprived MPI of a bad management "cushion" in the form of excessive reserves, and delivered over \$1 billion in rebates to Manitobans. The choice of whether and when to trigger a rebate application now rests exclusively with MPI.

CAC recommended the adoption of risk metrics for capital reserve management that are more consistent with the metrics and methodologies used in asset liability studies. The CAC also recommended MPI's conduct ORSA and setting capital (RSR) targets without undue reliance on regulatory capital measures, such as MPI's use of OSFI's standard approach (i.e., MCT).

With respect to the *MPIC Act* amendments, CAC has accepted that the legislature has spoken both in eliminating the *Reserves Regulation* and in entrenching Basic financial targets into law. CAC argued that important legal questions regarding the provisions remain, but it is clear that the Board has lost its authority to initiate rate rebates absent an application by MPI.

CAC has concerns about the appropriateness of the MCT formula in a rate-setting context, as well as the vulnerabilities of the calculation to discretion and to error. CAC argued that the MCT was designed for a very different purpose: the financial well-being of companies who are federally regulated, where many of those companies operate in a competitive marketplace, and where a single bad year can make them very vulnerable. CAC expressed concerns that the additional cushion provided to MPI by virtue of the *MPIC Act* amendments may incite further unreasonable and imprudent spending behaviour.

CMMG

CMMG characterized MPI as a Crown monopoly with a consistently growing reserves cushion. Legislative changes have paved the way for MPI to increase that cushion up to \$500 million, and coupled with this ever-increasing reserves balance is a statutory scheme with an optional mechanism for granting rebates to ratepayers. CMMG submitted that MPI has been vague and contradictory in its explanation of the parameters by which it will determine if a rebate application will be brought before the Board.

CMMG recommended:

- The Board find that the Corporation's list of parameters upon which it will bring an application for a rebate are vague and undefined; and
- MPI be directed, in the 2024 GRA, to provide a detailed report outlining the factors MPI can rely on when making a decision to forego a rebate application in the future.

TC

Similarly, it was the TC's position that the proposed CMP requires greater clarity, transparency and accountability. TC stated that it is unclear how the methodology works for the issuance of a rebate, the parameters within which a rebate will be brought before the Board, and how MPI's forecasting will factor in to MPI's decision-making process, as the evidence was inconsistent on these points. Further, TC argued, it is not clear whether MPI has sole discretion on when a rebate will be called or on how the MCT is calculated for determining a rebate.

TC recommended that:

- The Board should provide direction with respect to the timing of rebate applications coming before it, and set parameters and specifications around MCT forecasting;

- The Board should direct MPI to bring forward a rebate application in any upcoming GRA where the MCT ratio exceeds 120% at the beginning of the fiscal year; and
- As part of the GRA, MPI should provide its position on 100% MCT forecasting.

TC argued that it is not at all clear how MPI specifically proposes to use audited actual year-end results, how forecasting will fit into the analysis, what time period will be considered in the forecast, and when, in practice, MPI would apply for such a rebate (if ever).

4.4 Board Findings

The Board recognizes that its jurisdiction to set the level of the Basic RSR has been supplanted by the amendments to the *MPIC Act*. Accordingly, the primary issue for the Board to decide in respect of Basic's capital position is whether to approve MPI's new proposed CMP.

The CMP approved in Order 176/19, extended for one year in the 2022 GRA, has now expired. The Board approves MPI's request to remove the capital release for the 2023/24 year. As noted earlier in this Order, the effective impact of this is an average increase of 5.54% in the premiums payable by ratepayers upon renewal.

The Board accepts the arguments advanced by the Interveners that the Corporation's proposed new CMP requires greater clarity, transparency and accountability. The *MPIC Act* was amended near the conclusion of the public hearings, which did not provide the parties or the Board with an adequate opportunity to fully consider the impacts of this new legislation, or to explore in detail how MPI proposes to implement these legislative requirements. The Board finds that a more robust presentation of the proposed CMP is required from MPI and therefore declines to approve the new CMP at this time. The Board directs the Corporation to file a proposed CMP in the 2024 GRA, which includes specific criteria and processes under which the Corporation will apply to the Board for a capital rebate.

The Board does not, at this time, accept the proposition advanced by MPI that the Board can no longer order a capital release. The amendments to the *MPIC Act* were passed during the public hearing, leaving no opportunity for the issue to be fully canvassed. The Board has removed the capital release for this GRA; however, that was due to the lapsing of the CMP and should not be understood as a finding by the Board that it accepts MPI's position.

Despite severing the link between the Basic FCT and the setting of Basic target capital levels, the Board expects the Corporation to annually undertake, and file with the GRA, the Basic FCT investigation as a part of its prudent risk management and good governance processes.

MPI did not file the detailed calculations supporting the MCT ratio as shown in PF-3 in any of the financial projections. MPI filed the FCT analysis three days before the beginning of the hearing, after both rounds of Information Requests had been filed. This impairs the Board's ability to test the FCT evidence.

Therefore, the Board directs MPI to file in the 2024 GRA the detailed calculations supporting the MCT ratio as shown in the financial projections. The Board also recommends that MPI consider the development of an ORSA for the determination of an internal target.

5.0 VEHICLES FOR HIRE (VFH)

On March 1, 2018, MPI introduced a new vehicle for hire (VFH) insurance model for insurance coverages for the various subcategories of VFH, including taxis, limousines, accessible vehicles and private passenger vehicles.

The premiums for each category of VFH were established separately. Insurance premiums were based on four defined time bands, and premiums would be established based on the number of time bands selected. The purchase of four-time bands would allow for 24 hours, seven days a week operation. For the Passenger VFH category, the Corporation employed a jurisdictional scan of the VFH rates in other Canadian jurisdictions and judgmentally set the rate for purchasing all four-time bands at a 20% premium above the then-current Private Passenger All-purpose rate for the corresponding vehicle type and rate group. Rates would then decline incrementally by five percentage points based on the number of time bands level of coverage.

The Corporation acknowledged, at that time, that this rating class had not previously existed in Manitoba. Therefore, it had no internal data to support its ratemaking.

In implementing the new model, MPI indicated it would follow the approved Basic ratemaking methodology for adjusting vehicle group relativities, which would give at least 10% weight to the Passenger VFH experience in each rate application. However, if experience-based rates were observed to be significantly different from the initial rates, MPI might come forward with a special rating adjustment falling outside the approved ratemaking methodology.”

Board Order 1/21 following the 2021 GRA directed consecutive rate increases of 20% for the Passenger VFH Major Class in the 2022/2023 and 2023/2024 GRAs, unless MPI could demonstrate that the Passenger VFH Major Class was no longer being subsidized.

Board Order 134/21 following the 2022 GRA directed a rate increase of 20% from current rates for the Passenger VFH category, along with a rate increase of 20% for the

Passenger VFH Major class in the 2023 GRA, subject to the Board's ability to vary such increase based upon the experience filed within that GRA and as the Passenger VFH rates approach actuarially indicated break-even rates.

In this GRA, the Corporation confirmed a rate increase of 20% from current rates for the Passenger VFH category.

The Corporation advised that it has been developing a blanket policy for transportation network companies (TNC) that dispatch Passenger VFH. It is the Corporation's intention that this blanket policy will replace the current Passenger VFH category. The Corporation is planning on submitting the blanket policy for approval in the 2024 GRA.

The Corporation has also been working on a telematics project for Taxis. At this point, the project has been delayed because MPI received no responses to an RFP for the project. The Corporation also intends to remove the existing time bands for Taxis, but indicated that it may create a part-time Taxi category.

5.1 *Interveners' Positions*

TC

TC noted that when the VFH framework was first introduced in 2018, one of the underlying principles was that there would be no cross-subsidization between VFH and other insurance uses. Although MPI has not yet finalized the pricing and rating structure for the new blanket policy, in a number of important respects, it would appear that the blanket policy will operate in a manner very similar to the existing Fleet Rebate Program. However, all Private, Commercial and Public major class ratepayers fund or subsidize the Fleet Rebate Program even though the rebates are only paid to owners participating in the program.

TC further noted that Taxi VFHs do not have the technology necessary to participate in the blanket policy and that MPI does not have any information on what products are available in the market to support this insurance product for Taxi VFH.

Under the proposed blanket policy, TNC drivers would be permitted to drive part-time if they wanted, without any restrictions on part-time hours but to date, MPI has taken the position that a part-time option cannot be made available for Taxi VFH largely for two reasons:

- MPI cannot provide a discount to part-time taxis unless full-time taxis pay an increased premium to make up the difference; and
- MPI cannot not consider a part-time option that does not collect the difference in premium from full-time operators until it has the data confirming that taxis that are on the road less have fewer accidents.

In response, TC prepared a part-time Taxi VFH discount based on MPI's own methodology used to price the time band model. Based on the Taxi Coalition's calculations, a part-time option in each of the territories should have a discount of between 22% – 27% less than full time. TC submitted that MPI ought to be able to implement this approach with relative ease on an interim basis until it is able to collect data to put forward an alternate part-time framework.

TC recommended that:

- MPI should be required to ensure that the blanket policy rebate does not involve cross-subsidization;
- MPI be directed to ensure that all VFH operators can reasonably access the technology required to participate in the blanket policy; and
- that a reasonably priced part-time option be made available for Taxi VFH.

5.2 Board Findings

The Board hereby approves a rate increase of 20% from current rates for the Passenger VFH category.

The Board notes the concerns identified by TC regarding the blanket policy. The Board also notes that MPI has stated that it is confident the new VFH framework to be filed in the 2024 GRA will result in VFH rates that are just and reasonable. The Board directs MPI to file the revised VFH policy framework in the 2024 GRA and, in doing so, demonstrate the blanket policy does not result in cross-subsidization and how it will ensure that all VFH operators will be able to access the technology required to participate in the blanket policy.

6.0 DRIVER SAFETY RATING

6.1 *History*

MPI introduced the Driver Safety Rating (DSR) system in 2010, to replace the Merit Discount Program. The DSR was made possible after MPI assumed the role of administrator of DVA in 2004.

Two aspects of the DSR have been under review for the last number of GRAs: the rating scale and the rating model. The rating scale refers to the levels of driver demerits and merits used to set the amount of driver premium payable or the vehicle premium discount to be applied (if any) to a policy of vehicle insurance, respectively.

The rating model is the method by which MPI determines which driver record will be used to set the amount of any vehicle premium discount. Currently, MPI employs the Registered Owner model, which calculates the vehicle premium discount based on the DSR scale level of the registered owner of the vehicle, as opposed to, for example, the primary driver of the insured vehicle.

In the 2018 GRA, one component of MPI's rate request was a 1.8% increase to the demerit side of the scale for driver premiums under the DSR, equivalent to an increase of driver premium revenue in the amount of \$17.5 million.

In Order 130/17 following the 2018 GRA, the Board directed the Corporation to file proposed driver premium rates more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale in the 2020 GRA, and, in the 2021 GRA, file proposed vehicle premium discounts that were actuarially indicated based on principal driver performance evaluation.

- These directives were varied and held in abeyance until such time as the issues of driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale, and vehicle premium

discounts fully supported by actuarial indications based on principal driver performance evaluation, were reviewed and considered in the 2019 GRA.

In the 2019 GRA, the Corporation reported on certain models for driver premiums and vehicle premium discounts that might be considered in determining what changes should be made to the DSR system. The Corporation advised in that application that it was in the process of researching models and the next steps towards the implementation of more actuarially sound DSR premiums and vehicle premium discounts that would involve public consultation efforts, along with further investigation and analysis of those rating models having limited or no additional IT costs.

In the 2020 GRA, the Corporation provided a report on the findings of its public consultation process on the DSR system. MPI advised that it would be providing a pricing examination of the Registered Owner (the model currently used by MPI), Primary Driver, and Driver Premium models in the 2021 GRA, at which time it would also provide its recommendation to the Board as to whether it intended to continue with the Registered Owner model, or move to one of the alternative models.

In Order 176/19 following the 2020 GRA, the Board commented that with two years having passed since Order 130/17, MPI should be in a position by the 2021 GRA to advise the Board of the direction it intended to take with respect to DSR. The Board directed that in the 2021 GRA, the Corporation file information as to which rating model it intended to proceed with, a pricing examination of alternative models, and information as to whether it had collected data to recalibrate the amounts of driver premium and vehicle premium discounts to be charged under the DSR system to be more statistically sound, based on experience. The Board directed that the pricing examination be limited to the Registered Owner and Primary Driver models only, given that those two models had the greatest amount of public support and perceived fairness.

MPI then applied for a review and variance of one directive in Order 176/19 related to the DSR system. It asked that the Board vary the directive requiring it to file information as to

which rating model it intended to proceed with. As part of the request for a variance, MPI advised the Board that changes to the DSR might have an impact on one or more of the *Automobile Insurance Plan Regulation, Driver Safety Rating System Regulation* under the *MPIC Act*; and the charges for licences, registrations, permits and other services regulation under the HTA. MPI also stated that it must coordinate the impact of DSR changes on its major IT initiative, Project Nova. According to MPI, its Board of Directors would not be in a position to decide on a direction for the DSR any earlier than mid-2020, and following that decision, the process for any regulatory amendments would take approximately 12 months.

MPI therefore asked for a variance so that it would not be required to advise in that Application as to which DSR rating model it intended to proceed with, but instead that it would file information in the 2021 GRA as to the timeline and major milestones for such a decision. The Board granted MPI's request in Order 6/20 but stated that given the history of this matter, it expected that MPI would set its timeline and milestones with a view to progressing on a new DSR model in a timely manner.

The Board also commented in Order 1/21 that more than sufficient time and examination had taken place in order for MPI to move towards more actuarially sound driver premiums and vehicle premium discounts by this Application.

The Board held that, given the evidence of MPI's Chief Actuary, that the Primary Driver model would more accurately reflect risk, in this GRA the Corporation was to bring forward a plan, including timelines, major milestones and implementation date, for any changes to the DSR model, including a date by which MPI file an application for any such changes with the Board. The Board noted that the timeline for MPI's major Information Technology initiative, Project Nova, required that MPI move forward on DSR changes **without delay**. The Board expressed concern that if MPI did not take proactive steps to move to the Primary Driver model now, such a change would be more difficult to implement after completion of Project Nova.

The Board also directed that in this GRA, the Corporation incorporate DSR into its minimum bias analysis used to set rating relativities.

In the 2022 GRA MPI filed proposed driver premium rates and vehicle premium discounts that were more statistically consistent with the estimated claims cost per driver for each level of the DSR scale. Given the gap between the discount/premium charge and the indicated discount/premium charge, MPI recommended a gradual implementation to remedy the cross-subsidization of drivers with low DSR ratings by those with high DSR ratings. MPI indicated a plan to increase the upper limit of the DSR scale from +15 to +20 over the next five years and proposed to move one-fifth of the difference between current and indicated vehicle premium discounts each year.

Directive 11.15 from Order 134/21 following the 2022 GRA required the Corporation to bring forward a DSR transition plan to manage the required increase in the base rate and year-to-year rate dislocation, while moving the DSR vehicle discounts and driver premiums to actuarial targets in a timely manner.

In the 2022 GRA, MPI advised that, notwithstanding its position in the 2020 and 2021 GRAs, it intended to continue to use the Registered Owner model and would not be considering any changes to its model for five years. The Board therefore found that MPI had not complied with Order 1/21, that a change in the rating model was required. Directive 11.13 of Order 134/21 required the Corporation, in this GRA, to bring forward a five-year plan for the implementation of the Primary Driver rating model, addressing:

- Required regulatory changes and a timeline for the initiation of the regulatory changes;
- Required IT changes and a timeline for the implementation of the IT changes;
- The process the Corporation will employ to obtain the necessary primary driver information from ratepayers; and

- The Corporation's communications plans in order to educate ratepayers about the rating model change.

Directive 11.13 was the subject of an application for leave to appeal filed by MPI in the Manitoba Court of Appeal on March 29, 2022. The court dismissed MPI's application on October 19, 2022.⁴ Madam Justice Steel held as follows with respect to the Board's jurisdiction over the DSR rating model:

I accept the argument of the PUB that Directive 11.13 is an information-seeking directive. There is no doubt, given the history of this matter, that the PUB strongly favours the change to a primary driver model. But that is not to say that, given the receipt of information it has requested, the change is a foregone conclusion. The directive asks that a plan be developed, and a foundation laid in the event it wishes to consider a potential change at a later time [...] The PUB has the jurisdiction to issue this directive, as it may take into consideration all elements of insurance coverage affecting insurance rates, and any other factor it considers relevant to the matter (see section 25(4) of the CCGAA; and *Hydro-Electric 2020* at para. 81)

[...]

However, even if I were to accept MPIC's argument that Directive 11.13 was not a directive simply seeking information but, rather, a directive requiring MPIC to make the change, I find that it is within the PUB's jurisdiction to do so.

As I explain below, the PUB has jurisdiction to approve, deny or vary MPIC rate applications. The PUB's rate approval mandate includes jurisdiction over the DSR system, including the authority to examine and designate the specific methodology by which customers are grouped in order to ensure premiums are just and reasonable. This allows the PUB to impose premiums, discounts, surcharges and classifications, including through the DSR system, which differ from those sought by MPIC.⁵

⁴ *Manitoba Public Insurance Corp. v. Manitoba (Public Utilities Board) et al.*, 2022 MBCA 86.

⁵ *Ibid.*, paras. 44, 46-47.

6.2 Current Application

Rating Model

The response to Directive 11.13 of Order 134/21, the Corporation has filed a plan with a six-year time frame for the implementation of the Primary Driver rating model. The Corporation advised that the time frame was based on estimates. The steps identified by MPI to transition to a Primary Driver rating model prior to applying to the Board for approval include obtaining government approval of regulatory changes, developing business rules, consulting with stakeholders, coordinating with the launch of online systems, and finalizing pricing.

MPI advised however that it plans to assess several rating models before deciding on a future direction:

- Registered Owner, in which the vehicle premium discount is based on the DSR level of the registered owner of the vehicle;
- Primary Driver, in which the vehicle premium discount is based on the DSR level of the primary driver of the vehicle;
- Listed Driver, in which the vehicle premium discount is calculated taking into account the DSR level of all drivers of the vehicle listed under the policy; and
- Primary/Listed Driver Hybrid, which is a weighted calculation based on Primary Driver and Listed Driver.

Rating Scale Changes

MPI filed an updated DSR analysis, reflecting an additional year of experience. The indicated discounts were within 1% of the discounts indicated in Order 134/21.

In the 2023 GRA, MPI sought changes to the DSR within the existing rating model, by proposing the following for 2023/24 policy year:

- The Basic rate decrease being applied for in the 2023 GRA would be allocated to the DSR vehicle discount levels with the most significant need for rate decreases based on actuarial indications;
- No changes would be made to the DSR driver premiums;
- The top of the DSR scale would increase from DSR +16 to DSR +17 in the 2023/24 policy year;
- Premium discounts for DSR Level +16 and +17, would increase by 1% (from 37% to 39%);
- Premium discounts for DSR Level +14 would increase by 2%; and
- Premium discounts for DSR Level +9 to +13 would increase by 1%.

MPI's plan is to request an increase to the top of the DSR rating scale by one step per year, to at least DSR +20 in future years.

Drivers at DSR level +15 and higher currently receive a 37% discount on their insurance premiums, while the actuarially indicated discount is 56%. While MPI intends to maintain the current Registered Owner model, it advised in the 2022 GRA that it will seek to move the discount/premiums closer to their actuarial targets over the next five years.

MPI indicated that MPI will seek adjustments to DSR discounts depending on the size of the overall rate indication in each GRA. While MPI intends to adjust to actuarially indicated percentages and resolve the cross-subsidization between DSR levels, its plan includes a reassessment of the discounts every year. The pace of the changes will be influenced by the rate indication of the GRA. Where possible, MPI intends to continue allocating rate decreases to the DSR levels that are furthest from the actuarially indicated percentage.

In order to manage the required increase to the base rate and the year-to-year rate dislocation, changes to the DSR must occur over several years. However, at this point

MPI is not able to create a long-term plan with specific timelines or discounts it intends to use for several reasons, including IFRS 17 and 9 unknowns (i.e., claims discount rates and risk adjustments) and their impact on the capital position of MPI. GLM implementation will also affect the actuarially indicated discounts.

MPI believes that capping rules should not be applied to limit rate adjustments caused by DSR changes each year. Ideally, the rate indication of a GRA will support the proposed changes without an increase of driver premiums at any DSR levels.

The expansion of the DSR merit levels would be applied prospectively, instead of recalculating placement on an extended DSR scale. MPI expressed the view that the proposed changes would provide incentives for continued safe driving for ratepayers at or near the top of the DSR scale, make the current model more accurately reflect risk, reduce cross-subsidization, and minimize rate dislocation for ratepayers.

In its closing submission, MPI stated with respect to DSR that the relief sought in this GRA was limited to increasing the maximum merit level of the DSR Scale from +16 to +17, but with no changes to discounts. This was the first indication to the Board that MPI had changed its position on the DSR scale discounts.

6.3 *Intervenors' Positions*

CAC

CAC commented on the "glacial" pace of change in the DSR: Cross-subsidization has plagued the DSR since the program's inception, and MPI has shown little commitment to change and little concern for those being overcharged. CAC observed that the Board has impressed upon MPI the gravity of unfairness for safest drivers, and requested a proactive plan for correction. MPI proposed marginal changes to discounts and deferred meaningful progress on cross-subsidization years into the future. CAC argued that potential future changes to the rating model should not be allowed to perpetuate unfairness today. There

is room for MPI to make faster progress to correcting cross-subsidization before the projected transition to GLM.

In CAC's view, MPI's proposal to merely allocate future rate decreases to the DSR levels most acutely over-paying is inadequate. CAC recommended that in future years, the 'base rate' be increased by up to 5% to allow for more substantial adjustments to DSR discounts. However, CAC argued that the pressures of the current year's inflation environment have already wrought significant challenges on Manitoba households such that increases to the base rate in excess of 1-2% are not appropriate this year.

CAC suggested that, if the approved AAP rate decrease is greater than the capital release, an additional amount should be allocated to correcting cross-subsidization at the high-end of the DSR scale. Due to current inflationary pressures, increases to the amounts charged by MPI should be minimized as much as possible. If the approved decrease is less than the amount of the capital release, increases to the base rate of more than 1-2% in order to improve the DSR discounts would not be appropriate.

With respect to the DSR rating model, CAC indicated that it does not necessarily endorse a transition to a Primary Driver model.

CMMG

CMMG submitted that, when undertaking the balancing exercise (balancing the unfairness of overpayment by ratepayers at the top end of the scale against prospective rate increases for ratepayers at the other end of the scale), a more expedient approach is required. A 2% increase in the base rate would allow for an increase in DSR levels and DSR discount for DSR levels +9 and above. The increased discount can then be distributed to allow for an increase of 1% for DSR levels +9 to +11, 2 percent for +12 to +14, and a 4% increase for DSR levels +15 and above.

CMMG took the position that Directive 11.15 should have been completed by MPI for this GRA and the request to delay this process for an additional two or three years is not reasonable, especially given the cumulative nature of the existing cross-subsidization.

CMMG also commented that MPI has continued to delay taking steps toward a Primary Driver model.

TC

TC argued that MPI had not complied with Directive 11.15, and must address the circumstances preventing it from complying.

TC took the position that MPI has made no substantive changes to its plan to address the DSR cross-subsidization from the 2022 GRA and that MPI's proposal in this GRA does not address the issue of cross-subsidization in a timely manner.

MPI's corporate risk profile is unaffected by these adjustments. TC therefore stated that it simply cannot be the case that an increase to base rates, offset by higher DSR discounts, can run afoul of the MPI's risk appetite statement.

In TC's view, MPI should accelerate the process to deploy GLMs for ratemaking if it believes the rate dislocation will be so severe as to make suspect any DSR scale adjustments today. TC noted that adjustments today might also bring the DSR closer to indicated under a GLM framework.

The TC asked that the Board find that MPI has not complied with Directive 11.15, and that concerns around MPI's corporate risk profile are neither determinative, nor relevant to compliance with this directive.

TC submitted that MPI should be directed to accelerate its preliminary investigation into GLMs to the point where it can be sufficiently confident in the outcome of the GLMs that it can then proceed with addressing the Board's concerns articulated in Directive 11.15.

Given the software options available, MPI should be directed to begin this investigation without further delay, and be prepared to present preliminary results in the 2024 GRA.

6.4 Board Findings

6.4.1 Rating Scale Changes

Through its prior Orders, the Board has required MPI to address base rate and year-to-year rate dislocation, while moving the DSR vehicle discounts and driver premiums to actuarial targets in a timely manner. The Corporation has not provided a satisfactory plan to address this issue. MPI's requested adjustments to the existing model are not sufficient and the Board finds that MPI's request in its closing submission to make no changes to any discounts is not reasonable. Further, the Board finds this is not consistent with MPI's position in the 2022 GRA that it would seek to move the discount/premiums closer to their actuarial targets over the next five years. In effect, MPI's plan in this GRA was not fully compliant with Directive 11.15. Further delays are not acceptable.

The Board therefore directs MPI to move all DSR discounts one-fifth of the way to actuarially indicated rates in the 2023 GRA. This direction is applicable for all positive DSR levels. The calculation of the change is to be one-fifth of the difference between the current and the actuarially indicated discount for each DSR level, rounded down to the nearest whole number, with base rates adjusted to off-balance these changes. For example, if the difference is 6% between the current and the actuarially indicated rate, the change in discount would be 1%. In addition, the Board directs MPI to move all DSR discounts one fourth of the way to the actuarially indicated rate in the 2024 GRA, rounded down to the nearest whole number, with base rates adjusted to off-balance these changes.

The Board finds it is just and reasonable to make the changes to the system as indicated, and therefore directs the Corporation to:

- Expand the DSR scale from DSR +16 to DSR +17 in the 2023/24 policy year forward. Drivers will still require an incident-free year before moving to the new top merit level; and
- Implement the following increases to the vehicle insurance premium discounts:

DSR Level	Current Discount	Increase	2023/24 Discount
17	37%	3%	40%
16	37%	3%	40%
15	37%	3%	40%
14	32%	2%	34%
13	31%	2%	33%
12	30%	2%	32%
11	29%	2%	31%
10	27%	2%	29%
9	25%	2%	27%
8	25%	1%	26%
7	25%	1%	26%
6	20%	1%	21%
5	15%	1%	16%
4	15%	1%	16%
3	10%	1%	11%
2	10%	0%	10%
1	5%	0%	5%

6.4.2 Rating Model

The Manitoba Court of Appeal decision confirmed the Board's jurisdiction to direct the Corporation to move to a Primary Driver rating model, subject to provincial government approval. Before the Board decides on the rating model it requires more detailed planning to transition to a new rating model. In this GRA the Corporation has proposed two new models, the Listed Driver and Primary/Listed Driver models in addition to the Registered Owner and Primary Driver models. The Board therefore requires an update to the five-year plan filed in this GRA, which includes detailed workplan, start date, and schedule for the Corporation to bring forward for the proposed four rating models to the Board for approval in the 2024 GRA.

7.0 PROGRAM COSTS

7.1 Basic Claims Incurred

Claims incurred represent the costs paid or forecast to be paid to claimants for the various benefits provided under the Basic insurance program.

Claims Incurred for the fiscal years 2018- 2022 for the major coverages were as follows:

For years ending March 31 (\$ millions)	2018*	2019*	2020*	2021	2022	5-year change	
Physical Damage - All Perils							
Collision	426	406	444	323	414	(12)	(3%)
Comprehensive	67	100	91	85	85	18	27%
Property damage	49	42	45	31	38	(11)	(22%)
Sub-total	542	548	580	439	537	(5)	(0.1%)
PIPP Accident Benefits & Other	220	340	210	165	180	(40)	(18%)
Public Liability	5	5	6	4	3	(2)	(40%)
Total Claims Incurred	767	892	796	608	720	(47)	(6%)

*MPI changed its fiscal year end to March 31st in 2020. The 2018 to 2019 fiscal years are based on February 28th year end. The 2020 fiscal year reflects a 13-month period ending March 31, 2020.

The actual claims incurred for the 2021/22 fiscal year are \$705.8 million, which reflects an overall decrease of \$83.2 million from the \$789.0 million estimate provided in the October 5, 2021, update for the 2022 GRA. This overall change was the combination of a decrease of \$169.9 million due to the impact on claims reserves of interest rate increases, offset by an increase of \$86.7 million in forecasted claims for most coverages.

The projected claims incurred for the 2022/23 fiscal year are \$789.6 million, which reflects an overall decrease of \$133.2 million from the \$922.8 million estimate provided in the October 5, 2021 update for the 2022 GRA. This change in incurred claims was a combination of a decrease of \$39.8 million from the October 5, 2021 update for the 2022 GRA to the initial filing of the 2023 GRA estimate of \$883.0 million (based on March 31, 2022), and a further decrease of \$93.4 million from the initial filing to the estimate contained in the October 12, 2022 update. This overall change was the combination of a

decrease of \$150.4 million due to interest rate increases, along with a decrease of \$54.0 million in collision claims forecast due to lower claims frequencies but higher claim severity, offset by an increase of \$59.7 million in PIPP and Liability claims, due primarily to inflationary impacts on inflation protected benefits, and smaller increases in claims costs for other coverages.

The projected claims incurred for the 2023/24 fiscal year are \$938.1 million, which reflects an overall decrease of \$20.7 million from the \$958.8 million estimate provided in the October 5, 2021 update for the 2022 GRA. This overall change was the combination of a decrease of \$26.3 million from the October 5, 2021 update for the 2022 GRA to the initial filing of the 2023 GRA estimate of \$932.5 million (based on March 31, 2022), and an increase of \$5.6 million from the initial filing to the estimate contained in the October 12, 2022 update.

Similarly, the projected claims incurred for the 2024/25 fiscal year of \$986.3 million reflects an overall decrease of \$11.9 million from the \$998.3 million estimate provided in the October 5, 2021 update for the 2022 GRA. This overall change was a combination of a reduction of \$23.1 million from the October 5, 2021 update to the initial filing of the 2023 GRA, and an increase of \$11.1 million from the initial filing of the 2023 GRA to the October 12, 2022 update.

There were several key drivers of the change in claims costs. They included reductions due to a work-from-home reduction in claim frequency, and increases in interest rates, and with these reductions offset to some extent by increases to the LVAA, inflationary pressures on indexed benefits, and Collision Total Loss severity.

Interest rates rose during this period, causing the projected future interest rates to increase commensurately. The projected claims discount rate at 2023/24 Q2 was 2.62% in the October 5, 2021 update of the 2022 GRA, rose to 3.54% in the initial 2023 GRA filing, and rose further to 4.19% in the October 12, 2022 update. Increases in interest rates reduce the present value of claims paid in the future. The cumulative interest rate

impact was a \$14.8 million and a \$14.1 million reduction in claims costs for 2023/24 and 2024/25, respectively.

The cost of the LVAA rose further, increasing forecasted collision claims by \$5.9 million in 2023/24 and \$5.1 million in 2024/25.

Forecast Accident Benefit Other indexed and Weekly Indemnity claims costs rose \$6.6 million for 2023/24 and \$9.9 million for 2024/25 due to inflation. Higher forecasted Collision Total Loss severity increased claims costs by \$21.3 million from the initial 2022 GRA to the initial 2023 GRA.

7.2 Basic Expenses Overview

MPI's global corporate costs are allocated among Basic, Extension, SRE and DVA. Costs are allocated to Basic through an Integrated Cost Allocation Methodology (ICAM) approved by the Board in Order 157/12. The ICAM distributes Corporate expenses and then further segregates them into four expense categories: Claims, Road Safety/Loss Prevention, Operating and Regulatory/Appeal.

In this application, MPI has changed the basis of allocating Project Nova costs. MPI based its previous Property and Casualty allocation methodology on claims incurred volumes, which allocates costs based on the claims volumes. However, as claims counts are significantly higher for the Basic line of business, MPI recognized that a disparity in cost allocations existed, which did not align the project's benefits to the correct line of business. Further detail about Project Nova cost allocation is provided later in this section.

In the Application as filed, total Corporate operating expenses, including the costs of administering claims and road safety, were \$327.3 million in 2021/22 and were forecast to grow to \$378.7 million in 2022/23. MPI forecasted total Corporate expenditures to be \$411.9 million in 2023/24 and \$429.6 million in 2024/25. Expenditures allocated to Basic were \$237.1 million in 2021/22 and were forecasted to be \$258.3 million in 2022/23, to increase to \$275.9 million in 2023/24 and \$278.0 million in 2024/25.

As a result of the October 12, 2022 update, MPI revised its forecast for 2022/23 lower to \$373.5 million and forecasted increases to total Corporate and Basic operating expenses; notably, total Corporate costs are now forecast at \$419.8 million in 2023/24, and \$434.3 million in 2024/25 an increase of \$7.9 million and \$4.9 million in the respective years from the initial filing. Corporate expenses allocated to Basic are now forecasted to increase to \$284.7 million in 2023/24 and \$284.6 million in 2024/25 an increase of \$8.8 million and \$6.6 million in the respective years from the initial filing.

The details of total Basic Operating expenses including allocated Corporate costs and directly assigned expenses based on the October 12, 2022 update are as follows:

	Total Estimated Expense 2022/23	Total Estimated Expense 2023/24	Total Estimated Expense 2024/25
Total Corporate Expenses (\$ in millions)	\$373.5	\$419.8	\$434.4
Basic Allocated Corporate Expenses			
Claims Expenses	151.5	157.4	158.0
Operating Expenses	89.6	107.5	108.1
Road Safety/Loss Prevention	12.5	15.0	14.1
Regulatory/Appeal expenses	4.6	4.8	4.4
Total Basic Allocated Corporate Expenses	258.2	284.7	284.6
Basic Direct Expenses			
Commissions	47.9	51.8	58.6
Premium Taxes	33.0	35.1	37.3
Total Basic Expenses	\$339.1	\$371.6	\$380.5

7.3 *Claims Expenses*

Claims expenses represent the administrative costs associated with processing and settling claims. Forecast claims expenses increased from \$123.60 per vehicle in the 2022 GRA to \$125.13 per vehicle in the 2023 GRA.

MPI updated its forecast claims expenses on October 12th, decreasing the claims expense per vehicle from \$125.13 to \$118.84 per vehicle, due primarily to a forecast reduction in claims experience.

7.4 Operating Expenses

Operating expenses were \$75.9 million in 2021/22 and were forecast to grow to \$89.5 million in 2022/23, \$96 million in 2023/24 and \$96.3 million in 2024/25. Operating expenses for the prospective rating year increased from \$63.06 per vehicle in the 2022 GRA to \$76.17 per vehicle in the initial filing of the 2023 GRA.

In the October 12, 2022 update, MPI increased its operating expense in 2023/24 to \$107.5 million, an increase of \$11.5 million or 12.0%. The revised budget for 2024/25 was increased to \$108.1 million, an increase of \$11.2 million from what was forecast in the original application for that year.

Operating expenses per vehicle increased from \$76.17 per vehicle to \$85.21 per vehicle. Overall operating expenses per vehicle have increased by \$22.15 per vehicle of approximately 35% from the 2022 GRA. The increase has been attributed to forecasted higher staffing levels and data processing cost increases related to Project Nova implementation. MPI noted that the forecast increase in operating and data processing expenses would be short-term and temporary.

Salaries and benefits are a significant component of Basic's operating expenses, representing over 55% of the total operating expenses in the year of the Application. Since 2018/19, Basic has experienced compound annual growth of salaries and benefits of 1.6% in the last four years, with Basic compensation that has grown from \$124.4 million in 2017/18 to \$131.1 million in 2021/22. Salaries and benefits were budgeted in the initial application to be \$139.4 million in 2022/23 and were forecast to grow to \$151.6 million in 2023/24 and \$153.9 million in 2024/25. The forecasted annual growth for 2022/23 to 2024/25 was 5.5%.

In the October 12, 2022 update, Basic's salaries and benefits are now forecast to grow to \$142.9 million in 2022/23, an increase of 9% from the previous year. They are now forecast to grow to \$160.0 million in 2023/24, an increase of almost 12% over 2022/23 and \$159.8 million in 2024/25. The forecast annual growth for 2022/23 to 2024/25 is now 7.1%. MPI attributed the increase to a forecast increase in staffing levels and higher negotiated economic payroll increases. Given the current economic environment, the Corporation forecast negotiated economic increases of 5% in 2022/23 and for 2023/24 and onward at 1.9% annually. MPI is forecasting to make market adjustments for specialized personnel in functional areas where labour pools are scarce and difficult to attract.

MPI's actual staff complement in 2021/22 was 1,879.5 FTEs. MPI plans to increase its overall staff complement in 2022/23 to 2,048.5 FTEs, an increase of 169 FTEs for the year. MPI reported in the public hearing that it had increased its forecasted number of staff positions for 2023/24 to 2348.1 FTEs. MPI attributed the increases in staffing to dealing with identified competency gaps, service levels, and additional staff required to deliver Project Nova.

MPI's evidence was that it is experiencing challenges with capacity and capability, such as insufficient actuarial resources, insufficient IT security resources, lack of cloud resources, and operational staff shortages that are reducing service standards.

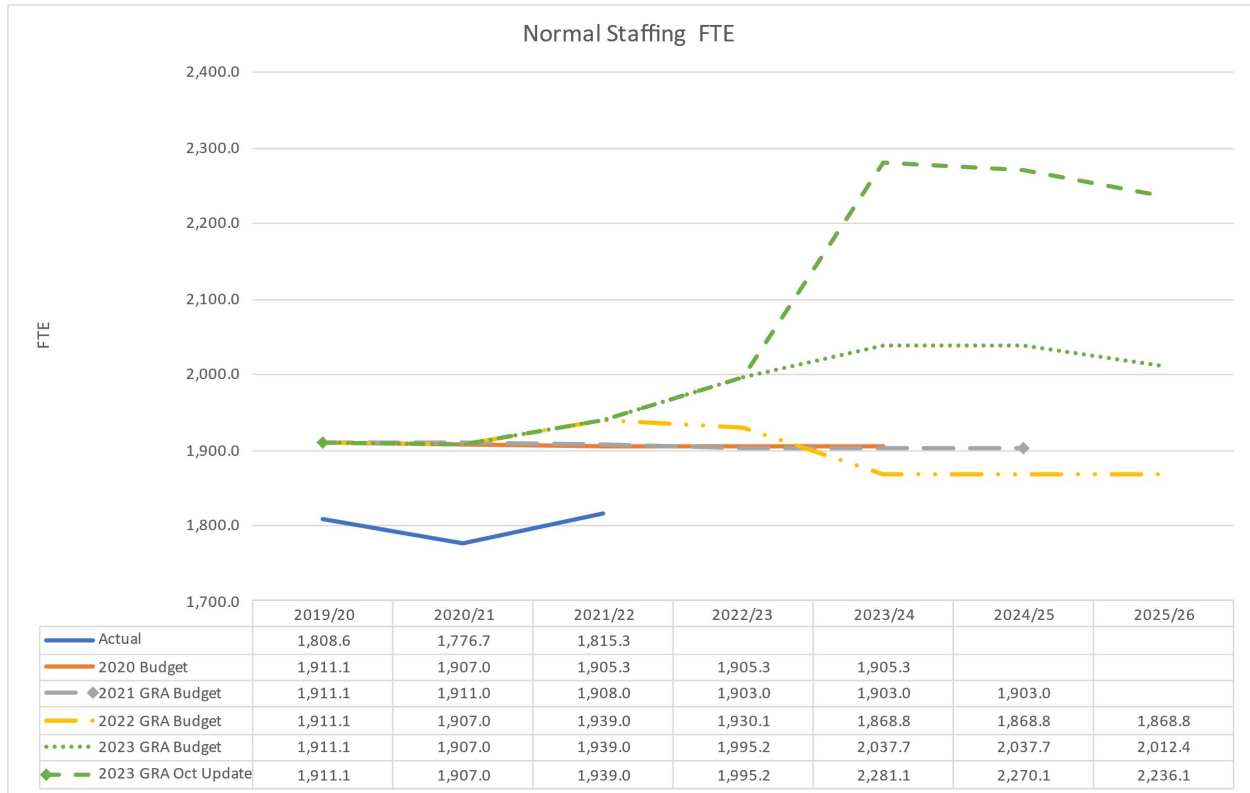
MPI stated that not all of the new FTE positions will be permanent. Approximately 34 FTEs will be term or "bubble staff." For Normal operations, the evidence is that MPI views its steady state staffing level to be 2,174.6 FTEs for the 2023/24 fiscal year.

MPI's position in the Application was that the staff increases are reasonable and necessary to address challenges faced by MPI. MPI will experience an initial increase in its operating expenses, but this will be short-term and temporary. Increased data processing costs are largely a result of Project Nova and these increases in data processing costs are temporary as well.

The composition of MPI's FTEs dedicated to Operations and Improvement Initiatives is as follows:

Fiscal Year	Normal Operations	Improvement Initiatives	Total Corporate
2011/12	1,862.9	15.4	1,878.3
2012/13	1,894.7	17.1	1,911.8
2013/14	1,890.3	15.0	1,905.3
2014/15	1,874.8	10.7	1,885.4
2015/16	1,866.7	15.7	1,882.4
2016/17	1,898.9	21.2	1,920.1
2017/18	1,863.5	14.7	1,878.1
2018/19	1,772.7	16.6	1,789.3
2019/20	1,808.6	17.7	1,826.3
2020/21	1,766.7	34.6	1,801.3
2021/22	1,815.3	64.2	1,879.5
2022/23B	1,995.2	53.3	2,048.5
2023/24F	2,281.1	67.0	2,348.1

There has been a marked increase in MPI's forecast budget for Normal FTEs in the 2023 GRA from the prior application, as shown in this graph:



MPI's actual Normal Operations FTE levels have been consistently below budgets as follows:

Fiscal Year	Actual	Budget	Over/(Under) Variance
2011/12	1,862.9	1,926.5	(63.6)
2012/13	1,894.7	1,936.7	(42.0)
2013/14	1,890.3	1,934.7	(44.4)
2014/15	1,874.8	1,927.7	(52.9)
2015/16	1,866.7	1,898.7	(32.0)
2016/17	1,898.9	1,927.5	(28.6)
2017/18	1,863.5	1,910.0	(46.5)
2018/19	1,772.7	1,884.0	(111.3)
2019/20	1,808.6	1,911.1	(102.5)
2020/21	1,766.7	1,907.0	(140.3)
2021/22	1,815.3	1,939.0	(123.7)
2022/23B	-	1,995.2	
2023/24F	-	2,281.1	

7.5 Broker Commissions

MPI's Service Delivery Model and broker commission structure were thoroughly examined in the 2020 GRA. At that time, MPI and IBAM were in the process of renegotiating the Broker Accord, which was to expire on February 28, 2021. MPI reported in the 2020 GRA that Basic commission and fees paid represent 3.6% of Basic's total costs of operations. The new Broker Agreement, entered into between MPI and IBAM, is effective for the period from April 1, 2021, to March 31, 2026. Generally, the agreement resulted in an increase in commission expenses for Basic and a reduction in commission expenses for Extension. At the 2022 GRA, MPI forecast Basic's commission expense as \$4.6 million higher in 2022/23, and \$7.6 million higher in 2023/24, than the 2021 GRA forecast.

The Broker Agreement increased the commission rate on Basic in-person transactions from 3.0% to 3.49% in 2021/22 and 2022/23, 4.01% in 2023/24, and 4.19% in 2024/25 and 2025/26. The agreement also requires that a commission be paid for Basic online transactions at the same rate as in-person transactions for 2021/22 and 2022/23. The

Basic online transaction rate then decreases to 2.25% from 2023/24 through 2025/26. Under the Broker Agreement, once Project Nova is completed, any person renewing online will be required to select an agent before the transaction can be completed and that broker will receive a commission.

In this year's application, MPI indicated a twelve-month delay in the implementation of Project Nova to allow for online transactions contemplated in the new Broker Agreement fee schedule. As a result, Broker commissions payable had increased from what was forecast last year. MPI now forecasts higher levels of Basic broker commissions than contemplated in the previous year. Basic Broker commission expenses are forecast to be \$51.7 million in 2023/24 and \$54.5 million in 2024/25, \$2.6 million and \$5.2 million higher than what was forecast in the respective years at the 2022 GRA.

The adjustment for broker commissions resulted from the new delivery timelines and an updated assessment of which online transactions will be made available to ratepayers. MPI and IBAM are in ongoing discussions to amend the Broker agreement between MPI and IBAM to reflect the changes in the Nova delivery schedule.

7.6 Premium Taxes

Premium taxes are paid to the Province on the premiums MPI collects from ratepayers. Premium taxes are levied based on 3% of earned premiums net of rebates paid. The premium taxes were \$23.9 million in 2020/21 and \$30.0 million in 2021/22, lower than forecast due to payment of approximately \$439 million in premium rebates. Premium taxes are forecast to be \$33 million in 2022/23 and increase to \$35.1 million in 2023/24 and \$37.3 million in 2024/25 based on the forecast growth in Basic premiums. MPI does not forecast a premium rebate in 2023/24 or 2024/25.

7.7 Information Technology (IT)

7.7.1 IT Strategy

MPI filed the 2022-23 IT strategy in this GRA. It is focused on key initiatives to meet a five-year aspirational ambition of a future "MPI 2.0".

To be able to deliver on MPI. 2.0, a key milestone will be the successful execution of Project Nova, which includes the modernization of core systems and the provision of online service options. MPI's President and CEO indicated that MPI 2.0 is a broader transformation than Project Nova, to allow the Corporation to generate efficiencies. The delivery of Project Nova is seen as a critical step in order to enable that level of efficiency to be meaningful.

The IT strategy sets the intent to be followed by the IT division in its support of bringing about critical changes identified by the business. MPI identified the goals of the IT strategy:

- Build and adopt necessary tools, processes, and industry best practices needed to ensure success for Project Nova and MPI 2.0;
- Accelerate and safeguard Project Nova functionality add-ons and software selection for MPI 2.0;
- Transition to a cloud first technology organization;
- Avoid lock-in scenarios with infrastructure providers;
- Accelerate the elimination of technical debt to enable the shift in IT capacity to deliver new business value;
- Optimize the cost of IT infrastructure;

- Shift from large capital expenses to predictable operational expenses that can deliver evergreen technology with low-cost scalability;
- Advance threat detection and response capabilities;
- Minimize exposures to security threats through advancing security by design principles;
- Build Data and Analytics cloud capabilities for MPI 2.0; and
- Enable automation and artificial intelligence capabilities for MPI 2.0.

7.7.2 Project Nova

In the 2020 GRA, the Corporation presented its plans for its main IT initiative, Project Nova. The predecessor to Project Nova was MPI's Legacy Systems Modernization (LSM) project. Both LSM and Project Nova were conceived to modernize the core legacy systems of MPI. The project has now evolved into a holistic business transformation aimed to address business continuity risks and provide modern self-service experiences for Manitobans.

Project Nova now includes several new IT delivery processes, such as Agile, Lean Portfolio Management, and Weighted Shorted Job First. While these processes represent modern approaches to IT delivery, they continue to be in the infancy of their adoption by MPI.

The original business case for Project Nova had a budget of \$106.8 million, which was comprised of \$85.4 million in project costs and a \$21.4 million contingency. The original business case was based on a top-down budget analysis, prior to MPI having received any pricing from vendors.

Following the 2021 GRA, MPI undertook a re-baseline exercise (2021 re-baseline), which resulted in an increase to the budget. The re-baselined budget was \$128.5 million,

comprised of \$111.7 million in projected costs and \$16.8 million of contingency. At that time, MPI advised the Board that the business case for Project Nova was more refined. The net present value (NPV) for the 2021 re-baseline was based on a 15-year period from project initiation, March 1, 2019, and the NPV was \$18.4 million. MPI assessed Project Nova as medium-high risk and applied a 7.5% discount rate. MPI reported that, while a positive NPV was projected, this was highly dependent on many factors and the margin of error was very slim.

MPI's President and CEO, Mr. Eric Herbelin, testified in the 2022 GRA that MPI had a plan to move beyond Project Nova to a new initiative, then referred to as Supernova. Mr. Herbelin testified about an intention for the Corporation to become omnichannel⁶ enabled, producing flexible products for Manitobans, and providing increased business agility. At that time, it was unclear what impact Supernova would have on the current delivery and future direction for MPI.

In this GRA, detailed evidence was filed about the state of Project Nova as of mid-2021. By mid-2021, six months after the start of the project's implementation, and before the commencement of the 2022 GRA public hearings, MPI management had recognized that the complexity and scale of the project were greater than anticipated and that, if the scope of work were to remain the same, it was unrealistic that the project could be completed on time and budget. The Corporation's Project Nova Governance Advisor, PwC, expressed similar concerns.

Both MPI and PwC had identified issues that led MPI to re-baseline Project Nova. The issues were reviewed by the MPI Board's Technology Committee at a meeting on September 28, 2021, and were:

- Scope increase in digital;

⁶ Relates to commerce that integrates the different methods of interaction available to customers (e.g., online, via a mobile device, in a physical store, etc.)

- Teams having divided focus;
- Limited resources & capabilities;
- Turnover;
- Immature centres of excellence;
- Sequencing;
- Leadership consistency and ownership;
- Architectural runway; and
- General contractor inexperience.

At that same meeting, the Technology Committee approved an untendered contract between MPI and McKinsey & Company (Canada) (McKinsey), for McKinsey to address the issues identified by PwC and MPI, at a cost of up to \$3.0 million plus expenses and taxes.

In February 2022, upon completion of McKinsey's project assessment, MPI management and McKinsey recommended a flattened timeline for the project to de-risk the delivery of project releases. The minutes from the February 10, 2022 meeting of the Technology Committee summarized the progression of Project Nova and the events leading to new re-baselined budget and timeline (2022 re-baseline):

Throughout the history of Project Nova, MPI, recognized that it did not have the internal expertise and that no single external consultant had the expertise to successfully implement a transformational project of the complexity presented by this project. It has engaged the services of industry experts to assist in providing advice on how best to carry out this project. Based upon consideration of advice provided by external experts MPI set the initial timeline and budget at 40 months and a cost of \$85.4 million + \$21.4 million (25% contingency) = \$106.8 million. This initial timeline/budget was prior to entering into contracts with the major technology vendors and system integration providers. In January 2021,

after the various contracts were competitively tendered and awarded the budget was re-baselined at a cost of \$111.7 million + \$16.8 million (15% contingency) = \$128.5 million. The timeline initially set to 54 months, back in 2019, was later reduced to 40 months based on the belief that external vendors and MPI combined could implement several work streams in parallel.

In mid-2021, 6 months after the start of the project's implementation, MPI management recognized, despite prior advice and best efforts, that the complexity and scale of the project was greater than anticipated; consequently, it was unrealistic based upon current plans that the project could be completed on time and on budget, assuming that the scope of work would remain constant. The Committee's Governance Advisor, PwC, also expressed similar concerns. MPI management began the process of internally assessing required changes to ensure successful implementation of the scope of the project. In conjunction with this assessment, MPI retained McKinsey & Company (McKinsey) to provide an independent assessment of the project delivery along with implementable advice on how best to successfully complete the scope of the project.

[...]

Through the internal assessment as well as the McKinsey review of project NOVA, the unforeseen extent of project risk has been acknowledged. In particular, MPI lacks some critical resources to execute on this plan successfully, specifically its ability to exercise the role of General Contractor. The necessity to provide value assurance and project leadership coordination across all the moving parts and parties involved is both critical and urgent for MPI to fill with the help of external qualified advisors who understand the specifics of MPI and NOVA while building this capability internally in parallel. It is recognized that due to the complexity of this project, even if Release 1A is successfully implemented on time that it does not guarantee success for the overall project. The complexity related to the preparation, discovery and launch as well as implementation of the subsequent releases is significantly greater than what MPI displayed. The successful completion of the project in accordance with Re-baseline 2022 budget requires MPI to mature its capabilities as quickly as possible with the assistance of [a] highly qualified General Contractor.

The 2022 re-baseline, approved in the February 10, 2022 Technology Committee meeting, extended the project timeline from 40 months to 60 months. The budget was also increased to \$224.1 million plus a contingency in the range of 20-40% (\$32.9 to

\$65.8 million) (2022 re-baseline). The 2022 re-baseline budget range is \$257 to \$289.9 million, with the midpoint cost estimate at \$273.5 million.

The evidence in this GRA indicates that many of the expected benefits set out in the 2022 re-baseline are now lower than identified in previous iterations of the business case. This was attributed to the flattened delivery plan, which delays the realization of benefits. With the new higher estimated project cost and revised lower project savings benefits, the NPV of the Project Nova business case has been revised to negative \$188.9 million. This amounts to a \$207.9 million decrease from the 2021 re-baseline. This re-baseline budget is only a best estimate as it takes the project to the third of four releases, and the total final budget is currently unknown. The CEO of MPI, Mr. Eric Herbelin, analogized the task to climbing a mountain: MPI is attempting to reach the summit, is currently in the "dead zone", and must proceed through.

Mr. Herbelin also testified that a NPV analysis is not the appropriate metric for determining whether to move forward with Project Nova. Rather, his evidence was that MPI must ensure that legacy technologies are replaced in the most fiscally prudent and effective way, and that MPI's current technology will not be able to sustain the business. His evidence was that replacement of legacy technologies was necessary for the Corporation's survival.

Mr. Herbelin described the scope of the effort to complete Project Nova as "massive." He also noted that MPI has learned through its progress on the project that some aspects of the work to develop the project are more onerous than initially conceived.

Project Nova is dependent on eight projects and MPI has identified 21 critical positions that will have a direct impact on the successful delivery of the project. The Corporation has identified that it does not have all the necessary internal capacities and competencies to successfully implement the project deliverables, and that it has to mature critical capabilities and technology enablers while it executes and implements the Project Nova plans.

MPI intends to leverage the greater use of external consultants and higher levels of internal staffing to achieve its goals. As of October 28, 2022, MPI reported that there were 121 consultants engaged, 77 of which are supporting current operations, and 44 working on Project Nova.

The Corporation plans to deliver Project Nova through four main releases. Release 1 is related to the SRE line of business. Release 2 relates to the International Registration Plan and commercial ratepayers. Release 3 is the largest release, and enables policy terms, licencing and registration functions. MPI advises that Release 3 is foundational and will allow MPI to offer self-serve options to its ratepayers. There are up to six types of transactions that could be part of the minimum viable product for Release 3; however, until the completion of pre-discovery and discovery, MPI does not know the specifics of which online functionality or services will be made available. Release 4 relates to claims management and physical damage claims. Releases 3 and 4 are the highest risk, and the final costs and effort required for these releases are as yet uncertain. Currently, MPI has allocated a 40% contingency to these releases given the level of uncertainty.

MPI reported in the public hearing that the source code is complete for Release 1, and it is expected to be operational on January 23, 2023. The 2022 re-baseline had targeted Release 1 to be operational on October 23, 2022. The delay in Release 1 will consequently delay the implementation of future releases. MPI's evidence was that it has budget confidence in Releases 1 and 2. However MPI has indicated the release readiness, defined through MPI's gated approach, has progressively evolved from high confidence of readiness to concerns about recoverability as objectives have been missed.

The 2022 re-baseline targets the final release and end date for the project as October 2025. MPI does not have any current plans to re-baseline the current budget estimates, although the budget amount and cost allocation by line of business could change once the pre-discovery and discovery phases for Releases 3 and 4 have been completed. MPI advises that pre-discovery and discovery for Releases 3 and 4 will be run in parallel beginning in January 2023.

MPI reported that it has now developed a governance structure that includes:

- Frequent meetings of the Technology Committee;
- Direct involvement by the MPI CEO and other senior management;
- External review and recommendations by PwC; and
- Collaboration among teams, committees, and program sponsors.

7.7.3 Value Management

MPI's Value Management (VM) practices are heavily influenced by the evolution of Project Nova, and rely significantly on the Scaled Agile Framework (SAFe) methodology to deliver the project.

VM reviews MPI's IT investments in order to determine whether the investments are achieving forecasted costs and benefits.

Many of MPI's VM practices are in infancy adoption and usage. MPI's funding process is significantly changing to one whereby approval for broad funding envelopes are provided, while the allocation and usage of funds will be iterative and agile in nature. It will take multiple years for MPI to calibrate and harmonize the feedback cycle from agile budget delivery to funding envelope allocations.

MPI reported that VM is focused on assisting the Agile Project Management Office in creation of the Lean Portfolio Management governance process and by providing ongoing review.

VM will continue to report on cost levels and benefits (financial and otherwise) in the 2024 GRA.

7.7.4 Changes In Cost Allocation Methodology For Project Nova

Cost allocations for improvement initiatives now follow a different methodology than MPI's Integrated Cost Allocation Methodology (ICAM) approved by the Board. MPI allocates each project or initiative independently. Upon approval for implementation through the VM process, MPI assesses each project individually to determine relativity against each of its four lines of business. As Project Nova affects all four lines of business, the costs associated with this project will be spread accordingly across all four lines of business. If a project is specific to a single line of business, 100% of the costs associated to the project will be allocated directly to that line of business.

As of January 2022, based on business analysis and project management advice from Accenture, MPI will use "story points" as the basis of allocation. MPI has defined a story point as a unit of measure for estimating work effort in an agile environment. This unit of measure translates to overall capacity, which MPI then uses to estimate time required for feature delivery. Together, this provides overall effort for each Project Nova release, which MPI can then quantify through budget and cost. The use of time demarcation is loose, not strict in adherence to agile principles.

As part of agile project delivery, all streams allocate story points to measure effort required to deliver epics and features for every sprint and program increment. Accenture was the first System Integrator (SI) to provide a story point breakdown to measure effort as it is delivering the first release. MPI has not sought review by its external auditor as it indicates that measuring effort through story point methodology is an industry-proven method.

In the 2022 GRA, under last year's project timeline, MPI had indicated that Basic would have been allocated 52.6% of annual Project Nova expenses in 2022/23, 82.6% in 2023/24, 87% in 2024/25 and 69.3% in 2025/26. Concerning Project Nova expenses, Basic was allocated 50% of the \$30.9 million in expenditures or \$15.6 million at the end of 2021/22. Under the new approach, only \$3.6 million or 11.9% of the Project Nova expenses to date would have been allocated to Basic (rather than 50%, or \$12 million

more, under the previous approach). MPI proposes making the change in allocation on a prospective basis. This will happen despite the stated magnitude of Release 3, which MPI states will have the most significant impact on the Basic line of business.

7.8 Benchmarking

MPI uses benchmarking results to identify opportunities to reduce costs, measure effective management approaches, and measure efficient resource allocation. Historically, MPI engaged a third-party vendor, the Ward Group, which would compare MPI to various private insurers on insurance industry metrics. In the 2021 GRA, MPI advised that it was no longer engaging Ward and was in the process of undertaking a Crown benchmarking analysis.

MPI filed the results of its Crown benchmarking in this GRA. MPI relies on information from peers, Saskatchewan Government Insurance (SGI) and Insurance Corporation of British Columbia (ICBC). This is further supplemented by MPI leveraging third-party research. While comparisons were drawn between MPI and its peers SGI and ICBC, MPI does note significant variations exist between the entities, making direct comparisons difficult. MPI has indicated that it will continue with Crown benchmarking, despite these variations. MPI expects updates to its operational benchmarking after the implementation of IFRS 9 and IFRS17. MPI also reported that it is engaging Aon for benchmarking services for next year's study, using a larger peer group study that would include operational, and some IT benchmarks. MPI is developing a balanced scorecard that will highlight its performance with respect to areas of financial, customer internal processes and learning and growth.

MPI continues to engage Gartner to provide IT benchmarking services. Gartner provided a report that dealt with MPI's 2020/21 period and found that MPI is investing significantly in digital transformation, resulting in an overall level of IT spending and staffing that is higher than peer groups. Excluding Project Nova investments, MPI IT spending levels and IT staffing levels are within the normal range, but are still higher than the peer

average. MPI is allocating a significantly larger portion of its IT budget to support changes to meet business demands. MPI is allocating 58.3% of IT spending on changing its business, versus a peer average of 28.9%.

7.9 *Intervenors' Positions*

CAC

CAC argued that the Board should send a strong signal that MPI is on an unreasonable and imprudent path in terms of expense control, due to:

- Dramatic rises in Basic operating expenses and FTEs, despite pre-existing benchmark concerns;
- Inflation growth in Normal Operations expenses;
- Aspirational objectives of MPI 2.0, which are guiding budgeting decisions and driving significant budgeting growth; and
- Good management practices (such as key performance indicators) not being used to evaluate proposed expenditures or to measure outcomes.

With respect to Project Nova, CAC argued that competing corporate priorities and Project Nova governance challenges place the outcomes of the project at risk in terms of functionality, costs, and benefits.

CAC further submitted that the untendered contract with McKinsey to serve as general contractor was unreasonable. The Corporation was aware of its need to retain an external general contractor, and of the opportunity for accelerated tenders, but did not evaluate this option.

The Corporation's message, that Project Nova must be completed at all costs, suggests there are additional cost pressures on MPI. Further review of the Project Nova cost allocation for Basic is also required.

CAC identified key risk factors facing Project Nova as the complexity of Release 3 and the fact that pre-discovery for this release has not begun. There is a clear risk of further schedule slippage, which has an impact on costs.

CAC recommended that, with respect to expenses generally, the Board:

- Find that the benchmarking practices of MPI are weak and need to be strengthened to attain optimal performance;
- Find that KPIs or analogous measures should be used to establish performance measures and targets, including for IT;
- Direct MPI to differentiate between leading and lagging KPIs to drive performance;
- Find that the forecast Basic Operating expenses for the 2023/24 fiscal year are unreasonable;
- Find that growth in FTE positions for both the 2022/23 and 2023/24 fiscal years is unreasonable;
- Direct MPI to reduce revenue requirements for the 2023/24 fiscal year by 2-3%;
- Direct MPI to employ more reasonable and prudent management of expenses and FTEs and to use stretch targets to achieve savings of at least 2% in revenue requirement; and
- Find that budgetary placeholders, such as the \$5 million in special services for achieving MPI 2.0 and the \$2 million in Loss Prevention for to-be-determined programs, are imprudent.

Overall, CAC recommended that the Board reduce the revenue requirement by 5-6% to take into account MPI's unreasonable expenses.

With respect to Project Nova specifically, CAC recommended that the Board:

- Find that it is high risk by virtue of its complexity and financial and timing challenges;
- Find that the ability to meet critical deadlines has been put at risk by competing pressures on capacity from a multiple of Corporate projects and by challenges in engaging senior non-Nova executives;
- Find that the MPI Technical Committee was aware of concerns that MPI could not fulfill the general contractor role for Project Nova by the summer of 2021;
- Find that MPI was aware of but did not explore an accelerated tendering process for the governance advisor engagement;
- Find that it was imprudent of MPI to issue an untendered contract to McKinsey in February 2022;
- Find that there is uncertainty whether Project Nova can be delivered on the 2022 re-baseline, timeline and NPV;
- Direct MPI to confirm whether it has retained an independent governance advisor and, if so, that governance advisor be directed to attend as a witness in the 2024 GRA;
- If MPI has not retained an independent governance advisor, direct MPI to provide an independent assessment of the risks and business case for Project Nova for the 2024 GRA;
- Recommend the MPI Board of Directors to direct the Corporation to contain the costs of Project Nova to the 2022 re-baseline; and

- Direct MPI to provide an independent review of the cost allocation of Project Nova.

IBAM

IBAM noted that, even with the delays in Project Nova, the broker agreement renegotiated in 2021 will result in substantial commissions savings to MPI. IBAM submitted that brokers have been proactive in coming back to the table to negotiate moving commission rate changes to line up with the new release target dates for online ratepayer capabilities.

7.10 Board Findings

The Board has in the past characterized one of the key elements of its independent review function and rate-setting role as ensuring that actual and projected costs incurred are necessary and prudent, in the context of setting just and reasonable Basic rates. The Board's jurisdiction to do so is derived from *The Crown Corporations Governance and Accountability Act* and in particular, section 25 thereof. The Board continues to hold a keen interest in the Corporation's efforts to reduce and contain costs.

The key themes in this GRA related to MPI's dramatic increases in staffing costs and in the Project Nova budget, in the staffing complement to meet the demands of Nova and throughout the organization, and in items such as wages and benefits, data processing expenses, and special services.

The Board is concerned with the rate at which the Corporation plans to increase its staffing complement. In particular, the Board is not persuaded that the mobilization of staff devoted to delivering on Project Nova will ultimately prove to be a prudent decision on the part of the Corporation, when the project appears to remain somewhat undefined and lacking in management control. The Board is not concerned with increases in actuarial resources as that department has historically operated with a relatively small complement and is clearly in need of additional resources both in terms of staff as well as other supports such as software.

In Order 134/21 the Board found that there was a significant risk that MPI's IT initiatives would increase in scope and cost and cautioned that the 2021 re-baseline might not be a reliable indicator of future project costs. The Board's concerns were confirmed in this GRA. The Project Nova budget has now more than doubled from the initial business case and significant uncertainty remains with respect to the costs for Releases 3 and 4. NPV is no longer being used by the Corporation as a measure of the value of the project. In addition, the flattened delivery period has caused an increase to broker commission expenses given the delay in the availability of online transactions.

While MPI's CEO has stated that the work associated with Project Nova must be completed regardless of NPV, it remains unclear to the Board where the Corporation is making necessary investments to modernize outdated technology, and where it is going beyond these necessary improvements and into modernizing the business operating model in excess of the original LSM scope. The Board is also concerned with an apparent lack of management control over IT expenses.

The Corporation should be proceeding with prudence and focusing on critical business needs, while avoiding cost overruns associated with increasing the scope of Project Nova beyond the core need to modernize technologies to run the business. This applies to costs associated with IT infrastructure and systems costs, as well as increased staff and consultant expenses. The Corporation must determine its path forward with respect to Project Nova and MPI 2.0 taking this into account. As elements of Project Nova are completed and in-flight, MPI should be able to eliminate excess staffing costs.

If MPI cannot demonstrate that it has made prudent choices in its plans for Project Nova and is making efforts to contain costs, there is a significant risk that MPI's next rate request will be found to not be just and reasonable. The Board is aware that the 2022 re-baseline budget has been approved by Treasury Board. The Board has serious concerns about any increases to the Project Nova budget beyond what has already been approved.

The Board accepts CAC's position that MPI should be using key performance indicators to establish performance measures and targets across all aspects of the business, including IT.

The Corporation should continue to engage a governance consultant independent of the project assessor for Project Nova in order to ensure sufficient oversight of the project, and to mitigate the risk of further budget increases and project delays.

In order to continue monitoring the reasonableness of MPI's Project Nova initiatives and expenses, the Board directs MPI to:

- File a five-year budget for the project in the 2024 GRA;
- Provide the Board with a revised project scope for the Board's information by April 15, 2023, or such other date as agreed upon by MPI and the Board, which provides clear definition of legacy systems modernization elements of the project specifically, the associated cost, and the target dates for achievement of those elements of the project;
- Provide the Board with a report of funding envelopes developed for Project Nova 14 days following approval by the MPI Board of Directors;
- Meet with Board staff and advisors to review all aspects of Project Nova and the MPI 2.0, including but not limited to project deliverables, timeline, budget, discount rate, and any new elements added to the initiative, within 30 days after funding envelopes have been presented to the MPI Board of Directors;
- File a report in the 2024 GRA from the Project Nova independent governance consultant addressing the following topics:
 - The funding envelopes for the project, including description and size of each;

- The lean business cases for the project and their status (e.g., approved, in review, rejected);
- Status of releases and program increments;
- Gate reports for each release;
- Current risk assessment or matrix;
- The project expense to date; and
- Details of the internal and external resources working on the project, current to the date of the report and projected for the next 24 months, and information about the aspects of the project to which the resources are assigned.

The Board last reviewed MPI's ICAM in detail in 2012. With ten years having passed and significant changes in the allocation of Project Nova costs, the Board finds that an update to the Corporation's ICAM is required. Accordingly, the Board directs the Corporation to file, in the 2024 GRA, a third-party review of MPI's integrated cost allocation methodology and to bring forward revisions to the ICAM for approval by the Board in the 2024 GRA. The Corporation must also file a five-year financial forecast incorporating recommended changes to the ICAM.

With respect to benchmarking, the Board notes that historically, MPI had engaged the Ward Group for operational benchmarking but then discontinued its services and advised that Crown benchmarking was appropriate. Now that the Crown benchmarking report has been filed, the Corporation is returning to its historic practice by engaging Aon. The Board supports MPI's decision to re-engage a third party to conduct benchmarking and looks forward to receiving the Aon report in the next GRA. The Board anticipates that the peer group used in the Aon benchmarking exercise will be broad and include other insurers in the property and casualty field (with reference to their auto lines of business if they are multi-peril insurers), not restricted to Crown insurers.

8.0 INVESTMENTS

The Corporation's funds available for Investment are primarily the assets supporting the unearned premium reserves and unpaid claims reserves. MPI previously had a single, commingled investment portfolio that backed all liabilities and surplus. As a result of recommendations made by Mercer (Canada) Ltd. (Mercer) in a 2017 ALM Study, MPI separated its co-mingled investment portfolio into five unique portfolios including Basic Claims, Basic Rate Stabilization Reserve (RSR), Employee Future Benefits or Pension (EFB), Extension, and Special Risk Extension (SRE). Each has unique asset allocations and allows the Corporation to develop investment portfolios better reflecting associated liabilities and investment goals of each portfolio.

The Basic Claims portfolio is invested in 100% fixed income assets, with 60% in Provincial bonds and the remainder (40%) invested in both Corporate and nonmarketable MUSH bonds. The portfolios backing Extension, SRE and RSR are balanced portfolios with 50% growth assets and 50% fixed income assets, and the portfolio backing Employee Future Benefits has a higher allocation to growth assets, at 60%. MPI reported that the asset investment allocations recommended in the 2017 Mercer ALM study have now been fully funded with private debt investments made in May 2022.

8.1 *Investment Income*

The Corporation's total investment assets at March 31, 2022, were over \$3.5 billion. The size of the Basic portfolio, including Basic Claims, RSR, and EFB, is \$2.9 billion for 2021/22, is forecast to be \$3.0 billion in 2022/23 and is projected to grow to \$3.1 billion for 2023/24.

Throughout 2021, the COVID-19 pandemic continued to have a major impact on the economy and increased the volatility of MPI's investment income. In January 2022, the Omicron variant wave had a negative impact on investment markets and caused worldwide supply shortages. The Russian invasion of Ukraine put further stress on the

supply lines and propelled the consumer price index to 6.7%, the highest year-over-year increase in 30 years. This environment led to sharp increases in interest rates. The yields on Corporate Bonds rose between 148 to 149 basis points on March 31, 2022, while Provincial bonds increased by 99 basis points and the Government of Canada's ten-year bond increased by 85 basis points. As a result, the Corporation reported negative returns on its fixed-income investments within the Basic claims portfolio. Corporate bond returns were

-5.1%, while provincial bonds returned -5.6%. MPI reported marketable bond unrealized losses of \$123 million on March 31, 2022.

The Corporation reported a Basic investment loss of \$47.2 million in 2021/22. Contributing to this loss was the Corporation's decision to write down \$29.2 million in fixed-income assets in the EFB and RSR portfolios on Corporate and Provincial bonds and private debt. Basic's share of this write-down was \$22 million.

MPI initially forecasts its investment income using a Naïve interest rate forecast. The original filing was based on the March 31, 2022, Government of Canada ten-year bond interest rate of 2.41% and a new money yield of 3.43%. Historically, the Corporation's investment income has been a major component of its income and has offset its annual underwriting losses. Basic investment income was projected to be \$136.1 million in 2022/23, \$107.5 million for 2023/24, and \$104.3 million for 2024/25.

MPI's forecast of investment income is sensitive to changes in interest rates. Based on the October 12, 2022 update, the new money yield rate increased (from 3.43% in the original Application to 4.05%) based on MPI's proposed revision to the setting of the new money yield, an increase of 62 basis points. The 2023/24 budget revision was due to a continuation of increases in the yields on Provincial and Corporate bonds since March 31, 2022. On August 31, 2022, the yields on Corporate Bonds held by the Corporation increased by between 116 and 117 basis points, the yield on Provincial bonds increased by 89 basis points and the Government of Canada's ten-year bond increased by 71 basis points.

This sharp rise in interest rates in the last eight months has resulted in a further devaluation of the Corporation's fixed-income holdings. The forecast Basic investment income for 2022/23 decreased from \$136.1 million to \$1.3 million. The Corporation's update projected a Basic investment income of \$120.7 million for 2023/24 and \$119.7 million for 2024/25.

The target asset mixes for the Basic Claims, Basic RSR, and Pension portfolios as of the commencement of the 2022/23 fiscal year were as follows:

Targeted Weights	Basic Claims	RSR	Employee Future Benefits
Fixed Income			
Provincial Bonds	60.0%	20.0%	0.0%
Corporate Bonds	20.0%	10.0%	20.0%
MUSH Bonds	20.0%	0.0%	0.0%
Private Debt	0.0%	20.0%	20.0%
Total Fixed Income	100.0%	50.0%	40.0%
Public Equities			
Canadian Equities	0.0%	12.0%	10.0%
Global Equities	0.0%	13.0%	18.0%
Global Low Volatility	0.0%	10.0%	7.0%
Total Equities	0.0%	35.0%	35.0%
Alternatives			
Canadian Real Estate	0.0%	10.0%	15.0%
Infrastructure	0.0%	5.0%	10.0%
Total Alternatives	0.0%	15.0%	25.0%

As of March 31, 2022, the returns on the Basic Claims portfolio of -2.8% had outperformed the benchmark of -4.8%, and the RSR and EFB portfolios returned 4.8% and 6.2%, respectively, both returns higher than benchmark.

In June, 2021 MPI implemented a "moment matching" strategy with the assistance of an external manager. The strategy matches the duration and convexity between the Basic claims portfolio and claims liabilities. Duration measures the sensitivity of bond prices to

changes in interest rates, while convexity measures the curvature of the relationship between bond prices and interest rates. The duration and convexity are monitored on a daily basis and re-balanced as necessary. MPI indicated that this strategy provides better protection for non-parallel changes in interest rates and is expected to reduce interest rate risk by approximately 40%.

MPI reported the overall ALM strategy net impact of interest rates from March 31 to August 31 of 2022 being only \$0.2 million. During this period, interest rates rose by approximately 90 basis points, causing the market value of the bond portfolio to fall by \$128 million and the net present value of the basic claims liabilities to drop by \$128 million, creating a net impact of \$0.2 million. The results indicate that the strategy is working as designed, as the change in the value of the asset portfolio is matched with the change in the value of the liabilities; the net impact of the interest rate change has a negligible effect on MPI's net income.

8.2 Asset Liability Management (ALM) Strategy

Historically, MPI has commissioned ALM studies in four-year intervals. Prior to this GRA, MPI's most recent ALM study was presented in the 2018 GRA.

In the 2022 GRA, MPI indicated that it would require a new ALM study as the Corporation needed to review its investment strategies before adopting IFRS 9 and 17, which are to take effect April 1, 2023. In Order 134/21, the Board directed MPI to file the new ALM study in this GRA.

MPI engaged Mercer to conduct the 2022 ALM study. Mercer's ALM study covered issues including the implications of adopting IFRS 9 and 17 and the impact on investment strategy, consideration of adding new fixed-income asset classes, merits of adding non-fixed income asset classes for long-tail Basic liabilities, asset class optimization and review of new assets classes such as real return bonds, commercial mortgages, real estate, three times levered long provincial bonds, three times levered real return bonds

and Canadian and global equities. The study considered the impact of various inflation scenarios on MPI assets and liabilities using a real liability benchmark. Mercer's analysis indicated that real return bonds improved returns and lowered risk related to inflation scenarios evaluated.

MPI is currently reviewing the optimization for the Basic and non-Basic portfolios, considering the merits of the additional asset classes, and evaluating the various asset mixes. MPI reported that its Investment Committee Working Group (ICWG) was scheduled to present its recommended portfolio changes to the MPI Board of Directors Investment Committee on November 10, 2022, for consideration of recommendation for approval to the MPI Board of Directors.

8.3 *Interveners' Positions*

CAC

CAC commented on two aspects of MPI's investment policies: 1) policy decisions flowing from the 2018 ALM Study which will still be in effect in the future; and 2) choices that will soon be made by MPI's Investment Committee flowing from the current ALM Study which will be forward-looking.

At issue, in terms of reasonableness and prudence, is MPI's adoption of high-risk choices with low return constraints in 2018. MPI focused on interest rate sensitivity and not on inflation sensitivity and modelled on a nominal liability benchmark rather than based on real interest rate risk, i.e., after inflation. The distinction is critical to portfolio optimization as it is a fundamental principle of good portfolio design to start with a liabilities portfolio that reflects risk.

It is not a matter of predicting inflation but acknowledging that it is a risk. Consequently, MPI suffered sharp losses in its nominal bond portfolio in the high inflation environment of 2021/22 - a \$127 Million loss in its marketable bonds.

The selection of a nominal liability benchmark led to an optimization process that excluded real return bonds (RRBs) and imposed constraints excluding equities from the Basic claims portfolio. The impact of these choices may be as much as \$25 million.

CAC noted that the Corporation has now recognized inflation risk and the 2022 ALM Study uses a real liability benchmark. As a result, MPI is now considering the inclusion of RRBs and eliminated the 100% bond constraint. CAC argued that, with better optimization, MPI appears to be accepting lower risk with the opportunity for somewhat higher return. On the other hand, the Corporation continues to adopt inefficient constraints such as no equities and no levered bonds.

Further, CAC noted that the 2022 ALM Study revealed a potentially perverse impact of the adoption of the MCT as a financial target for MPI whereby the current portfolio had a significantly lower minimum capital as compared to asset mixes with lower surplus volatility. As a result, reasonable and prudent investment decisions might be deterred.

CAC recommended that:

- The focus of MPI's investment policy should be long term stability, i.e., return/surplus risk, rather than short-term earnings volatility;
- Constraints should be reviewed and relaxed to avoid lower risk-adjusted returns;
- Rationale for constraints should be explicit;
- The "no equities" constraint for the Basic claims portfolio should be removed for optimization and decision-making process;
- The "no leveraging" constraint should be relaxed and the Corporation should explore ways to manage any additional risk associated with prudent use of leveraging;

- Other costly constraints should be removed or relaxed, where cost is measured as the foregone returns at MPI's tolerance for surplus risk;
- MPI should be more transparent regarding the rationale for imposing various constraints which should be supported by the appropriate evidence;
- MPI should evolve the understanding of other portfolio risks such as liquidity risk and counterparty risk;
- MPI should adopt a decision-making process that is based primarily on economic considerations such as market values and cash flow, rather than accounting ones;
- MPI should adopt risk metrics and methodologies for capital reserve management that are more consistent with those used in the ALM Study; and
- MPI should conduct an ORSA and set capital targets without undue reliance on regulatory capital measures such as OFSI's standard approach, i.e. the MCT.

CMMG

CMMG noted that the Corporation's Basic Claims investment portfolio has been a topic of concern for CMMG for several years.

In addition to increasing interest rates, high inflation and market fluctuations have affected equity investments and investment returns. Although the Corporation views its current investment strategy to be working as intended, CMMG argued that this generalization ignores continued fluctuations affecting the Motorcycle class and fails to acknowledge the lost opportunity cost of the Corporation's investment decisions.

In past GRAs, MPI has expressed no appetite for equity exposure which would ameliorate the effect of changes on interest rate on motorcycle insurance rates. In Order 159/18, the Board directed MPI to track, among other asset mixes, Shadow Portfolio 2 which removed

the constraint prohibiting equities and other assets. The Shadow Portfolios allow the Board to partake in a historic examination of the Corporation's investment decisions.

From March 2019 to March 2022, Shadow Portfolio 2, which includes 18% Canadian and private equities, 9% real estate and infrastructure and 16% levered RRBs, has outperformed the actual Basic Claims portfolio. Shadow Portfolio 2 enjoyed 3.32% higher compound returns and 0.27% lower surplus volatility.

CMMG submitted that MPI's investment constraints are contrary to prudent investment strategy and have created a Basic Claims portfolio concentrated on only one type of risk.

Although the current ALM Study may cause the Corporation to take steps to address some of these issues, any meaningful examination has been denied because any chosen asset mixes have not been determined or shared in this GRA. The Corporation has disclosed, however, that equities and leveraged RRBs will not be recommended.

While MPI has indicated that there are additional risks related to leveraging, it has not provided any indication of the size of such risks or the controls that could be put in place for their prudent use.

CMMG recommended that:

- The Board find that the inclusion of equities in the Basic Claims portfolio is not in conflict with MPI's stated risk appetite when viewed from the total portfolio perspective;
- The Board recommend the removal of the "no equities" constraint for the Basic Claims portfolio
- The Board direct MPI to file with the 2024 GRA, the recommendations made to its Investment Committee at the meeting on November 10, 2022; and

- The Board direct MPI to develop a new set of shadow portfolios to enable a further assessment of the impact of various key constraints imposed by the Corporation.

8.4 Board Findings

The Board recognizes that its role is one of oversight and does not extend to directing the Corporation on the particulars of its portfolio management. Nevertheless, the review of MPI's investment portfolios is critical to the Board's examination of MPI's overall financial position and for the Board to assess the reasonableness of the rate request.

The 2022 ALM Study has provided valuable insight into the impact of MPI's asset selection and has demonstrated that there is room for improvement: Mercer's analysis demonstrated that MPI has an opportunity to earn a greater return on its investments by making adjustments to its asset mix, while maintaining its current level of risk. The Board does not have the jurisdiction to direct MPI's investment strategy; however, if MPI has not made any meaningful changes to its portfolio by the 2024 GRA, MPI will need to justify why it is choosing portfolios with the same or more risk but less return.

The Board therefore directs MPI to file with the Board the recommendations made by Mercer to its Investment Committee on November 10, 2022, as soon as reasonably practicable; and, by January 31, 2023, file the recommendations made by the Investment Committee to the MPI Board and the resulting decisions approved by the MPI Board.

The key driver of the difference between MPI's returns and the returns of its peers is in asset allocation. Mercer noted, relative to the peers, that MPI holds a much higher allocation to fixed income, which has resulted in a lower rate of return relative to the peers. The analysis shows that the peers with higher returns had greater allocations to equities and alternatives relative to MPI. In general, assets invested in equities and alternatives tend to generate higher returns than fixed income over time. In addition, fund manager performance and investment style are additional sources that might explain the difference in returns.

The Board notes, however, Mercer's recommendation that MPI not continue with peer comparison at the total fund return level given the significant differences in asset allocations, which are determined by each entity for their own reasons. Instead, Mercer recommended having a well-documented rationale for hiring an investment manager for a particular mandate and then comparing investment performance against a suitable benchmark, and peer investment managers.

The Board accepts Mercer's recommendation that MPI should discontinue its comparison against peer organizations due to the differences in asset allocation among the peers. The Board therefore directs MPI to file, in the 2024 GRA, a report from Mercer comparing MPI's investment returns against suitable peer investment managers selected by Mercer.

9.0 ROAD SAFETY

The Corporation acknowledged that successful loss prevention and road safety strategies can minimize economic and social costs to ratepayers.

The Corporation reported that it is forecasting to spend \$12.7 million in Basic Road Safety and Loss Prevention programs in 2022/23. The largest component is spent on Driver Education and Improvement at approximately \$3.9 million. Impaired Driving Prevention Strategies are the second largest expenditure, at \$2.6 million, followed by Department Expenses at \$2.1 million. The balance of the road safety expenditures includes Speed Management Studies, Occupant Safety Education Strategies, Vulnerable Road User Education Strategies, Cell Phone/Distracted Driver Advertising, Program Evaluation and Road Safety Production and Advertising.

Road Safety Technical Conference

The issue of road safety was reviewed in detail in this GRA, following the Board's direction as set out in Order 176/19. In Order 176/19, the Board directed MPI to hold a Technical Conference on road safety and loss prevention in early 2021, which Technical Conference would be wide-ranging, covering the Corporation's road safety priorities and programming, budget and continued progress of its efforts to address road safety through engagement with stakeholders. In Order 76/21, the Board directed that road safety, other than costs and budgets of road safety programs, be deferred from the 2022 GRA to a future GRA.

The Technical Conference was held on June 23 and 24, 2022, and was facilitated by Dr. Jennifer Hall, who was retained by the Board both to facilitate the conference, and to prepare a report following it. Dr. Hall is currently the President and CEO of Sirius Strategic Solutions Ltd., where she facilitates policy and program research and strategic planning for public, private and non-profit organizations. Prior to this role, Dr. Hall worked various roles at the Insurance Corporation of British Columbia. Dr. Hall's report was filed as an

Exhibit by Board counsel, and Dr. Hall was called by the Board in the public hearings to testify about the Technical Conference.

The participants in the Technical Conference included MPI and a number of other stakeholders in the area of road safety, including CAC, BW and CMMG. The Technical Conference covered the current state of road safety in Manitoba, the current state of road safety governance, and MPI's road safety programs, priorities and initiatives. Input was received from stakeholders, and MPI committed to take on certain action items from the conference.

Road Safety Programming and Priorities

After a period of long-term decline in the number of fatalities per ten thousand registered vehicles, since 2015, MPI has seen a plateau in the number of fatalities in Manitoba. With respect to serious injuries, MPI has noted that the number of serious injuries per ten thousand registered vehicles is showing a long-term decline. While MPI's existing road safety framework has resulted in some successes, MPI stated that the time had come to adopt a new approach in order to reduce fatalities and serious injuries in Manitoba. MPI's new approach will focus on four key areas, being distraction, speed, impairment and occupant restraints (i.e. seatbelts).

MPI has developed the 2022-2025 Road Safety Strategy. The new road safety strategy is divided into two phases. The first phase of the strategy was to take place throughout 2022 and is centered around improving understanding of the current road safety situation in Manitoba through research and data analysis. MPI anticipates completing the first phase of the strategy at the end of the fiscal year of 2022/23. The second phase of the strategy is to cover 2023 through to 2025 and will involve implementing targeted programming to address those issues identified in the first phase.

The new road safety strategy is organized by three main guiding principles. First, decisions on road safety must make sense based on data both relating to the causes of fatalities and serious injuries, as well as the effectiveness of MPI initiatives. Second, a

commitment to engage with First Nations on road safety issues, with the understanding that First Nations face unique road safety challenges. Third, continuously improving the road safety data ecosystem.

In September 2021, MPI conducted a province-wide observational study of seatbelt use and distraction, from which MPI obtained valuable insights. For instance, the study highlighted higher rates of no-seatbelt use in rural areas of the province. In response to the seatbelt issues that MPI identified in rural areas, MPI developed a provincially coordinated campaign in connection with law enforcement to conduct enhanced seatbelt enforcement, as well as a media campaign to encourage seatbelt use.

MPI has installed radar devices across the province to understand the rates of speed on different road types, in different geographic locations. The speed research is ongoing through the end of December 2022. MPI also recently conducted an alcohol and drug roadside survey. The data collection portion of this study is complete, and MPI anticipates that the results will be publicly available in January 2023.

Pursuant to Board Order 176/19, MPI also conducted a large vehicle study. Vehicles were classified by type, body style, make and model, and weight class. Collisions were then analyzed based on several factors, including number of collisions, number of vehicles involved, number of injuries, average incident cost and average injury cost. The key findings of the study included that relative to compact cars, pick-up trucks, mid and full-sized cars, and passenger or cargo vans each had higher cost per incident, higher per injury cost and higher vulnerable injury cost. MPI does not currently intend to employ strategies to address the increased risk caused by larger vehicles. At the public hearings, MPI explained that the reason for this is that MPI sees the issues of impairment, speed, distraction and seatbelt use to be the issues that will lead to more reductions in fatalities and serious injuries than a focus on large vehicles.

With respect to First Nations engagement, MPI has funded a road safety coordinator position at the Assembly of Manitoba Chiefs (AMC). In collaboration with AMC, MPI will

seek to develop programming that addresses the issues that First Nations face with respect to road safety. One such program that has already begun is a reflective vest distribution program at Peguis First Nation. This program was initiated by a member of the local emergency service advising MPI that there were a number of pedestrian fatalities on poorly lit roads in the community. MPI is in the process of distributing 1000 reflective vests for community members, free of charge, to wear while walking on roads at night. MPI has concurrently introduced an awareness campaign to encourage the use of reflective vests for pedestrian safety.

With respect to the road safety budget, actual spending in the years 2020/21 and 2021/22 was less than the forecasted expenses. MPI attributed this lower level of spending as having been influenced by the COVID-19 pandemic. Specifically, many of the partner organizations that MPI works with to deliver road safety initiatives had difficulty spending the budget on approved projects or programming due to public health restrictions.

In the budget for 2022/23, MPI has based its forecasted expenses on the expectation that road safety programming and initiatives will return to a pre-pandemic level. In the October rate update, MPI had increased its forecasted expenses related to road safety for the 2023/24, 2024/25 and 2025/26 years by approximately \$2 million. The evidence provided by MPI was that this increase would allow a cushion in the budget so that MPI would be able to implement new programs and initiatives as soon as the need arose, without having to go through a lengthy budget approval process. This will allow MPI to respond to new road safety concerns quickly.

With respect to future road safety technical conferences, MPI's position is that they are not needed; rather, MPI can engage with stakeholders outside of a formalized Board process.

9.1 Interveners' Positions

CAC

CAC commended MPI's new road safety strategy and stated that it looks forward to reviewing the progress on the implementation of the strategy in future proceedings. CAC offered one reminder to MPI, being that MPI is uniquely positioned to add value to road safety initiatives province wide. CAC encouraged MPI to continue to pursue road safety interventions with real impacts on claims costs, while also developing partnerships which provide the wide range of road safety stakeholders in Manitoba with access to its valuable data.

CMMG

CMMG expressed concern regarding single vehicle accidents for motorcyclists. These types of collisions made up over 50% of total collisions for motorcycles over the last three years. CMMG also expressed its belief that MPI fell short in its objective of collaborating with stakeholders on the issue of road safety, specifically with respect to MPI's refusal to include BW in the development of the large vehicle study.

BW

BW expressed concern regarding the fact that the goal of MPI's new strategic plan is not zero traffic fatalities, but a reduction in traffic fatalities. BW perceives this as a wavering commitment to the previous Vision Zero strategy. On the other hand, BW welcomed MPI's proposal to make \$2 million available in the budget for new road safety initiatives and is looking forward to working with MPI to ensure that those funds are effectively spent.

It is BW's view that the topic of road safety ought to remain within the realm of the GRA. While BW maintains the view that the Technical Conference is a useful tool to address road safety issues, BW believes that these issues must be integrated in the GRA to ensure that they remain part of the formal regulatory process to establish, monitor and enforce standards in the public interest. Given that MPI is implementing a new road safety

strategy, BW stated that it is imperative that the Board ensures the adequacy of its new road safety programs, specifically as they relate to fatal and severe injuries.

Given the fact that the Board's bi-annual review of road safety was delayed due to the pandemic, the fact that MPI has a new road safety strategy, and the increase to MPI's road safety budget, BW submit that the June 2022 Road Safety Technical Conference must be followed up with a further such meeting as soon as practicable. Further, BW would like MPI to complete the action items in advance of the next technical conference.

BW also raised concerns that as the authority in Manitoba responsible for training all drivers to operate vehicles safely, MPI has not taken sufficient measures to understand the gaps in knowledge, attitudes, and driving behaviours among drivers of all ages. From BW's perspective, MPI's messaging is soft, while drivers require more forceful messaging.

BW therefore made the following recommendations regarding road safety:

- The Road Safety Technical Conference should go beyond sharing information to resolving issues over the effectiveness and analysis of programming. BW believes that under the current process, MPI can choose to ignore advice provided in the Technical Conference process. BW submits that the Technical Conference should result in a detailed summary of important road safety issues where there was not consensus, in light of valid suggestions and concerns.
- BW submits that the next Technical Conference should occur in a timely manner that would allow a meaningful review of the road safety budget and programming at next year's GRA. Further, MPI should complete the action items from the 2022 Technical Conference prior to the next Technical Conference.

9.2 BOARD FINDINGS

The Board acknowledges MPI's continued efforts to increase road safety and reduce claims costs accordingly. The Board appreciated receiving the report on the 2022 Road Safety Technical Conference, as presented by Dr. Jennifer Hall. The Board also notes MPI's new operational plan on road safety, which will cover the 2022-2025 years. However, the Board echoes the concerns raised by BW that MPI's previous Vision Zero approach, which aimed to increase road safety efforts until there were no fatalities in Manitoba caused by road safety, is not included in the road safety strategy.

The Board appreciated hearing from MPI about the significant penalties that drivers, operating a mobile device while driving will receive if caught. The Board recommends that MPI consider including reference to these penalties in their road safety awareness advertising.

With respect to the additional expense that MPI has added to its road safety budget for the next few years, which amounts are to be used for road safety initiatives and programming as they become necessary, the Board directs MPI to provide information in the 2024 GRA and all future GRAs regarding how these additional funds are ultimately used. The Board also directs MPI to provide updates, on the road safety pilot projects that it has undertaken, in the 2024 GRA.

Both CMMG and BW commented that MPI did not adequately collaborate with them on the large vehicle study. The Board recommends collaboration with CMMG, BW, and all other stakeholders. Through this collaboration, if the parties jointly determine that a further large vehicle study is necessary, the parties may present this idea to the Board at future GRAs. The parties should also discuss and determine whether a jurisdictional comparison with respect to road safety issues is necessary.

With respect to BW's request that another technical conference occur as soon as possible, the Board is not prepared to order a date for the next technical conference. The Board directs MPI to confer with stakeholders in 2023 to discuss and determine whether

a technical conference should be held and what, if any, additional guidelines and parameters the moderator of the technical conference should impose. MPI shall then report to the Board about the consultations that have taken place with respect to a future technical conference and copy the stakeholders on this correspondence. In the 2024 GRA hearing, the parties can provide their respective positions to the Board, which will then determine whether a Technical Conference is required prior to the 2025 GRA.

10.0 PRESENTERS

The Board received submissions from one set of presenters in the public hearings. The presenters are not sworn witnesses and were not cross-examined. The Board bases its decisions on the sworn evidence received in the GRA. Although the content of the presentation is not evidence, the Board, MPI and the Interveners received the information presented for consideration. As always, MPI will respond to the presenters in writing with respect to the presentation made to the Board and file a copy of the response with the Board.

Faculty of Law Robson Hall Rights Clinic, University of Manitoba,

The Board heard from Alisen Kotyk and Nicholas Warsza from the Rights Clinic at Robson Hall, the University of Manitoba Faculty of Law. The Rights Clinic focuses on assisting Manitobans with rights-advancing issues in the areas of environmental rights, Charter rights, Indigenous rights, disability rights, and privacy rights.

The presenters focused on four issues that the Rights Clinic had with the GRA: (1) discrimination in the DSR scale; (2) the current registered owner model and its issues reflecting risk accurately; (3) MPI'S misleading cross-Canada premium comparisons; and (4) issues with the style and presentation of the GRA for public access.

With respect to discrimination in the DSR scale, the presenters noted that MPI is proposing that two new levels be added to the scale, resulting in a total of thirty-eight levels on the scale. This proposed change would result in younger drivers paying high rates for longer. The presenters argued that increasing the number of levels on the DSR scale before reaching the maximum merit level disproportionately harms younger drivers. The presenters argued that this amounts to a breach of section 15(1) of *The Canadian Charter of Rights and Freedoms*, as the increase to the DSR scale discriminates against younger drivers on the basis of age.

With respect to the Registered Owner model, the presenters noted that the current model does not accurately reflect risk, and that a preferred model would be the Primary Driver model. Under the Registered Owner model, a vehicle's premium discount is calculated by the registered owner's DSR level, regardless of who is driving the vehicle. Under the Primary Driver model, a vehicle's premium discount is based on the DSR level of the Primary Driver of the vehicle. The presenters argued the Primary Driver model more accurately correlates the driver of the vehicle with the risk they pose.

The third issue discussed by the presenters was the cross-country rate comparisons provided by MPI in 2023 GRA. The presenters noted that MPI claimed that Manitobans paid among the lowest rates across the country, however, the data relied upon by MPI was cherry-picked and was not representative of most drivers. The presenters argued that the data MPI relied upon in making that statement showed only rates paid by drivers of taxicabs, motorcycles and Ford F-150 trucks, which does not represent the majority of drivers in Manitoba. The presenters further took issue with the fact that the benchmarking comparisons focused on major cities. While MPI presented data for smaller towns inside Manitoba, it only provided data for large urban centres in other provinces. The presenters argued that a truly comprehensive comparison would be broken down into urban centres, smaller cities, towns and rural areas.

Finally, the presenters raised issues regarding the manner in which the GRA is presented for public access. The GRA itself is nearly four thousand pages, and it is difficult to locate information relevant to the public due to this length. The presenters asked the Board to consider the following recommendations with respect to future GRA formats:

- A master table of contents should be inserted at the beginning of the GRA;
- In addition to the GRA, MPI should produce a document specifically catered to the general public. The document would be shorter in length and would use language that the average concerns citizen could understand.

11.0 GRA PROCESS

11.1 *Board Findings*

The Board wishes to address some process issues which became apparent in the GRA, in order to make improvements for future applications.

The Board sets rates for the 2023/24 insurance year based on projections presented by MPI during the GRA. In setting rates, the Board needs to review certain metrics; however, the Board's process has been frustrated by the changes in metrics that MPI uses from year to year. Instances of changing metrics include:

- MPI ending its engagement with Ward for operational benchmarking and relying on Crown benchmarking, then advising in this GRA that it has again engaged a third party consultant for benchmarking;
- With respect to Project Nova, MPI previously relied on an NPV analysis and has now advised that the project will proceed regardless of NPV;
- Previously, MPI focused on cost containment, now given the forecast increase in staffing levels, and negotiating wage increases above the rate of inflation, that appears to frustrate past cost containment efforts;

MPI presented significant changes to forecasted staffing levels and operating expenses after the public hearings had commenced. A significant change to the ratemaking methodology was made in the October 12, 2022 update. This posed significant challenges for the Board in its ability to analyze the information provided.

Further, as noted above, MPI changed its position on its DSR request in closing submissions. If MPI is going to make material changes to its request, it must give reasonable advance notice to the Board and interveners.

The Board notes that key internal MPI decision making often takes place shortly after the conclusion of the GRA. As a consequence, the Board is often reviewing information in the GRA that becomes obsolete soon after, and then is provided with updated, accurate information many months later once a new application is filed. As an example, in the 2022 GRA MPI was having internal discussions about the direction of Project Nova, and had retained McKinsey & Company (Canada) (McKinsey) to provide a Project Nova program review, while the public hearings were taking place. The Board was not aware of the full extent of these issues until the 2023 GRA was filed.

Given this, the MPI Board of Directors could make key decisions altering the evidence on the 2023/24 budget within a month of the conclusion of the public hearing. That means the projections relied upon by the Board to set rates may no longer be valid, but the Board will not be made aware until MPI files its 2024/25 GRA in late June, some eight months after the previous hearing and three months into MPI's fiscal year.

As well, in recent GRAs, the volume of Commercially Sensitive Information has become significant and the GRA timetable leaves little time for robust analysis of the claims for confidentiality made by MPI and its third-party consultants. Board hearings and evidence are presumptively open to the public. The Board is concerned that a rigorous analysis of the legitimacy of some of these claims for confidentiality is being compromised due to time constraints. The Board recommends that MPI include a provision in its contracts with third-party consultants that their findings and scope of their review will form part of the public record in future GRAs.

Given these concerns, the Board has directed that a meeting take place between MPI and Board staff and advisors, no later than April 30, 2023 to discuss the issues noted by the Board and to explore potential improvements to the GRA process.

If the MPI Board of Directors approves material changes to MPI's budgeted expenditures, including to its operating expenses or to the Project Nova budget, it must provide the Board with written notice within 14 days of MPI Board approval, and such change will be

the subject of discussions at the process review meeting to take place no later than April 30, 2023.

Lastly, the Board finds the recommendations made by the presenters in this GRA persuasive. The Board anticipates that the Minimum Filing Requirements for the 2024 GRA will include a requirement for a master table of contents in the format suggested by the presenters.

12.0 IT IS THEREFORE ORDERED THAT:

1. There shall be an overall 3.8% rate decrease in compulsory vehicle insurance premiums for the 2023/24 insurance year, effective April 1, 2023, for all major classes combined. This rate decrease is, as derived in accordance with Accepted Actuarial Practice in Canada, based on a Naïve interest rate forecast taking into account interest rates as at August 31, 2022. This rate decrease is a combination of the 0.05% rate decrease as requested by MPI, along with the additional impact on the AAP rate indication of the following items:

- a. The Naïve interest rate forecast is to be determined in a fashion consistent with prior GRAs, and based on the duration of the invested assets supporting the Basic claims portfolio. This is a new money yield of 4.24%.
- b. The new money yield of 4.24% is to be reduced by 7 basis points for investment management expense, resulting in a final new money yield of 4.17%. The net affect being a -0.24% decrease in the rate indication.
- c. The claims forecast for 2023/24 and 2024/25 is to be adjusted, using the Oliver Wyman recommendations for Weekly Indemnity frequency, Collision Total Loss frequency, Property Damage Third Party Deductible Transfer severity, and Property Damage Third Party Loss of Use severity. The net affect being a -1.26% decrease in the rate indication.
- d. The expense forecast for 2023/24 and 2024/25 for rate-setting purposes is to be adjusted by the removal of all initiative expenses. The net affect being a -1.92% decrease in the rate indication.
- e. The expense forecast for 2023/24 and 2024/25 for rate-setting purposes is to be adjusted by the removal of the Special Services placeholder budget. The net affect being a -0.32% decrease in the rate indication.

2. MPI shall combine its current methodology with the alternative rate indication provided in Information Request response PUB (MPI) 1-8. For each use and territory, the serious loss loading to be applied is to be a credibility weighted combination of the two indications. The credibility to be assigned to the current methodology is to be based on MPI's credibility weighting methodology used for relativities. A credibility of $N/(N+K)$ is to be assigned, where N is the ten-year earned units for the use and territory. The constant, K, is equal to 60,000. The credibility assigned to the average of the actual serious losses for the last ten years for each use and territory is subject to a minimum of 10%. The complement of credibility, $1-N/(N+K)$ is to be assigned to the alternative serious losses based on collision claim counts.
3. The Corporation shall file for approval by the Board, by January 12, 2023 or such other time as may be agreed to by the Corporation and the Board, a table of indicated rate changes and approved rate changes (i.e., after capping and rebalancing) by Major Class (and overall) reflecting the overall approved -3.8% rate decrease.
4. The 5% capital release is hereby removed for the 2023/24 year.
5. In the 2024 GRA, MPI shall file an update to the Generalized Linear Modelling project plan.
6. In the 2024 GRA, MPI shall file an analysis and proposal for modifications to the fleet program to better reflect cost causation.
7. In the 2024 GRA, if MPI revises its investment strategy as indicated in this GRA, and splits its investment portfolio supporting the Basic claims into two parts, Basic short, and Basic long, the Corporation shall file its rate indication based on two New Money yields that each reflect the characteristics of their respective investment portfolios, and that are each applied to the appropriate cash flows. In this circumstance, the Board directs that, in the 2024 GRA, the Corporation provide an alternative rate indication on an Overall basis and by Major Class using the yield based on the weighted yield of provincial and corporate bonds with durations equal to that of the overall claims duration. The difference

between the two rate indications will be considered to be the impact of the change in investment strategy with regards to the New Money yield.

8. The Corporation's request that there be no changes to miscellaneous permits and certificates, service and transaction fees, or fleet rebates and surcharges is hereby granted.

9. The Board hereby approves a rate increase of 20% from current rates for the Passenger Vehicles for Hire (VFH) category.

10. In the 2024 GRA, MPI shall file a revised VFH policy framework, which includes an explanation of the blanket policy does not result in cross-subsidization and ensures that all VFH operators are able to access the technology required to participate in the blanket policy.

11. The Board dismisses MPI's request for approval of its Capital Management Plan (CMP).

12. In the 2024 GRA, MPI shall file a revised CMP, which includes specific criteria and processes under which the Corporation will apply to the Board for a capital rebate.

13. In the 2024 GRA, MPI shall file the detailed calculations supporting the MCT ratio as shown in the financial projections.

14. The Board hereby orders the following changes to the Driver Safety Rating (DSR) system:

- a. The top of the DSR scale shall increase from DSR +16 to DSR +17 in the 2023/24 policy year;
- b. Premium discounts for DSR Levels +15 to +17, shall increase by 3% (from 37% to 40%);
- c. Premium discounts for DSR Levels +9 to +14 shall increase by 2%; and

d. Premium discounts for DSR Levels +3 to +8 shall increase by 1%.

15. The Board hereby orders that in the 2024 GRA, that all DSR discounts will be moved by one fourth of the way to the actuarially indicated, rounded down to the nearest whole number.

16. In the 2024 GRA, MPI shall file an update to the five-year plan filed in this GRA, which includes detailed workplan, start date, and schedule for the Corporation to bring forward about rating modes Registered Owner, Primary Driver, Listed Driver and Primary/Listed Driver Hybrid to the Board for approval.

17. MPI shall file with the Board a report of funding envelopes developed for Project Nova within 14 days following approval by the MPI Board of Directors;

18. In the 2024 GRA, MPI shall file the following with respect to Project Nova:

- a. A five-year budget for the project;
- b. A revised project scope for the Board's information by April 15, 2023, or such other date as agreed upon by MPI and the Board, which provides clear definition of legacy systems modernization elements of the project specifically, the associated cost, and the target dates for achievement of those elements of the project;
- c. A report from the Project Nova independent governance consultant addressing the following topics:
 - i. The funding envelopes for the project, including description and size of each;
 - ii. The lean business cases for the project and their status (e.g., approved, in review, rejected);
 - iii. Status of releases and program increments;

- iv. Gate reports for each release;
- v. Current risk assessment or matrix;
- vi. The project expense to date; and
- vii. Details of the internal and external resources working on the project, current to the date of the report and projected for the next 24 months, and information about the aspects of the project to which the resources are assigned.

19. MPI shall meet with Board staff and advisors to review all aspects of Project Nova and MPI 2.0, including but not limited to project deliverables, timeline, budget, discount rate, and any new elements added to the initiative, within 30 days after funding envelopes have been presented to the MPI Board of Directors.

20. In the 2024 GRA, MPI shall file a third-party review of MPI's integrated cost allocation methodology (ICAM) and to bring forward revisions to the ICAM for approval by the Board in the 2024 GRA.

21. In the 2024 GRA, MPI shall file a five-year financial forecast incorporating recommended changes to the ICAM.

22. In the 2024 GRA, MPI shall file the Aon Benchmarking Report.

23. The Corporation shall file with the Board the recommendations made by Mercer to its Investment Committee on November 10, 2022, as soon as reasonably practicable; and, by January 31, 2023, file the recommendations made by the Investment Committee to the MPI Board and the resulting decisions approved by the MPI Board.

24. In the 2024 GRA, MPI shall file a report from Mercer comparing MPI's investment returns against suitable peer investment managers selected by Mercer.

25. MPI shall confer with stakeholders in 2023 to discuss and determine whether a road safety technical conference should be held in 2024 and what, if any, additional guidelines and parameters the moderator of the technical conference should impose. MPI shall report to the Board about the consultations that have taken place with respect to a future technical conference and copy the stakeholders on their correspondence.

26. MPI shall meet with Board staff and advisors, no later than April 30, 2023 to discuss process issues noted by the Board and to explore potential improvements to the GRA process.

27. If the MPI Board of Directors approves material changes to MPI's budgeted expenditures, including to its operating expenses or to the Project Nova budget, it shall provide the Board with written notice within 14 days of MPI Board approval, and such change will be the subject of discussions at the process review meeting to take place no later than April 30, 2023.

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

THE PUBLIC UTILITIES BOARD

"Irene Hamilton, K.C."

Panel Chair

"Darren Christle, PhD, CCLP, P.Log, MCIT"

Secretary

Certified a true copy of Order No. 4/23
issued by The Public Utilities Board



Secretary

APPENDIX A

LIST OF 2022 GRA DIRECTIVES NOT COMPLIED WITH

Order and Directive No.	Directive
134/21, 11.15	In the 2023 GRA, the Corporation shall bring forward a DSR transition plan to manage the required increase in the base rate and year-to-year rate dislocation, while moving the DSR vehicle discounts and driver premiums to actuarial targets in a timely manner

APPENDIX B**GLOSSARY OF ACRONYMS AND TERMS**

AAP	Accepted Actuarial Practice in Canada
Application	2022 General Rate Application
AOCI	Accumulated Other Comprehensive Income
Basic	Universal compulsory automobile insurance
Board	Public Utilities Board
CERP	Compulsory and Extension Revision Project
CLEAR	Canadian Loss Experience Automobile Rating
CMP	Capital Management Plan
Corporation	Manitoba Public Insurance Corporation
DR	Direct Repair
DSR	Driver Safety Rating
EFB	Employee Future Benefits
Extension	MPI's non-compulsory automobile insurance
FCT	Financial Condition Testing
FTE	Full-Time Equivalent
GRA	General Rate Application

GLM	Generalized Linear Model
HRMS	Human Resource Management System
HTA	Highway Traffic Act
ICWG	Investment Committee Working Group (MPI)
IFRS	International Financial Reporting Standards
IT	Information Technology
LVAA	Light Vehicle Accreditation Agreement
MCT	Minimum Capital Test
MGEU	Manitoba Government Employees' Union
Monopoly	Policies that can only be sold by one corporation (MPI)
MPI	Manitoba Public Insurance Corporation
Naïve Forecast	Interest rate forecast reflecting no change in interest rates from current levels
No-fault	Accident benefits not related to the fault of the driver
NPV	Net Present Value
ORSA	Own Risk and Solvency Assessment
OSFI	Office of the Superintendent of Financial Institutions
PDR	Physical Damage Re-engineering
PIPP	Personal Injury Protection Plan
Province	Government of Manitoba

RoadWatch	MPI Initiative to target impaired driving through deterrence and detection including the use of enhanced enforcement
RSR	Rate Stabilization Reserve
SIRF	Standard Interest Rate Forecast
SRE	Optional Special Risk Extension motor vehicle insurance
TNC	Transportation Network Company
VFH	Vehicles for Hire
VMP	Value Management Process

APPENDIX C

APPEARANCES

K. McCandless / R. Watchman / K. Moore	Counsel for the Public Utilities Board (the Board)
S. Scarfone / A. Guerra	Counsel for Manitoba Public Insurance Corporation (MPI / the Corporation)
B. Williams / C. Klassen	Counsel for the Consumers' Association of Canada (Manitoba) Inc.
C. Meek	Counsel for the Coalition of Manitoba Motorcycle Groups
K. Wittman/S. Nelko	Taxi Coalition
M. Weinstein/J. Sokal	Insurance Brokers Association of Manitoba
C. Monnin	Bike Winnipeg

APPENDIX D

WITNESSES

Witnesses for the Board

Dr. Jennifer Hall

President & CEO of Sirius Strategic Solutions Ltd.

Witnesses for the Corporation

E. Herbelin	President and Chief Executive Officer
M. Triggs	General Counsel and Corporate Secretary
M. Giesbrecht	VP, Finance
C. Low	VP, Chief Actuary and Chief Risk Officer
S. Jatana	VP, Chief Customer Officer
S. Mitra	VP, Chief Transformation Officer
S. Parthi	VP, Chief Information & Technology Officer
M. Gandhi	Corporate Controller
S. Campbell	Director, Enterprise Architecture
K. Massud	Director, Pricing
C. Ostapowich	Director, Pricing and Portfolio Management
P. Sarginson	Director, Registrar of Motor Vehicles
G. Bunston	Manager, ALM & Investment Management
B. Doell	Manager, Loss Prevention Planning & Analysis
D. Dunstone	Manager, Reinsurance and Forecasting
S. Patton	Manager, Customer Insights & Analytics
C. Prystupa	Manager, Product Development & Management
A. Ramirez	Program Director, Nova Program Delivery
S. Mann	Customer Value Proposition Lead

N. Lloyd

Western Canadian Wealth Leader, Mercer
(Canada)

Witnesses for CAC

R. Sahasrabudde

Principal, Oliver Wyman

APPENDIX E

Interveners

Consumers' Association of Canada (Manitoba) Inc.	(CAC)
Coalition of Manitoba Motorcycle Groups	(CMMG)
Unicity Taxi Ltd. and Duffy's Taxi Ltd.	(Taxi Coalition (TC))
Bike Winnipeg Inc.	(BW)
Insurance Brokers Association of Manitoba	(IBAM)

Presenters

Alisen Kotyk and Nicholas Warsza

Robson Hall Rights Clinic