MANITOBA	Order No. 148/04
THE PUBLIC UTILITIES BOARD ACT	
THE MANITOBA PUBLIC INSURANCE ACT	
THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT	December 3, 2004

Before: Graham F. J. Lane, C.A., Chairman
Denyse Côté, Member
Eric Jorgensen, Member

AN APPLICATION BY MANITOBA PUBLIC INSURANCE FOR AN ORDER APPROVING COMPULSORY DRIVER AND VEHICLE INSURANCE PREMIUMS FOR THE YEAR ENDED FEBRUARY 28, 2006

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Executive Summary

Manitoba Public Insurance Corporation ("MPI") applied to The Public Utilities Board ("the Board") for approval of premiums for compulsory vehicle and driver insurance, for its fiscal year commencing March 1, 2005 and ending February 28, 2006. The public hearing relative to MPI's Rate Application was held over the course of five days between October 12 and October 26, 2004. The Board heard final arguments on November 1, 2004.

The Intervenors to the process were Canadian Automobile Association – Manitoba Division ("CAA"), Coalition of Manitoba Motorcycle Groups ("CMMG"), Consumers' Association of Canada (Manitoba) Inc./Manitoba Society of Seniors ("CAC/MSOS"), Insurance Brokers Association of Manitoba ("IBAM"), Manitoba Bar Association ("MBA"), Manitoba Used Car Dealers Association ("MUCDA"); and Scootering Manitoba.

Intervenors assist the Board and its process in the protection of the public interest, and are involved at all stages of the process. In addition to the Intervenors, there were a number of presentations made to the Board by individuals, some representing organizations.

In its General Rate Application ("GRA") MPI did not request an overall increase in revenue, and forecasted net losses for MPI's fiscal years ending February 28, 2005 and 2006 of $9.3 million and $500,000 respectively.

MPI proposed that premiums for all major vehicle classes continue to include experience adjustments and classification offsets applied to achieve revenue neutrality. MPI proposed that premium revenue for motorcycles be based on continuing the transition to a new rate line with caps set at 15%. In addition, MPI proposed that motorcycles would receive experience based adjustments and motorcycle type differential adjustments in certain cases. MPI did not request any changes for Driver License Premiums, Permit and Certificate Fees, and proposed that its Service and Transaction fees remain unchanged, except for a proposed reduction to its fee for its monthly premium payment financing plan from $8 to $4. MPI did not propose any change in the $40 discount provided to customers for installing anti-theft devices.

The following matters arising out of, or in the course of, the hearing were of particular interest to the Board:

(a) The transfer from the Province to MPI of the Department of Driver and Vehicle Licensing ("DDVL") functions and responsibilities, and actions and events related thereto;

(b) MPI's reliance on future transfers of retained earnings from Special Risk Extension ("SRE") and Extension to maintain its Basic Insurance Rate Stabilization Reserve ("RSR");

(c) The level of the Basic Insurance RSR, and the Board's view of its adequacy;

(d) The longstanding dissatisfaction expressed by CMMG relative to the claims cost allocation methodology and related rate setting approach employed by MPI with respect to motorcycles, and related matters, a dissatisfaction joined by certain other Intervenors and Presenters to the hearing;

(e) An apparent disconnect between the approach taken by MPI to passenger vehicles as contrasted to the approach taken to motorcycles and scooters with respect to the availability of a pleasure use category;

(f) The definition of what motorcycles should fall within MPI's sports bike classification;

(g) The differing approaches proposed by MPI with respect to moving customer classes to their actuarially indicated rates and the overall issue and definition of what constitutes "rate shock";

(h) Cost experience, trends and determinant factors related to the Personal Protection and Personal Injury Plan ("PIPP") segment of benefits;

(i) MPI's plans with respect to reviewing the Bonus/Malus system, particularly given MPI's new DDVL function responsibilities;

(j) An apparent need to develop further analyses with respect to PIPP costs;

(k) MPI's investment policies and practices;

(l) The implications of the prior cessation of vintaging and the on-going annual revenue supplement provided by upgrading for revenue requirement and how that impacts brokers' commissions;

(m) The ever increasing cost of vehicle theft and the effectiveness of other road safety initiatives by MPI; and

(n) Issues concerning the assistance provided by MPI concerning prospective claimants at pre appeal stages, conducting customer surveys and subrogation claims.

The Board concluded the GRA process with this Board Order, which includes a number of directives:

1. Motor vehicle premiums and fees for the Basic Automobile Insurance Program, for the year ending February 28, 2006, as applied for by MPI, BE AND ARE HEREBY APPROVED, subject to the following:

   (a) Rates be reduced to reflect a reduction in Commission expense of $5.7 million related to DDVL for the year ending February 28, 2006, the reduction to apply to all Major Classes.

   (b) The rate increase applicable to dealer plates will be limited to the greater of 50% of the range of the actuarially indicated rate changes, or 20%, any shortfall to be recovered from all Major Classes.

   (c) The rate differential for sports bikes remains unchanged.

   (d) The schedule of vehicle premium rates be subject to an overriding cap (plus or minus) of 20% relative to those rates currently in effect.

2. MPI file a revised schedule of compulsory driver and vehicle insurance premiums that reflect the above decisions to be implemented March 1, 2005 along with related supporting information, for review and approval by the Board.

3. MPI refine its category of sports bikes to ensure only sports bikes are included within that category for the next GRA, and consult with CMMG prior to finalizing its categorization.

4. MPI report to the Board at the next GRA concerning a review of its commission arrangements with brokers, considering the effect of upgrades on commissions relative to general annual inflation.

5. MPI develop claim benchmarks for duration, frequency and cost, for comparison with its own experience and that of other no fault jurisdictions and agencies and file a summary of the benchmarks established by MPI with the Board at the next GRA.

6. MPI commission an independent study of MPI's PIPP experience for the last ten years, including a determination of whether changes are warranted to benefit design, claims handling, cost allocation methodology, etc., and file a report with the Board at the next GRA.

7. MPI provide an update to the Board at the next GRA of MPI's progress on its intended review of amendments to the Bonus/Malus system.

8. MPI file with the Board a copy of the final contract with respect to the merger of DDVL and MPI, and provide the Board a report prior to the next GRA with respect MPI's efforts to seek assurances from the Province that it will not incur future costs that should be assessed against the Province.

The Board anticipates that the implementation of the Board's directions with respect to costs and premiums for MPI's 2006 fiscal year will have the effect of reducing overall premiums and increasing the number of vehicles that will experience a rate reduction.

In addition to these directives the Board recommended that MPI:

1. Reconsider its decision to include DDVL operations within the Extension division, and reallocate the operations of DDVL to Basic Insurance, and file a report to the Board by no later than the next GRA.

2. Negotiate the terms of the transfer of DDVL with the Province to ensure that MPI is compensated by the Province for all costs of administering DDVL, including reinstatement of the commission cost sharing arrangement as well as the recovery of all amounts that would have been paid under the agreement since its cancellation, and report to the Board by no later than the next GRA.

3. Seek a formal indication from the Province of its acceptance of MPI's decision to allocate future earnings of Extension and SRE deemed to be in excess of requirements to Basic Insurance and the RSR, and report to the Board by no later than the next GRA.

4. Incorporate information related to the effect of upgrading and the discontinuation of vehicle vintaging in its standard policy booklet for policyholders.

5. Consider further diversification of its investment portfolio, and discuss with the Department of Finance the possible granting of an exemption from investment management fees related to the portion of MPI investment portfolio that is invested in Province of Manitoba securities.

6. Consider introducing a pleasure use category for the motorcycle class for the 2006/07 insurance year.

7. Commission an independent study of MPI's approach and options with respect to vehicle theft, accident prevention and driver education.

8. Discuss with Crown Corporation Council their possible involvement in either overseeing or conducting customer surveys on behalf of MPI.

9. MPI prepare and file a report with the Board at the next GRA on the experience with the Appeals Commission, and the effect, if any, of the Commission's decisions on costs, policies and/or practices.

Finally, arising out of this GRA and as indicated in this Order, the Board is considering holding two separate special hearings, one on the matters of loss transfer, and the other on the matters of theft, accident prevention and driver education measures.

The Board expresses its appreciation for the contributions provided to this GRA by MPI and its witnesses, Intervenors and Presenters, and Board Advisors and staff.

1.0 Application

Manitoba Public Insurance Corporation (“MPI”) applied to The Public Utilities Board (“the Board”) in June 2004 for approval of premiums to be charged for compulsory vehicle and driver insurance (“Basic Insurance”), for the fiscal year commencing March 1, 2005 and ending February 28, 2006 (“fiscal 2006”). The process followed was, and this Order is, pursuant to *The Crown Corporations Public Review and Accountability Act, The Public Utilities Board Act, and The Manitoba Public Insurance Corporation Act.*

MPI’s General Rate Application (“GRA”) requested no overall rate increase related to premiums. The Application reflected a revised forecasted net loss for the year ending February 28, 2005 (“fiscal 2005”) of $9.3 million, and a projected a net loss for fiscal 2006 of $500,000.

Premiums for all major vehicle classes, with the exception of motorcycles, were to continue to include experience adjustments capped between -15% and +15%, except for dealer plates, mopeds, scooters, trailers or off-road vehicles. The exceptions are discussed in further sections of this Order. As was the case in last year’s Application, classification offsets were to be applied to achieve revenue neutrality in MPI’s projected rate group adjustments. Forecast premium revenue for motorcycles was based on a proposal to adjust rate line relativities, rather than utilizing experience based adjustments.

MPI did not request any changes for Driver License Premiums or Permit and Certificate Fees. MPI proposed that its Service and Transaction fees remain unchanged, excepting for the fee for the monthly premium payment-financing plan, which MPI proposed be reduced to $4 from $8.

MPI did not propose any change in the $40 discount for customers having Vehicle Information Centre of Canada (“VICC”) approved after-market or dealer installed anti-theft devices.

The Board held a pre-hearing conference ("PHC") on July 7, 2004. The PHC considered the procedures to be followed and other issues relating to the Application, and dealt with the registration of Intervenors. Subsequent to the PHC, the Board issued Order 97/04 and Order 107/04, which provided Intervenor status and established a timetable for the orderly exchange of information and which set out the procedures to be followed in the hearing.

A public hearing was held for five days between October 12 and October 26, 2004, with the Board hearing final arguments from the Intervenors and MPI on November 1, 2004.

Established by provincial legislation in 1971, MPI's goals include:

1. Providing universally available mandatory protection against the cost of automobile accidents.

2. Levying premium rates that are, on average, lower than those charged by private insurance companies for comparable coverage and service, and result in the return of 85% of premium revenue to Manitobans in the form of claims benefits.

3. MPI being a leader in automobile insurance, providing Manitobans with superior products, coverage and service.

4. Providing service that is responsive, fair, courteous and convenient. Customer service standards are to be set by customer expectations, and MPI is to meet these service standards.

5. Establishing and maintaining a Rate Stabilization Reserve, within established target levels.

6. Providing an internal environment and career opportunities that are attractive to productive improvement-minded people. MPI employees will be treated with respect and fairness, and their contributions will be recognized.

7. MPI to lead initiatives on driver education, to increase opportunities for drivers to enhance their driving skills, and to increase public concern regarding risky driving behaviour.

2.0 Program Revenue

2.1 Forecasted/Projected Operating Results

MPI relies on four main sources of revenue to fund its Basic Insurance: motor vehicle premiums, drivers' premiums, investment income, and service transaction fees and other miscellaneous revenue.

MPI's operating results forecast for the fiscal year ending February 28, 2005 based on existing rates,, and a projection for fiscal 2006 based on proposed rates, are as follows:

Statement of Operations ($ millions) For Years Ending February 28	**Fiscal 2005 at Existing Rates $**	**Fiscal 2006 at Requested Rates $**
Net premiums earned		
Motor vehicle premiums	562.5	600.2
Drivers' premiums	34.1	34.3
Reinsurance ceded	(12.5)	(13.6)
	584.2	620.8
Service fees and other revenues	14.5	14.5
Total earned revenue	598.7	635.3
Net claims incurred	513.3	537.2
Claims expense	66.5	67.9
Road safety/loss prevention	7.2	7.3
Total claims costs	587.0	612.5
Expenses		
Operating	38.1	40.3
Commissions	27.1	33.2
Premium taxes	17.9	19.0
Other regulatory/appeal	2.4	2.4
Total claims and expenses	672.5	707.4
Underwriting loss	(73.7)	(72.1)
Investment income	64.4	71.6
Net income	(9.3)	(.5)

2.2 Motor Vehicle Premiums

MPI's motor vehicle premiums are based on the past and projected costs of the Basic Insurance, and a classification system involving ratings based on territory, insurance use, rate group, and the registered owner's individual driving record.

Vehicle premiums have historically comprised approximately 80% of the total revenue of the Basic Insurance. MPI's projection for motor vehicle premiums earned for fiscal 2005 at the last GRA was $559.8 million, later revised during this hearing to $562.5 million (an increase of $2.7 million, or less than 1%). MPI also projected motor vehicle premiums earned of $600.2 million for fiscal 2006, and proposed no change in overall fiscal 2006 vehicle premiums for fiscal 2006.

The absence of a general rate increase does not mean that MPI would not expect an increase in its annual premium revenues. The on-going replacement of older vehicles with newer vehicles, and annual increases in the number of insured vehicles as a result of increased population, demographic changes and other factors, create an upward direction for annual premium revenue. Over the past five years, these "upgrades" and volume increase factors have provided additional revenue to MPI each year in the range of 5% of the prior year's premium revenue, before considering any general rate increase.

2.3 Drivers' Premiums

All Manitoba motorists are assessed a basic premium on their drivers' licenses, based on the principle that all drivers should contribute premiums to the insurance fund regardless of whether they own and insure a vehicle. The current annual individual driver's license premium is $45. The premium is reduced by $5 for each merit point possessed by the driver, up to a maximum of 5 merit points or $25. The driver's license premium has been $45 since 1997.

When it considers whether to propose an increase in drivers' license premiums, MPI has indicated that it takes into account several factors. These include the length of time since the last premium increase, the size and frequency of recent vehicle premium increases, MPI's view on the public acceptability of an increase, and general policyholder affordability issues. For fiscal 2006, drivers' license premiums were projected by MPI to represent approximately 5% of overall earned revenue.

Demerit points are assessed against drivers for traffic offence convictions. However, certain violations result in a fine and carry no demerits such as red light camera offences – a new feature to Winnipeg's driving environment.

Additional premiums are assessed against motorists who have accumulated six or more demerit points on their driver's license, in the belief that conviction-prone drivers represent a higher level of risk than other drivers. The additional premiums related to demerits range from $200 for six demerit points, to a maximum of $999 for 21 or more demerit points. MPI advised that the maximum demerit amount is due to the computer system three-digit limitation of the former Department of Driver and Vehicle Licensing ("DDVL").

Accident surcharges are levied against who have been found to be "at fault" in an accident. Surcharges are levied to deter further accidents, and also result in at-fault drivers contributing to overall insurance program costs. The amount of the surcharge increases with the number of accidents, and currently ranges from $200 to $1,200.

As well, drivers with registered vehicles that have been responsible for an accident and/or have demerits are not entitled to the vehicle premium discounts provided to "good" drivers. These discounts can reach 25% of the otherwise premium.

Even with maximum surcharges of $999 for demerits, maximum accident surcharges of $1,200, and vehicle premiums that are affected by at fault accidents and demerits, the maximum premium for a passenger vehicle in Manitoba remains below the maximum premium levels provided by most private insurance plans in other provinces. Another major difference between private insurance practices and MPI's basic plan is that MPI's premiums are not affected by the age of vehicle owners and drivers.

In its Application, MPI forecast revenue for drivers' license premiums, demerit point additional premiums and accident surcharges for fiscal 2006 of $34.3 million, an amount virtually unchanged from MPI's current forecast for this revenue component for fiscal 2005.

In its Application, MPI proposed no changes to the drivers' license additional premiums, accident surcharges, or the discounts provided for drivers without at fault accidents and with merits.

2.4 Service Fees and Other Revenues

MPI forecast that the Basic Insurance would earn $14.6 million from service fees and other revenue in fiscal 2005, and that such fees and other revenue would generate $14.5 million in fiscal 2006. This revenue source consists mainly of income related to time payment plans, late fees, dishonoured payment fees and miscellaneous fees.

In its Application, MPI sought no increases to service fees and other revenue, but it did seek a reduction in the assessment for the monthly premium payment plan, that assessment to fall from $8 to $4.

2.5 Investment Income

As at February 28, 2004, MPI had an investment portfolio totalling almost $1.46 billion, representing one of the largest pools of public capital in Manitoba. The size stems in large part from 1994 conversion from a tort system, where “fault” is a primary factor, to a no fault accident benefits Personal Injury Protection Plan (“PIPP”).

Claim liabilities pursuant to PIPP can remain outstanding for decades. The benefits include weekly indemnity, retirement income benefits (“RIB”), health services costs, etc. The long-term nature of injury claim liabilities results in significant and growing investment holdings, held to meet the liabilities.

Investment income earned on the portfolio reduces the revenue MPI would otherwise be required to collect through premiums. MPI confirmed that investment income is a key revenue component of its Basic Insurance, and that policyholders receive the benefit of the investment income in the establishment of rates. In this year’s Application, MPI relied upon forecast investment income to meet claims and other costs that were projected to exceed premium and fee revenue.

MPI projected an investment portfolio totalling $1.67 billion as at March 31, 2006, with projected investment income of $83.1 million in fiscal 2006, of which $71.6 million (or approximately 86%) was to be allocated to the Basic Insurance.

Actual investment income for the year ended February 29, 2004 (“fiscal 2004”) was $108.5 million, $27.3 million higher than MPI’s revised forecast for 2004 of $81.2 million. MPI attributed the positive variance to gains realized on the sale of certain equity investments. In fiscal 2004, MPI realized $54.8 million in gains on equity sales, and a further $8.5 million in gains from the sale of long-term bonds. MPI forecast revenue of $2.4 million from investment sales in fiscal 2005, and a further $4.9 million in fiscal 2006.

MPI’s investment income policy realizes capital gains from the sale of equity securities only when the ratio of the market value to book value of its combined portfolio of U.S. and Canadian equities is greater than 105%. MPI indicated that it takes this approach to reduce the risk of substantial volatility in annual investment income. MPI reported that it monitors the market value of its equity investment portfolio on a weekly basis in an effort to identify opportunities to realize gains on the sale of investments.

MPI also reported that it generally does not sell a security to realize a gain simply for the purpose of securing a gain in a particular accounting period. For a sale to take place, MPI indicated that it would normally have reached the conclusion that the security should be sold, as its optimal value to MPI had been reached.

MPI accounts for the value of its investment portfolio on a cost basis, in accordance with current Generally Accepted Accounting Principles ("GAAP"). GAAP is subject to change, and a recent Exposure Draft issued by the Accounting Standards Board of the Canadian Institute of Chartered Accountants has proposed substantial changes, which are commented on in a later section of this Order.

Gains or losses are incurred when an investment is sold at a price different than what is was acquired for. A loss can also be reported when an investment is deemed to be permanently impaired.

MPI indicated that as of June 30, 2004, MPI held $42.6 million in unrealized gains in its investment portfolio, the majority of which pertain to its bond portfolio. In short, this means that if the portfolio had been sold as of that date, MPI would have realized additional income for its 2005 fiscal year of $42.6 million.

MPI opined that if it had sold the bonds to realize the gains, the overall effect would have been to benefit the current period at the expense of future periods. MPI indicated that such short-term measures are not in the interests of policyholders.

2.5.1 Investment Portfolio

Pursuant to legislation, MPI's Investment portfolio is formally entrusted to and managed by the Department of Finance, Province of Manitoba. Nonetheless, MPI maintains an Investment Committee (of its Board of Directors), an Investment Working Committee, and an Investment Department; the latter staffed with investment professionals. These committees and staff provide advice and guidance to the Department of Finance towards the management of the portfolio.

The portfolio is currently invested in fixed income securities (bonds and short-term Province of Manitoba treasury bills), and Canadian and American equity securities. The approximate division between fixed income and equities, according to MPI's asset mix policy, is in the range of 70% fixed income and 30% equities.

The bond segment includes both short and long-term bonds, comprised of marketable government and corporate bonds as well as a sizeable component of issues in support of Manitoba Municipal, Hospital and School Board bonds and debentures. Such securities could be sold, but are generally held until maturity and are deemed to be non-marketable.

One of MPI's objectives is to support the activities of local government through the purchase of municipal, hospital and educational bonds and debentures. In the absence of an investor such as MPI, these issuers may experience difficulty and higher costs in finding buyers for their bonds, and the interest rates required to affect the sales and purchases may be higher than required by MPI. (MPI reported that it purchases provincially-issued securities at market interest rates.)

With respect to the equity holdings, external investment managers manage the portfolio segment under contract to the Department of Finance. MPI reported that the Department of Finance has engaged the services of two U.S. equity managers. In the 15 months since MPI began actively managing its U.S equity portfolio, MPI advised that its portfolio managers had outperformed the

S&P 500 Total Return Index by over 6%. Nonetheless, the current value of the portfolio allocated to American equities has fallen, the rise in Canadian dollar cited as being the main factor. MPI, through the Department of Finance, hedged against currency risks, and reduced the exposure of the portfolio to American securities.

The composition of the investment portfolio for fiscal 2004 projected through 2006 is as follows:

For years ending **($ thousands)**	**Actual 2004**		**Forecast 2005**		**Projected 2006**	
Corporate Investment Portfolio	**$**	**%**	**$**	**%**	**$**	**%**
Cash & Short Term Investments	87,888	6.0	22,093	1.4	22,262	1.3
Equities	247,993	17.0	284,147	17.6	299,100	16.8
Equity Linked Note	20,000	1.4	20,000	1.2	20,000	1.1
Long-Term Bonds	1,099,113	75.3	1,281,488	79.3	1,421,596	80.1
Other	4,874	0.3	7,874	.5	10,874	.6
Total	1,459,868	100.0	1,615,602	100.0	1,773,832	100.0

MPI advised that the Department of Finance levies an annual fee with respect to its oversight of MPI's investment portfolio. The current annual levy is .075% and .03% of the fixed income and equity portfolios, respectively. The levy is made on all securities, including the fixed income securities purchased from the Province. As well as these fees, investment management fees are paid to the Canadian and American equity manager, along with transaction charges and the costs associated with MPI's investment management team.

MPI contracted with Mercer Investment Consulting to prepare an Asset/Liability Study ("the Mercer Report"). The primary objectives of the report were reported by MPI to include:

- To review and establish a long-term asset mix policy which strikes an appropriate balance between the desire for high returns and low risk; and

- To fulfill MPI's Investment Committee's responsibilities to prudently manage the plan's investments, taking into account various factors including the nature of claims and benefits, the changing economic environment and capital market expectations, etc.

The second objective provides an indication of the level of influence MPI has over the investment of the portfolio, notwithstanding the role of the Department of Finance.

The Mercer Report recommended changes to MPI's current investment mix:

(a) The portfolio should be further diversified because the current approach relies too much on fixed income securities;

(b) The component of the bond portfolio invested in real return bonds should be increased; and

(c) Diversification of the portfolio, away from fixed income and into international non-U.S. equities and real estate should take place.

MPI did not adopt the recommendations, citing concerns related to increased currency risk and lack of experience in the fields of international equities and properties. MPI opined there would be no substantial benefit in changing the asset mix, based on MPI's actual experience in its less diversified portfolio over the past five years. As well, MPI stated the Mercer Report did not take into account the transaction costs MPI would incur if it were to sell and buy securities to bring about a more diversified portfolio.

The Board is aware that because of different risk factors fixed income securities typically are expected to provide yields below returns on equity investments. While both bonds and equities are associated with market value gains and losses as well as the interest and dividends that may accompany bonds and equities, MPI is not an active trader of bonds. It is MPI's equity portfolio that has been traded.

Currently, market interest rates for government bonds are quite low, below 5% for a ten-year Canadian or provincial government bond. A portfolio heavily weighted to bonds has a lower interest income potential that was the case in prior higher interest rate years. As well, such a portfolio has a market value risk associated with higher interest rates. Diversification into equities, both Canadian and foreign, is a common practice of large investment pools.

3.0 Program Costs

In its Application, MPI projected that the costs to provide the Basic Insurance would be as follows for fiscal 2006:

	Projected Expenses ($ millions)	Percentage of Total
Claims Incurred	$537.2	76.0%
Claims Expenses	67.9	9.6
Road Safety/ Loss Prevention	7.3	1.0
Operating Expenses	40.3	5.7
Commissions	33.2	4.7
Premium Taxes	19.0	2.7
Regulatory and Appeal Expenses	2.4	0.3
	$707.0	100.0%

MPI's claims, road safety/loss prevention, operating and regulatory and appeal expenses are allocated between MPI's Basic and Competitive unregulated lines of business. MPI's commissions are paid to independent brokers; Premium taxes are levied by the Province on all insurance companies, including MPI.

3.1 Claims Incurred

As indicated in the above table, claims incurred is the largest component of costs for Basic Insurance, and for fiscal 2006 was projected by MPI to represent approximately 76.0% of total Basic Insurance costs.

Claims incurred represent the total benefits paid or expected to be paid by MPI on account of claims incurred under the Basic Insurance. The following table shows a five-year comparison for total claims incurred by cover for the years 2002 through 2006 as follows:

Claims Incurred
Five Year Comparison ($ millions)

	Actual	Actual	Actual	Projected	Projected	Projected Four Year Change	
Fiscal Year ending	**2002**	**2003**	**2004**	**2005**	**2006**	**$**	**%**
Physical Damage							
Collision	167.4	185.4	198.3	206.3	221.0	53.5	32%
Comprehensive	59.8	50.5	54.1	56.8	61.3	1.5	2%
Property Damage	26.5	29.4	29.6	30.1	31.4	4.9	19%
	253.7	265.2	282.0	293.2	313.7	60.0	24%
PIPP Accident Benefits	180.7	199.7	229.1	213.7	215.5	34.7	19%
Public Liability	(0.5)	2.8	2.5	6.4	8.0	8.6	1,581%
Total	433.9	467.7	513.5	513.3	537.2	103.3	24%
% of Basic Costs	74.3	76.6	76.8	76.3	75.9		

3.1.1 Claims Incurred Forecast and Projections

MPI continues to use its Financial Forecast Method to estimate claims incurred. Unlike the other forecasting methods MPI employs, management judgment is used to determine the many factors used in the Financial Forecast Method. This judgment extends to the selection of assumptions related to indicators such as the forecasts for vehicle upgrade and volume factors. MPI maintains that the Financial Forecast Method is actuarially based and statistically sound.

To test the appropriateness of this approach, MPI continues to use the Linear and Exponential Methods of forecasting and projecting claims incurred. MPI has confirmed its view that both of these other methods are also actuarially based and statistically sound, and use historic data to project future claims cost growth assumptions by cover.

For fiscal 2006, MPI's Linear Method projected claims incurred of $536.6 million, while the Exponential Method projected claims incurred of $562.7 million. The Financial Forecast Method used by MPI in this GRA projected claims incurred of $537.2 million. The following table compares MPI's previous projections of claims incurred, used in the rate Applications of prior years, to actual results:

Claims Incurred Projection vs. Actual (in $ millions)

Fiscal Year	Initial Projection $	Actual $	Variance $	Variance %
1994	$323.4	$320.8	(2.6)	(0.8)
1995	290.2	297.8	7.6	2.6
1996	303.4	302.0*	(1.4)	(0.5)
1997	311.8	296.0	(15.8)	5.1
1998	322.6	340.8	18.2	5.6
1999	332.7	330.8	(1.9)	(0.5)
2000	365.3	352.7	(12.6)	(3.4)
2001	377.5	378.1	0.6	0.2
2002	388.5	433.9	45.4	10.5
2003	440.8	467.7	26.9	5.8
2004	468.3	513.5	45.2	9.7

As indicated, substantial variances between projected Claims Incurred and actual results have occurred in past years.

*A tort run-off adjustment increased the total actual to $352.3 million; since 1995, the variances include several other adjustments related to the run-off of tort claims.

Variances occur because projections are forward-looking in nature, and initially are prepared approximately 21 months prior to the end of the projection period. There are numerous factors impacting actual results, these include the effects from weather, prevailing economic and financial conditions, business trends, underwriting cycles, policy and/or benefit level changes.

MPI reported that the major factors contributing to the $45.2 million adverse variance in fiscal 2004, actual over forecast, were a sharp increase in PIPP claims severity accompanied by an increase in collision claims frequency.

At last year's Application, MPI filed two alternative projections related to claims experience for fiscal 2004, which reflected a moderate claims count with claims incurred forecast at $494.1 million and a high claim count forecast at $514.4 million. Actual claims incurred were $513.5 million in line with the high claim count scenario, while $19.4 million (5.3%) higher than the moderate claim count forecast.

3.1.2 Physical Damage

Physical damage claims include all perils (collision and comprehensive claims), and property damage. All perils provides coverage for any direct accidental loss of or damage to an insured vehicle arising out of perils such as collision, fire, theft and hailstorms. Property damage claims relate to damage to property other than insured vehicles.

Physical property damage claims for fiscal 2006 were projected by MPI to increase to $313.7 million, a $20.4 million (7.0%) increase over the forecast for fiscal 2005. The overall increase for the five-year period from fiscal 2002 to fiscal 2006 was projected to be $59.9 million. The projection for fiscal 2006 assumes a normal year, with a 1.9% increase in frequency and a 4.9% increase in the severity of such claims.

Included in the projected $20.4 million increase in physical damage claim, is a projected $14.7 million increase in collision costs for damaged or written-off vehicles. The increase in the forecast for collision costs is due to projected increases in frequency of claims, 1.4%, and severity, (5.7%). Similar to prior Applications, projected increases in severity are primarily driven by forecast increases in the price of original equipment manufactured parts, aftermarket and recycled parts. Cost increases are also attributed to upgrades in the fleet because newer vehicles are generally more costly to repair and replace.

MPI forecast fiscal 2006 comprehensive claims of $61.3 million, an increase of 7.1% over the projection for fiscal 2005. The 2006 forecast increase was attributed to expectations for a 4.3% increase in severity and a 3.4% increase in frequency.

MPI forecast property damage claims for fiscal 2006 at $67.6 million, an projected increase of $1.3 million (4.3%) greater than that now estimated for fiscal 2005. MPI attributed the forecast to projected increases in severity, (2.9%), and frequency, (1.4%).

3.1.3 PIPP Accident Benefits

PIPP accident benefits include weekly disability payments, death benefits, funeral and medical expenses and impairment benefits arising out of bodily injuries. Accident benefits are payable regardless of the attribution of fault. Claims Incurred also include payments and provisions made pursuant to the previous tort system. As previously indicated, tort coverage ended March 1, 1994, when MPI converted to PIPP on a going-forward basis.

As the following table illustrates, there have been significant variances between initial projections, revised estimates and actual results related to Accident Benefits. These variances partially reflect the fact that PIPP is relatively new. Ten years in an insurance environment is not that long, and the original estimates had little historical data upon which to rely.

This contributed to considerable fluctuations in year-to-year frequency and severity experience related to PIPP. Actual claims provisions established to settle claims were higher than projected for several years, rising sharply in 1998 when the RIB was introduced.

Year-over-year increases from 2000 have reflected increases in both frequency and severity for PIPP claims, and ongoing and legislated annual indexation of benefit entitlements.

PIPP Accident Benefits ($ millions)

Fiscal Year End	Initial Projection	Revised Forecast	Actual
1995	$132.8	$119.4	$112.6
1996	140.2	126.6	105.3
1997	135.9	95.1	90.1
1998	118.8	115.5	132.7
1999	119.3	132.1	124.3
2000	139.0	136.3	144.0
2001	139.6	138.2	154.3
2002	139.8	162.2	182.4
2003	167.8	187.2	198.7
2004	190.1	210.4[1]	229.3
	190.1	230.7[2]	229.3
2005	206.7	212.2	-
2006	214.1	-	-

In response to a Board Information Request, MPI provided a breakdown of the development of the various personal injury components of PIPP claims costs, as shown below.

	Actual										*Forecast*	*Projected*
Coverage	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
Income Replacment	23.4	24.7	18.5	47.5	31.2	70.8	51.2	71.0	88.4	112.5	71.0	74.2
Death Benefits	7.0	7.7	6.3	8.0	5.9	8.3	11.6	9.5	10.1	8.1	11.4	11.9
Permanent Impairment	5.6	6.8	8.9	12.5	11.5	11.3	13.7	13.7	17.3	20.1	18.1	19
Personal Care	32.0	13.6	- 0.5	23.2	21.8	23.7	21.8	21.4	32.2	41.4	39.6	40.1
Expense/Rehabilitation	22.5	40.4	31.3	34.3	34.9	38.1	42.6	48.5	32.4	27.1	41.0	43.4
Total	90.5	93.2	64.5	125.5	105.3	152.2	141.0	164.2	179.5	209.2	181.1	188.6

[1] Two revised forecast scenarios were provided at last years hearing for fiscal 2004. This scenario represented a moderate level of PIPP loss count.
[2] Two revised forecast scenarios were provided at last years hearing for fiscal 2004. This scenario represented a high level of PIPP loss count.

MPI attributed the sharp increase in income replacement benefit costs for fiscal 2004 to an unexpectedly large increase in the number of brain damage injuries suffered in motor vehicle accidents (97 in fiscal 2004, up from 63 in 2003). MPI stated that the cost increase associated with PIPP claims in fiscal 2004 was the largest increase since 1995.

MPI indicated that factors contributing to this increase included the introduction of RIB, and an on-going increase in the average duration of income replacement claims. The RIB provides income replacement, at a reduced rate, for the life of the claimant; this benefit represents a major enhancement from the original plan, which required full payment to age 65, and a benefit decline to zero by age 69.

Other variances and increases in costs result from statutory indexation, and the random occurrence of large losses in excess of $500,000. MPI reported that large losses have varied from 10 to 25 occurrences in any given year, requiring significant adjustments to case reserves.

3.1.4 PIPP Third Party Liability

MPI projects that claims costs for third party liability will increase from the $6.4 million forecast for fiscal 2005 to a projected $8.0 million for fiscal 2006. These claims include compensation paid on a third party basis to individuals injured by Manitoba motorists in accidents occurring outside Manitoba.

Although the costs related to extra-provincial accidents have been relatively stable over the last several years, a high variability in these claims can be expected because of their traditionally low frequency and high severity nature.

3.1.5 Pre-PIPP Tort Claims

In its Application, MPI indicated there were 47 tort claims still unresolved; $4.1 million had been provided for these claims within the overall claims reserves. As of October 15, 2004, MPI revised the numbers to 39 remaining tort claims.

MPI reported that its legal work with respect to these remaining cases had been assigned to outside counsel, and that MPI was aggressively pursuing closure for the remaining tort claims. MPI confirmed its view that its provision for the unpaid tort claims was adequate.

3.2 Claims Expenses

Claims expenses represent the costs incurred by MPI to process and settle claims. Overall costs are allocated to claims expenses for either Basic Insurance or the competitive lines of business, Extension and SRE, based on factors previously reviewed by the Board.

For fiscal 2006, MPI forecasts claims expenses will be $67.9 million, as compared to a revised fiscal 2005 forecast of $66.5 million. MPI attributes its forecasted increase to an estimated 2.0% CPI and increased special services, offset by a reduction in amortization costs.

3.3 Claims Cost Savings Initiatives

MPI initiatives to control the severity and frequency of claims in respect of bodily injury and all perils occurrences were reported to have not materially changed since last year.

MPI reported that its initiatives to achieve bodily injury cost savings continue to be focused on bringing about a full and early recovery for every claimant.

MPI indicated that it is consolidating its mature long-term disability and impairment files within its Medex Department. In addition, MPI plans to expand its practice of assigning specific case managers to deal with all claims arising from a specific employer or industry.

MPI reported that it is creating a multi-disciplinary team in its Casualty and Rehabilitation Department, to facilitate a re-evaluation of files where rehabilitation efforts have been unsuccessful to date. This effort is to be undertaken to facilitate an early resumption of normal activity by claimants.

MPI reported that it had undertaken system enhancements to make Income Replacement Indemnity information available in electronic form, so as to allow Case Managers to better analyze disability claims experience. However, MPI also indicated that its current database does not provide analyses of weekly indemnity claims and duration by occupation, recovery norms or income levels.

Currently, data analysis with respect to weekly indemnity payments, the largest component of PIPP costs and Claims Incurred costs overall, is limited only to the amount paid to an individual over a period of time.

MPI reported that it had begun limited analysis of claims on the basis of expected duration for the various types of injuries, and foresaw undertaking more analyses in future years.

MPI reported that quantification of actual cost savings related to its bodily injury cost saving initiatives is not possible, given the general nature of the programs and the state of its analysis function.

In response to Board questioning, MPI indicated that it has had initial high level discussions with the Workers Compensation Board ("WCB"), towards identifying ways to work together on a collaborative basis. MPI reported an interest in possible synergies and joint initiatives that could benefit both organizations in the future. MPI confirmed a need for future consultations with he WCB, to build on the previous discussions on possible joint opportunities.

MPI's all perils cost savings initiatives consist of efforts to increase the use of after market and recycled parts, to achieve glass replacement pricing reform, and a stereo claim reduction initiative.

MPI confirmed that during the 2003 calendar year, it had achieved savings of $8.9 million through the use of after market parts, up from savings of $8.8 million earned in the previous year. For fiscal 2004, MPI reported net savings from the use of recycled parts at $12.8 million, up from $9.9 million for the previous year. Similar or somewhat greater savings are anticipated for fiscal 2005 and fiscal 2006, by MPI.

MPI reported glass replacement cost savings of $1 million annually, and that stereo claims have benefited from claims cost reductions of 20 to 28%. The latter savings was brought about, according to MPI, through the utilization of an independent database which provides for the determination of an appropriate replacement unit at a reasonable price. MPI estimated annual savings from this initiative ranging from $600,000 to $1 million annually.

3.4 DDVL Merger

On April 1, 2004, the Province directed the transfer of the Department of Transportation and Government Services' DDVL to MPI. The actual transfer of personnel was reported by MPI to have taken place on October 1, 2004.

MPI reported that the Province had the following objectives for the merger:

- Achieve customer service improvements;
- Save costs and become more efficient by reducing overlap and duplication; and
- Bring about the creation of a new model for meeting the licensing, registration and insurance needs of Manitobans.

The transfer was reportedly effected on the basis that it would not negatively affect insurance rates.

DDVL functions regulate the registration of motor vehicles, assessing fees for these vehicle registrations. DDVL also regulates the issuance of driver licenses, and administers the Driver Class Licensing Program. Through this program, drivers are required to meet the specific vision, physical ability, knowledge, and skill standards required to operate particular classes of vehicles. DDVL also administers the merit-demerit point system and accident surcharge impositions, both integral to MPI's Bonus/Malus system.

Based on the recommendation of MPI's Management, as reported by MPI at the hearing, DDVL was transferred into the Extension Insurance side of MPI's operations. Extension and SRE lines of business are not regulated by the Board, and the avoidance of the purview of the Board and its process was suggested by MPI as being the motivation for the transfer into Extension rather than Basic Insurance.

A strong, direct link between the operations of DDVL and the activities of Extension was not evidenced at the hearing. MPI confirmed that components of DDVL operations bear a strong connection to the Basic Insurance, particular driver licensing and vehicle registration, which are compulsory. While there are other functions that DDVL performs that have no direct relationship to Basic Insurance, including driver testing and medical reviews, the results arising out of these functions may have an impact on claims experience and rates.

MPI opined that the additional functions it now has responsibility for with the integration of DDVL do not affect the Basic Insurance, and are not consistent with the legislation that applies to the compulsory insurance program.

MPI pays a commission of 5% to brokers for processing Basic Insurance and registration transactions on behalf of MPI and the Province (through DDVL). Since the inception of MPI more than thirty years ago, through to February 2004, MPI recovered an amount from the Province through DDVL, based on commissionable basic transactions indexed annually to CPI (Winnipeg). The commission share cost recovery reduced basic insurance commission expense, and had a direct relation to vehicle premium rates.

In February 2004, prior to the merging of DDVL into MPI, the Province ceased funding the commission share cost recovery. As a result, commission expense for fiscal 2004 was higher than it would have been, and projected annual commission expenses from fiscal 2005 are now expected to be approximately $5.7 million greater, before taking into account indexation. This change has resulted in additional program costs, which would be borne by policyholders in vehicle premium rates.

MPI reported that the contract with the Province to support the transfer is yet to be effected, an interim agreement has been in place from October 1, 2004, and legislation giving effect to the transfer is yet to be introduced. MPI reported that it expects to receive annually an amount equal to the Province's current cost to operate DDVL functions, excluding the commission share cost. MPI reported that any cost increases which may be associated in the future with DDVL related computer system and/or hardware upgrades, collective agreements and other operating matters associated with DDVL functions will be its responsibility.

MPI further reported that it anticipated being allowed to retain any savings that may arise out of operational changes of a synergistic nature, given its new responsibilities and concurrent continuance of its previous functions. Finally, 300 former employees of the Province were transferred to MPI with the DDVL as part of the merger.

3.5 Operating Expenses

MPI's operating expenses consist mainly of employee compensation, data processing, telecommunications, amortization, building expenses, and supplies for staff not directly handling customers' claims. Operating costs in fiscal 2005 associated with basic operations are projected by MPI to be $38.1 million, and are forecast to increase 8.2% to $40.3 million in fiscal 2006.

Compensation, salaries, wages and benefits, is the most significant operating expense of MPI, and comprises approximately 55% of Basic Insurance's total projected operating expenses for fiscal 2006. MPI forecast that compensation costs would increase by 20.4%, from $18 million in fiscal 2002 to $22.1 million in fiscal 2006. The projected increase was primarily attributable to salary increases related to inflation, merit increases, and increases in staff levels. DDVL costs are considered separately.

MPI has budgeted for an increase in full time equivalent ("FTE") positions, excluding DDVL functions, from 1,365.5 at March 1, 2004 to 1,390.8 at March 1, 2005, an increase of 25.3 FTE positions. Of the projected position increase, 17.8 were forecast to occur in Claims Operations.

As a result of the merger with DDVL, 296.7 FTE positions became employees of MPI effective October 1, 2004, bringing the total of MPI's FTE positions to 1,687.5. MPI is one of Manitoba's largest employers.

3.6 Information Technology

MPI reported to the hearing that it had suspended its longstanding plan to migrate its computer software from Sybase/PowerBuilder to a Microsoft Application. The initial high-level estimate for external costs associated with the now abandoned migration was approximately $43.9 million, without accounting for internal staff, training, change management, and third party oversight costs. Significant funds were expended by MPI preparing for the now abandoned migration.

MPI cited several reasons for its decision to suspend the implementation, including its view that vendor equivalent external support for the Sybase system would continue for the next five years. MPI also cited a perceived lack of experience with other insurers with respect to a conversion from Sybase/Powerbuilder. MPI indicated that it prefers to learn from the experiences of other insurers, rather than face the risks of converting its primary system without the knowledge that can be gained from the experience of others.

In deciding to suspend the implementation, MPI stated it had formed the view that the risk of proceeding and experiencing major problems was a higher risk than the risk that Sybase may unexpectedly become non-viable. MPI stated that if a problem does occur as a result of staying with the current software, it has a migration plan ready to be implemented.

3.7 Road Safety/Loss Prevention Expenses

MPI reported that its expenditures related to road safety and auto theft are made in an attempt to reduce and control claims costs. Basic Insurance's share of road safety/loss prevention expenditures for fiscal 2005 is forecast to be $7.2 million, and was projected by MPI to increase to $7.3 million in fiscal 2006.

3.7.1 Road Safety

MPI reported that it works to improve road safety by leading or supporting initiatives in partnership with other key agencies. MPI's three main road safety priorities were indicated to be:

- Occupant restraint usage;
- Impaired driving; and
- Unsafe speed.

MPI indicated that its underlying approach to traffic safety initiatives is to concentrate on educating road users. MPI's education efforts were reported to take place through the delivery of traffic safety programs, including driver education, and by supporting and coordinating safety programs developed by external agencies such as the Manitoba Safety Council.

MPI further noted that it remains committed to its role as one participant among many active stakeholders in road safety. MPI indicated its intention to continue as the primary provider of road safety awareness and education, and that it will focus on those activities. MPI further indicated that it had not undertaken any analysis of the impact of the implementation of red light cameras in Winnipeg, or the impact of graduated licensing on the incidence of claims.

3.7.2 Auto-Theft Initiatives

In combating auto-theft MPI reported that it focuses on three main core activities, these being:

(a) Providing a $40 discount in insurance rates for installing anti-theft devices. MPI's vehicle anti-theft device discount program offers a $40 discount for owners who install after market and approved immobilizers in their vehicles;

(b) Supporting prosecution and enforcement efforts; and

(c) Developing marketing strategies to raise public awareness of the costs and issues associated with auto theft.

The history of auto-theft claims has not been promising. MPI has reported an increase from 2,388 (1,750 in Winnipeg and 515 Rural) claims in 1990, to 12,012 theft claims (9,823 in Winnipeg and 2,189 Rural) in fiscal 2003. MPI stated that the claims cost related to auto-theft claims is now approximately $24 million per year, and this does not include MPI's operating costs or the costs incurred by other agencies and society generally.

MPI indicated that it plans to spend $1.2 million in anti-theft programs for fiscal 2005, and projects to spend $1.4 million in fiscal 2006. The majority of the expenditures were reported to be for automobile theft counter measure initiatives, and funding to the Winnipeg Police Service for eight officers to investigate and lay charges with respect to auto theft.

MPI indicated that it required the involvement of other agencies as well as vehicle owners to reduce the level of auto theft.

4.0 Net Income

4.1 Vehicle Upgrade Factor

In projecting annual revenues, MPI includes a vehicle upgrade factor ("upgrade factor"). The upgrade factor provides increased premium revenue arising out of the replacement of older vehicles with newer vehicles, resulting in classification changes and increases in overall premium revenue. MPI's upgrade factor also considers the impact upon revenues of changes in the proportion of vehicle premiums attributable to standard and merit premiums. Merit premium levels can be 25% below indicated levels, and, depending on accident levels and traffic infraction experience, the ratio of merit premiums to total premiums varies.

MPI's projection in this year's application assumes an upgrade factor of 3.5% for each of fiscal 2005 and fiscal 2006.

4.2 Volume Factor

MPI's revenue forecasts also considers projected increases in revenue to arise out of overall increases in the number of vehicles insured, and this factor is referred to as the volume factor. MPI's projections in this year's Application assume a volume factor of 1.5% for both fiscal 2005 and 2006, and 1% for fiscal 2007 and beyond.

4.3 Forecasted Net Income

MPI's actual net income has varied considerably from its initial and revised forecasts, particularly since fiscal 1999 as illustrated in the following table:

Total Net Income for Fiscal Years Ending February 28/29 ($ millions)

	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Approved forecast	18.9	19.3	11.7	28.7	2.2	7.1	(1.7)	(0.5)
Revised forecast	17.5	18.4	43.7	(14.3)	10.2	(1.3)	(9.3)	-
Actual	41.9	40.5	38.1	(11.7)	(30.1)	3.4	-	-
Actual greater (less) than revised forecast	24.4	22.1	(5.6)	2.6	(40.3)	4.7	-	

In the above table, data for the fiscal years 1999 through to and including 2004 are actual, while MPI's projections are indicated for 2005 and 2006.

MPI recorded an audited net income for basic operations of $3.4 million for fiscal 2004, compared to its forecast for a net loss of $1.3 million. At last year's hearing, MPI updated its initial forecast and provided two scenarios for fiscal 2004, this to better reflect the uncertainty surrounding a reported 'abnormal number of serious losses incurred during the first six months of 2004.

MPI indicated that in its moderate serious loss count forecast scenario, fiscal 2004 claims incurred would increase from its initial forecast of $470.8 million to $494.1 million, and would further increase under its the high serious loss count scenario to $514.4 million.

After making an adjustment for other expenses and investment income, MPI indicated that its net loss forecast for fiscal 2004 increased from the GRA forecast of $1.3 million to a net loss of $3.2 million in the moderate scenario, and to a net loss of $23.7 million in the high scenario.

Actual claims cost in fiscal 2004 came in close to the high loss count scenario forecast at $513.5 million, as compared to the $514.4 million forecast. Offsetting this negative outcome, through investment sales, MPI generated $27.3 million of higher investment income than suggested in its revised forecast. The additional investment income related to gains realized on the equity portfolio that followed MPI's review of the portfolio and its identification and resultant sale of securities with market values in excess of cost. MPI's accounting policy on investments is, as indicated above, based on cost, so realized gains or losses rather than market price changes drive investment income results.

MPI forecasts a net operating loss on basic operations of $9.3 million for fiscal 2005, which represents a decrease of $7.6 million for fiscal 2005 from its forecast as reviewed by the Board in last year's GRA. MPI attributed the deterioration to a combination of factors, including:

(a) A $1.3 million increase in premiums earned due to the carryover effect of a higher than estimated volume factor in fiscal 2005 from 1.0% to 1.5%. This has the effect of increasing the base premiums used to calculate the fiscal 2005 premiums;

(b) Claims costs, claims and road safety expenses are forecast to be $587 million in fiscal 2005, an increase of $5.6 million compared to last year's projection. The significant factors causing this change are increases in PIPP and collision claims costs; and

(c) Investment income is forecast to be $73.7 million, a decrease of $3.7 million from the previous projection, a change MPI attributed to a decline in the yield rate on short and long-term bonds.

MPI now projects an underwriting loss of $72.2 million for basic operations in fiscal 2006, to be offset by investment income of $71.6 million to result in a forecast net loss of $500,000.

Total earned revenue for basic was projected at $635.3 million, compared to $598.7 million in the revised forecast for fiscal 2005. Forecasted net claims incurred are $537.2 million, an increase of $23.9 million from the fiscal 2005 forecast. The forecast of a net loss of $500,000 assumes no change in overall premium rates.

5.0 Rate Stabilization Reserve ("RSR")

5.1 Background

MPI confirmed its commitment to ensuring the Basic Insurance remains financially self-sufficient and stable, through maintenance of a satisfactory RSR and by breaking even on operations over the long term.

The purpose of the RSR is to provide policyholders with some protection for large rate increases that could be necessary because of unexpected events and losses arising from non-recurring events or factors.

A summary of the RSR balance for Basic Insurance from fiscal 2002 and projected out to fiscal 2009, as presented by MPI, is as follows:

Basic Insurance Rate Stabilization Reserve ($ millions)

	Actual			Forecast	Projected	Outlook		
Fiscal Years Ending February 28, 29	**2002 $**	**2003 $**	**2004 $**	**2005 $**	**2006 $**	**2007 $**	**2008 $**	**2009 $**
RSR, opening balance	143.0	50.5	35.4	42.8	67.4	78.9	93.3	111.8
Net income (loss)	(11.7)	(30.1)	3.4	(9.3)	(0.5)	.4	4.2	6.8
Surplus dividend	(80.8)	.5	-					
Transfer from SRE	-	14.5	4.0	29.6	7.5	7.2	7.2	7.2
Transfer from Extension	-			4.3	4.6	6.7	7.1	6.3
Total RSR	50.5	35.4	42.8	67.4	78.9	93.3	111.8	132.1

As at February 28, 2004, the RSR was $42.8 million. For fiscal 2005, MPI forecast a net loss of $9.3 million before an anticipated transfer of $4.3 million from the Extension Division and $29.6 million from the Special Risk Extension ("SRE") line of business.

With these transfers from the unregulated competitive insurance lines of Extension and SRE, the RSR is forecast to be $67.4 million as at February 29, 2005. Further out, and based on projections filed by MPI, the RSR is projected to be $78.9 million at the end of fiscal 2006, very near the top end of the Board's target range for the RSR of $50 million to $80 million.

5.2 RSR Rebuilding Plan and Transfers from Other Divisions

MPI confirmed at the hearing its intentions to maintain and rebuild the RSR by transferring to the Basic Insurance RSR annually retained earnings in excess of MPI Board-approved target levels for the SRE and the Extension lines of business.

MPI indicated that the approved maximums for the retained earnings of Extension and SRE, for the year ended February 28, 2005, established by MPI's Board of Directors, are:

Line of Business	**Target Level**
SRE	$33.0 million
Extension	39.0 million

MPI noted that due to competition and other factors, Extension and SRE annual earnings may vary widely, and accordingly, the maximum retained earnings target levels for SRE and Extension are reviewed annually.

MPI transferred approximately $14.5 million on March 1, 2002, $4.0 million on March 1, 2003 and 29.6 million on March 1, 2004 from SRE retained earnings to the Basic Insurance RSR. In addition MPI transferred approximately $4.3 million from Extension on March 31, 2004.

MPI current projects transferring $12.1 million for fiscal 2006 ($7.5 million from SRE and $4.6 million from Extension), $13.9 million in fiscal 2007 ($7.2 million from SRE and $6.7 million from Extension), $14.3 million in fiscal 2008 ($7.2 million from SRE and

$7.1 million from Extension), and $13.5 million in fiscal 2009 ($7.2 million from SRE and $6.3 million from Extension) to the Basic Insurance RSR.

MPI stated that for competitive reasons, it provided only limited information supporting its projections for Extension and SRE to the Board.

5.3 RSR Target

In its 1998 GRA, MPI prepared and presented a Risk Analysis in support of its RSR target. Using a statistical variance approach, MPI considered five risk factors in arriving at its estimate of an appropriate range for RSR, these were revenue risk, investment risk; and claims costs, claims expenses and operating expenses.

The level of reserve indicated to be required for each risk factor at various confidence levels was determined. The study concluded that each risk factor was perfectly correlated and positive. Investment risk was excluded because of uncertainty arising out of then-recent changes to the investment portfolio (equities had been added as an acceptable asset class).

Based on this methodology, the RSR target deemed appropriate ranged from $78 to $105 million, levels ascribed by MPI to be within the 95% confidence level. MPI's Board of Directors subsequently adopted an RSR target of $80 to $100 million.

In Board Orders 154/98, 177/99 and 151/00, the Board did not agree with various aspects of the Risk Analysis presented by MPI, and sought refinements to the Risk Analysis. In Order 151/00, the Board stated its desire to finalize the issue of what is the appropriate RSR target, and requested further refinements to the Risk Analysis. MPI submitted an updated Risk Analysis, to the satisfaction of the Board. In Order 179/01 dated November 16, 2001, the Board, based on the results of the then-latest risk analysis, established a RSR range of $50 to $80 million, as being appropriate for rate setting purposes. MPI's Board of Directors reaffirmed its previous commitment to an RSR target range of $80 million to $100 million for the period ending February 28, 2006.

At this hearing, MPI reported that there were no material changes in its risk profile warranting an update to the Risk Analysis it presented in the fiscal 2003 Application, that being in support of its estimate of an acceptable RSR target range. MPI indicated that it had no immediate plans to further update the Risk analysis, and would instead prepare a Dynamic Capital Adequacy Test ("DCAT") to assess risk.

The DCAT is generally used within the insurance industry to review the financial condition of insurance companies. The DCAT analyzes and projects trends, to determine a company's financial condition. The DCAT examines past and current financial and operating experience, and the business plan of an insurer under a variety of future adverse scenarios. The overall exercise, with respect to the DCAT process being applied to MPI, is to provide MPI with best information on the course of events that could lead to capital depletion, and to identify the relative effectiveness of alternate corrective actions.

MPI acknowledged that the Office of Superintendent of Financial Institutions requires the DCAT approach for private sector insurers, and has no jurisdiction over MPI. The DCAT is a recognized method of measuring risk in the private insurance industry, where solvency is a continuing concern and issue. MPI indicated that the DCAT was prepared as information for the MPI Board, to assist it in understanding the level of risk with respect to RSR requirements for Basic Insurance.

The DCAT concluded that since MPI can establish Basic Insurance premium levels with Board approval, it is essentially a monopoly and as such the level of RSR recommended in the DCAT is not necessarily appropriate. However, the DCAT also concluded that the current minimum range of $50 million set by the Board for rate setting purposes was well below industry norms.

6.0 Rate Design

6.1 Actuarial Methodology

MPI's Application reflects a particular actuarial methodology for projecting the required rate levels that is substantially unchanged from that used by MPI in previous applications, including the manner in which credibility issues are addressed.

The actuarially based methodology involves combining claims incurred estimates arising from each of the Financial, Exponential, and Linear Methods, with appropriately consistent estimated provisions for other expenses.

These other expenses include claims expenses, operating expenses, commissions, premium taxes, and the cost of reinsurance and fleet rebates, offset in part by estimated revenue contributions arising from drivers' premiums, service fees and investment income.

6.2 Allocation of Operating Costs

In this Application, MPI continued reducing the premiums for Trailer and Off Road Vehicles. This process was put in place three years ago to gradually eliminate the allocation of operating costs to these classifications. An additional 25% of operating costs otherwise allocated to these classifications was reallocated by MPI to the other major classifications, potentially completing the process.

6.3 Major Classification, Insurance Use and Rating Territory

MPI has not changed its approach to classification, in that it continues to classify vehicle risk by considering insurance use, rating territories, and rate groups. However, MPI proposed in this Application making a number of changes to insurance uses:

MPI reported that each of the proposed changes reflect ongoing changes to vehicle risk, as associated with its use or is a clarification of definition.

6.4 Rate Groups

6.4.1 Canadian Loss Experience Automobile Rating (“CLEAR”)

As a major part of its classification and rate setting methodology, MPI continues with its adaptation of the insurance industry Canadian Loss Experience Automobile Rating (“CLEAR”) system for passenger vehicles and light trucks. The CLEAR system uses actual loss experience data from insurers, public and private, across Canada to determine relative loss cost indices for specific makes, models, and model years of specific vehicles. Utilizing this independent and comprehensive database allows MPI to improve the credibility of its rate setting.

CLEAR considers repair costs, comprehensive claims, and injuries associated with different types of vehicles. This data is used to establish homogeneous groupings of vehicles and rate group relativities for the groupings, on which vehicle premiums are based.

6.4.2 Rate Group Adjustments for Passenger Vehicles and Light Trucks

In this GRA, MPI proposed to continue its implementation of two types of rate group adjustments, undertaken for passenger vehicles and light trucks:

- Revision of the relationship between the rate and rate group, to provide more consistency across rate groups; and

- Application of annual CLEAR rate group update adjustments, as provided by the Insurance Bureau of Canada.

6.4.3 Rate Group Adjustments for Motor Homes

Similar to its approach to passenger vehicles and light trucks, MPI proposed rate line adjustments to motor homes to be undertaken on a revenue neutral basis (the overall revenue requirement is not affected, only the rates within the grouping itself).

MPI indicated that the adjustment proposed for motor homes would have a relatively small impact on premium rates, and it proposed this take place in one year rather than in a multi-year process.

MPI projected that with the change, of the 6,695 insured motor homes, 3,225 would receive rate decreases and 3,470 would receive increases.

6.4.4 Bonus/Malus Changes

The Bonus/Malus system was previously managed by DDVL and now the responsibility of MPI, provides premium discounts for vehicles based on the driving record of the registered owner. Vehicle classifications eligible for the merit/discount plan receive reductions from the otherwise premium given MPI’s rule-driven assessment of what constitutes “good” driving experience.

The program is based on the concept that the registered owner of the vehicle is the principal operator, and an individual’s driving behaviour is one of the major determining factors of the vehicle risk profile and accident experience.

MPI proposed expansion of the MPI’s merit discount program to include:

(a) Artisan trucks;

(b) Trucks of less than 16,330 kilograms;

(c) Common carrier trucks, delivering within the City or Municipality; and

(d) Common carrier trucks, delivering within 161 kilometres in Manitoba.

MPI indicated its proposal was consistent with the strong causal linkage between the collision claims by drivers and the registered owners of artisan and common carrier trucks.

6.5 Dealer Plates

MPI advised that dealer plates premiums are unique, in that they are associated with license plates that can be legally moved from vehicle to vehicle. MPI opined that, as a result of the legal and expected movement of plates between vehicles owned by an owner, there is no necessarily direct relationship between one vehicle and a dealer plate. As well, MPI noted that since dealer plates are not assigned to a specific vehicle, they are assessed only experience adjustments, not rate group or CLEAR adjustments, within the rate setting methodology.

MPI reported a data error, whereby many accident claims with respect to vehicles associated with dealer plates had not been included as part of the historical claims experience for dealer plates. These claims had been incorrectly included in unallocated claims costs, which were distributed amongst the major vehicle classes.

MPI advised that in correcting the error, the actuarially indicated rate increase for dealer plates changed from 23% to 36%. MPI applied for a rate increase of 20% to 25%, with the objective of moving towards the actuarially indicated rate for dealer plates over two years.

While the proposed rate increase for 2006 is higher than the traditional experience rate adjustment limit of 15%, MPI suggested that it was reasonable, given the undue costs that had been carried by the other classes. MPI’s proposed rate increases for dealer plates were intended to smooth the impact on dealer plate rates over a two year period.

MPI further proposed that the remaining rate shortfall be recovered from the entire insurance pool, rather than just the Commercial Class. MPI advised that if the shortfall was to be assigned to the Commercial Class only, it would result in an average premium increase of 9.7% for that class as compared to the 0.2% reduction proposed in the Application.

6.6 Premium Impact

As indicated, MPI sought approval of motor vehicle premiums that, on an overall basis, would provide no change in average 2005/06 vehicle premium rates.

The following table reports MPI's indication of the difference between the experience rate requirement indicators based upon the financial forecast method, described above, and MPI's requested revenue adjustments:

Major Use	Actuarially Indicated Rate Changes (0.0%)	Revenue Adjustments Requested (0.0%)
Private Passenger	-2.6	0.1
Commercial	12.0	-0.2
Public	-3.4	1.1
Motorcycles	37.0	15.0
Trailers	-21.3	-22.2
Off Road Vehicles	-42.1	-40.9
Overall	0.0	0.0

The process employed by MPI to transition from the experience-based rate requirements to the requested revenue adjustments is as follows:

Step 1 - Combine and rebalance the Major Classification indicators, with the updated insurance use and territory differentials;

Step 2 - Alternatively apply the rules for capping the experience adjustments at +/-15%, again subject to rebalancing in each iteration; and

Step 3 - Final testing and rebalancing, to measure the premium impact on a static fleet of vehicles.

Due to this iterative capping and rebalancing process, the determination of the proposed rate for each insurance use and territory rating cell (category) can have a potential impact on all other rating cells (categories). Accordingly, the impact of the capping process can vary significantly between Major Classifications, depending upon the direction and extent to which individual insurance use and territory rating cells (categories) are directly affected by the cap.

The Board, in its Order 203/02, urged MPI to improve the transparency of its rate making model. MPI responded by outlining in table form the transition of the various steps by major classification, insurance use, and territory. The table indicates the average rate, the change from the original rate model, and the total premium of group in a seven-step process.

The overall impact of rate adjustments on the total vehicle population, as proposed by MPI, was to be as follows:

- 51.5% of vehicles would receive a rate decrease, with most receiving a rate decrease of less than $50;
- 1.7% of vehicles would remain unchanged; and
- 46.8% of vehicles would receive a rate increase, with most receiving an increase of less than $50.

The Board's direction within this Order will change these estimates of effect.

6.7 Motorcycles

MPI assigns motorcycles to ten rate groups based on a combination of owner declared value and engine displacement. This year MPI did not propose any change to the rate group structure for motorcycles.

MPI performed an analysis of the relationship of premium rates and rate groups within the motorcycle class, and implemented a new target rate line for motorcycles last year towards its interpretation of what would better reflect risk. Notwithstanding this, which generated proposed rate increases, rate increases were capped at 20% to avoid what MPI portrayed as extreme rate dislocation.

MPI proposed that the transition to the new rate line continue, with caps to be set at 15% in order that "rate shock" be minimized. If this approach had been approved, MPI estimated it would have resulted in an average rate line adjustment of an increase of 7.8%.

MPI stated that because overall Motorcycle Class vehicle premiums are under assessed despite significant rate increases over the past ten years, significant further rate increases are required to increase motorcycle class revenue to revenue sufficiency.

MPI further indicated that there are different risk groupings within the Motorcycle Class, and while vehicles at the higher end of the rate-group scale are, for the most part, sufficient at this time, those at the low end of the rate-group scale are insufficient and need further large increases.

MPI suggested that by it not making the rate-line changes revenue neutral, the necessary process of moving lower motorcycle rate-groups to sufficient rates would be assisted without requiring an accompanying overall decrease at the higher end of the rate groups. In general, MPI contended that lower motorcycle rate groups are grossly under-rated, while and high motorcycle rate groups are more properly rated.

The following table illustrates the current, proposed, and target rate relativities as well as current and average rate levels per rate group pursuant to MPI's proposed approach:

Rate Group	# of Vehicles (Per Rate Model	Present Rate Relativity 2003/04	Proposed Rate Relativity 2004/05	Target Rate Relativity	Actual % Increase Before Capping (%)	Percent Increase After Capping 2004/05 (%)	Average Rate Change($)
0	1,724	.3831	.4406	.7090	87.01	15.06	75
1	489	.5000	.5749	.7112	43.22	14.98	89
2	439	.5640	.6486	.7252	29.78	15.02	104
3	995	.6242	.7178	.7509	17.64	14.94	119
4	1,350	.7149	.8120	.8120	11.57	11.31	112
5	1,518	.7737	.8496	.8496	6.93	6.93	77
6	772	.8682	.8872	.8872	-.20	-.20	-2
7	824	.9189	.9248	.9248	-1.28	-1.28	-16
8	236	.9440	.9624	.9624	-.59	-.59	-7
9	25	1.0000	1.0000	1.0000	0.01	0.01	0
Total/ Overall	**8,372***				**18.06**	**7.84**	**70**

*The total is based on the rate model, and excludes mopeds. The number of vehicles in the motorcycle major class including Moped's is 9,133.

Based on its current methodology and forecasts, MPI suggested that its approach would establish motorcycle rates that are sufficient at and above-rate group number three within one year, with rate groups one and two still to require as many as four more years of adjustments to reach revenue sufficiency. MPI also reported that motorcycle rate group zero would require as many as nine years of significant upward premium adjustments to reach the target rate line differential.

At the request of the Board (Order 173/03), MPI filed a motorcycle rate study which analysed motorcycle claims data by motorcycle body style. MPI opined that motorcycles represent a higher risk than private passenger vehicles. MPI's study indicated that the five-year average of motorcycle claims incurred involved personal injury claims that comprised 82.8% of the total claims costs for motorcycles, whereas only 34.8% of claims incurred for private passenger vehicles were for injury claims.

MPI's study also indicated that, again based on a five year average, injury claims as a percentage of total claims was 53.4% for motorcycles versus 12.3% for private passenger vehicles. MPI stated that unlike other vehicles, the vast majority of motorcycle claims costs are comprised of costs associated with bodily injury, and that claims experience with respect to injuries do not vary greatly with the value of the motorcycle.

MPI's study utilized three years of data, and found that sports bikes, which were reported to comprise only 16% of the motorcycle pool, accounted for 47% of claims. MPI claimed that sports bike claims frequency is more than four times higher than any other vehicle category.

As reported by MPI, claims frequency by body style since 2001:

Body Style	**Sport**	**Touring**	**Other Custom**	**All Other**	**Total**
Claims	727	221	535	73	1556
Units	3,386	5,189	11,337	3,120	23,032
Claims per 1,000 Units	**214.7**	**42.59**	**47.19**	**23.40**	**67.56**

MPI proposed increasing the differential for sports bikes to 1.38 from 1.20, before adjusting for the rate group. As a result, sports bikes would receive experience linked rate increases of an average of 14.8%. The other motorcycles would incur experience related increases of only 4.4%, for an overall average experience adjustment for motorcycle major class of 6.7%.

Under cross-examination by an Intervenor, Coalition of Manitoba Motorcycle Groups ("CMMG"), MPI responded to questions regarding the validity of the characterization of some of the motorcycles classified as sports bikes. MPI stated that its categorization of sports bikes was obtained a number of years ago from the Vehicle Information Centre of Canada. MPI suggested that it had used the best information available, but was unable to identify a credible source to update, modify, change or confirm its sports bike categorization table.

MPI indicated that Mopeds, a vehicle similar to a motorcycle but with much lower displacements and average value, are associated with a dramatic increase in claims costs over the last few years. MPI proposed applying experience increases of over 108% or $53 per unit, against Mopeds. Scooters, argued by MPI to have the same accident exposure to Mopeds, have had no claims experience of late, and MPI proposes to process experience adjustment decreases of approximately 45% for scooters.

Since the overall rate line adjustment according to MPI's methodology suggests a 7.8% increase, MPI proposes experience adjustments be balanced to 6.7%. In order that an overall increase of 15% for the motorcycle major class will occur. In addition to rate line and experience adjustments, motorcycle type differential adjustments would be applied for sports bikes and Mopeds.

If MPI's Application is accepted, motorcycle rates will increase, on average, by 15%. Of the 9,133 motorcycles, the following average rate adjustments by type are proposed by MPI:

		Current Rate	*Applied for Rate Adjustment*		
Type	***No. of Vehicles***	*Avg. 2004 Rate*	*Avg. 2005 Rate*	***$ Change***	***% Change***
Motorscooter	40	390	235	- 155	-39.7%
Other	4,944	828	939	111	13.4%
Sports Bike	1,243	1,088	1,377	289	26.6%
Touring	2,145	958	1,048	90	9.4%
Mobility Vehicle	1	85	85	-	0.0%
Moped	760	49	102	53	108.2%
	9,133	827	951	388	15.01%

6.8 Credibility

At last year's hearing, CMMG introduced actuarial commentary critical of MPI's use of credibility in its determination of Major Use classification rate indications. However, CMMG's criticism by way of actuarial commentary was introduced very late in the process, and was not tested as evidence. As such the commentary received little consideration at that time.

This year, the evidence relating to credibility and motorcycle rates was led by an expert witness for CMMG, Mr. Hany Rifai, FCIA, FCAS of IAO Actuarial Consulting Services Inc. Mr. Rifai was highly critical of MPI's approach, opining that MPI's approach to credibility in determining Major Use classification rate indications is "not statistically founded." Mr. Rifai suggested that MPI's approach represents "a completely arbitrary method of determining credibility", the application of which "gives a very high credibility to a line of business with very little claims experience", and is simply intended to produced a desired outcome.

MPI's rate making methodology develops a rate indication for all Major Use classifications combined, and then distributes that indication across Major Use classifications in accordance with their calculated separate experience indications (tempered by consideration of the credibility of that experience). To the extent a Major Use classification lacks full actuarial credibility; the balance of credibility is applied to the indication for all Major Use classifications, combined.

The credibility model employed by MPI was identified as the Buhlmann Credibility model. Mr. Rifai opined that for rate setting in MPI's environment, another actuarial methodology, the Classical Credibility model, should be employed.

Mr. Rifai stated that "… Buhlmann's method …is supposed to be used mainly in situations … when you have a subset of a population and … you're trying to get the credibility of that subset versus the overall population".

Mr. Rifai also noted that the manner in which MPI determined parameter values for use in the Buhlmann Credibility model was not in accordance with the statistical foundations for that model. MPI concurred, though the Application discloses the rationale and basis for the credibility parameterization used by MPI, which has been employed consistently for many years. MPI has indicated that the methodology is designed to assign 99% credibility to the largest Major Use classification (Private Passenger), while, and consistently, assigning defined credibilities to other smaller Major Use classifications.

Mr. Rifai acknowledged that both credibility models, the “classical” model preferred by himself and the approach taken by MPI, provide an objective measure of reliability. He further indicated that MPI’s approach, which assigns higher credibilities than under the Classical Credibility model would not prove as stable a method, in that it responds more quickly that the method used by MPI to the experience of a given Major Use classification.

6.9 Loss Transfer

At the 1998 GRA, and on the request of CMMG, the Board reviewed the option of having MPI utilize a loss transfer model in place of MPI’s current method. MPI’s methodology establishes Major Use premiums based on all property damage costs and PIPP benefits attributed to that Major Use, regardless of fault. In short, and by way of an example, if a motorcycle driver is injured as a result of a collision with a truck, where the driver of the truck was at fault, the costs associated with the motorcycle driver’s injury benefits are allocated against the motorcycle class, not “trucks.”

Mr. Joe Cheng, an actuary then-engaged by IAO Actuarial Consulting Services Inc., was CMMG’s witness. Mr. Cheng proposed that premiums for all vehicles be based on the degree of responsibility for causing an accident, by all Major Uses. In Order 154/98, the Board ordered

MPI to provide evidence in response to Mr. Cheng's recommendation, and a proposal at the next GRA as to the appropriate methodology to be used in Manitoba.

The Board, by its Order 177/99, did not require MPI to adopt the loss transfer model. The Board concluded that the basic principle in claim cost allocation under Manitoba's no-fault plan should continue to be the assigning of claims costs to the Major Use category that incurs the costs (i.e. claims cost allocation on a first party basis).

The Board opined that the Bonus/Malus system, which provides merit reductions and accident surcharges, sufficiently penalizes drivers causing accidents. The Board accepted MPI's view that the type of vehicle one drives is a personal choice, and the risk of personal injury may vary with the size and type of vehicle chosen.

The Board accepted MPI's view that as the vehicle choice is personal, the assumption of risk should follow the vehicle: that was the Board's view arising out of the 1999 GRA.

In Order 203/02, the Board revisited the issue of loss transfer, citing that it had been four years since the concept had been reviewed, and that circumstances, such as the fleet mix of vehicles and Major Use loss experience, may have changed. The Board requested that MPI review the matter of loss transfer and to report its recommendations at the next GRA, the 2003 process.

Subsequently, at last years GRA, in 2003, MPI filed a report outlining its rationale for its continuing system of assigning claims costs on a first party basis. MPI refiled this report during the current hearing.

MPI suggested that its first-party approach to assessing risk and claims costs is inherently fair, non-preferential and not unfairly discriminatory. Additionally, MPI stated the view that its rate making approach treats all motorists and vehicles similarly and equitably, and uses appropriate means to assess the likelihood of claims cost frequency and severity.

MPI further stated that its approach to assessing risk and assigning claims costs is reasonable, and ensures that motorists have control over the amount they pay for automobile insurance by the choices they make. MPI claimed that the first party approach reduces the time and cost of resolving liability, providing a high standard of customer service. MPI holds that motorcycles are "inherently dangerous."

The following table filed last year, which also constituted part of the evidence this year, shows the credibility weighted rate indications by Major Class (with and without loss transfer being applied across the entire vehicle population):

Major Class	Indicated Rate Changes Before Loss Transfer (%)	Indicated Rate Changes After Loss Transfer (%)
Private Passenger	2.7	2.1
Commercial	4.5	10.0
Public	2.7	10.1
Motorcycles	29.7	23.6
Trailers	-34.6	-29.9
Off Road Vehicles	-30.1	-20.9
Overall	4.3	4.3

MPI noted there would be even greater rate changes within the major classes if loss transfer were implemented.

In its 2003 GRA report, MPI forecast that the adoption of loss transfer would only reduce the indicated rate for motorcycles by 6.1%. MPI explained that the difference of only 6.1% was significantly lower than indicated by its previous studies. (MPI had previously suggested the adoption of loss transfer would reduce the actuarially indicated rate for motorcycles by 35% and 20%, in 1994 and 1998 respectively.)

MPI opined that the reducing net benefit associated with the adoption of loss transfer could be accounted for with the maturing of the PIPP data, in that motorcycles have experienced a substantial number of serious losses exceeding the benefits previously available under the tort system.

According to MPI, the vast majority of motorcycle serious losses occur in single vehicle accidents, situation wherein loss transfer would not be applicable. Of $25.9 million in motorcycle serious losses reviewed by MPI, it claimed that less than $1.6 million were generated in multi-vehicle collisions where the other vehicle was at fault. Of $29.1 million of non-serious motorcycle losses reviewed by MPI, MPI claimed that $8.9 million arose from multi-vehicle collisions where the other vehicle was at fault. Therefore, out of $55 million in motorcycle losses reviewed by MPI, MPI indicated that only $10.5 million would be subject to loss transfer.

MPI further claimed that with the credibility weighted required rate now indicated for motorcycles, in the long run the financial impact of loss transfer would not be significant. MPI opined that its rate making principles avoided cross-subsidization, whereas loss transfer would bring about cross-subsidization. For MPI, each major class should be responsible for the benefits paid to that class and loss transfer would not be an appropriate mechanism

MPI suggested that it would have difficulty determining credible rate groups on an at-fault basis, as currently the CLEAR rate group assignments are done on a first party basis without any assignment of fault. For MPI to adopt an "at-fault" assignment, it argued it would be required to redo its complete historical claims data (by make, model, and model year). MPI suggested that such data may be statistically unreliable. In Order 173/03, dated December 4, 2003, the Board agreed with MPI that the adjustments required to provide statistical credibility to a loss transfer approach may be the single greatest impediment to introducing loss transfer. In MPI's view, a loss transfer model could only be done on the basis of territory/insurance use, leaving the assignment of rate groups on a first party basis.

In Order 173/03, the Board further noted MPI's estimation that the implementation of loss transfer would result in significant rate dislocation for most motor vehicles at the Major Class level. The Board expressed concern with the potentially even greater rate dislocation that may occur below the Major Class level. The Board stated, given the substantial rate changes that could result, that more compelling reasons must be advanced before the Board would consider requiring MPI to abandon the current system of assigning costs.

Through its intervention in this year's hearing, CMMG again addressed the loss transfer issue as it relates specifically to motorcycles, but with potential application to all Major Use classifications. In this context, the loss transfer issue relates to the manner in which losses are attributed to the major classes, which presently is done without consideration of proportional fault.

This year, the evidence relating to this loss transfer issue was led by CMMG's expert witness, Mr. Rifai. It was Mr. Rifai's opinion that as a matter of fairness, innocent victims of automobile accidents should not be penalized for receiving benefits in excess of their premiums paid, i.e. that MPI "should relate premiums to at fault claims, not to benefits received."

Mr. Rifai adopted and reiterated the evidence included in Mr. Joe Cheng's 1998 report. The findings and claims of the report presented by Mr. Rifai at this GRA were similar to those presented in Mr. Cheng's previous report.

The basis for Mr. Rifai's opinion was not clearly established. Though he cited his experience in Ontario as relevant to these proceedings, it was discovered at the hearing that Mr. Rifai was not directly involved in deliberations around the loss transfer issue at the time it was introduced in that province. In the Board's view, as he was not directly involved, he would be unlikely to have direct knowledge of the motivations for the outcomes of those deliberations.

Mr. Rifai advanced several arguments as to why the concepts of equity and fairness might be improved under a loss transfer mechanism, but these concepts were context sensitive and not clearly founded on actuarial principles. Ultimately, Mr. Rifai acknowledged that the loss transfer issue is a matter of public policy, which appeared to be outside of his area of expertise.

Mr. Rifai advanced three reasons to support the loss transfer concept, these being:

- To enhance predictive value;
- To enhance fairness; and
- To create loss control incentive.

Mr. Rifai's testimony touched on issues of controllability, causality, and the promotion of good driving behaviour. He acknowledged that MPI's current practices have predictive value, and relate premiums to costs though without regard to fault.

Finally, Mr. Rifai provided comparative illustrations of claims experience between Manitoba and two other jurisdictions – Alberta, with its full tort system and the fault based allocation of claims that implies, and Ontario, with its partial no fault system and entrenched limited loss transfer mechanism. Mr. Rifai demonstrated that the inter-jurisdictional differences for motorcycles were large in comparison to Private Passenger premium differences, and attributed the contrast to the absence of loss transfer in Manitoba. This testimony provided some empirical evidence as to the potential impact of introducing loss transfer, but did not address the central issue, that being the merits of making such a change after ten years with the current first party approach.

The evidence presented by Mr. Rifai pertaining to the loss transfer issue suggested a substantial benefit would accrue to motorcycle owners with the adoption of loss transfer. Manitoba Used Car Dealers Association ("MUCDA") followed CMMG in support of loss transfer, and suggested that in excess of $8 million of serious losses between 1995 and 2003 had been assigned to the dealer plate group for incidents where the dealer had not been found at fault.

MUCDA contended that loss transfer was applicable to and would be useful for other major classes as well as motorcycles.

7.0 Intervenor Positions

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

CAC/MSOS expressed concern with respect to the increases in claims incurred over the last number of years. CAC/MSOS suggested three areas for potential cost control action by MPI.

The first of these areas is PIPP, as CAC/MSOS noted that the costs associated with PIPP have increased dramatically. CAC/MSOS was concerned that MPI has only recently begun to analyze PIPP data, and suggested that if MPI were to come to understand the factors driving PIPP experience, it would be in a better position to address the issue of rapid PIPP cost increases.

CAC/MSOS noted that MPI has never conducted an independent study of the WCB claims handling process, and suggested that MPI does not have basic information about how WCB or the Regie in Quebec monitor their respective performance of long-term claims.

CAC/MSOS recommended that the Board give serious consideration to directing MPI to retain an independent Disability Management Specialist, this specialist to consider MPI performance in terms of statistical analysis, monitoring, and handling long term personal injury claims. CAC/MSOS would have this specialist and MPI evaluate MPI's performance against the best practices of other no fault insurers.

A second major area of concern to CAC/MSOS was MPI's approach to road safety and loss prevention. CAC/MSOS claimed that MPI's efforts in these areas lack objective, independent measurements. CAC/MSOS noted that MPI's experience of injuries per billion kilometres traveled is well above the national average, and that the number of injury claims per 100,000 licensed drivers is steadily rising, as contrasted with the experience in British Columbia.

Given the more favourable claims experience of ICBC, CAC/MSOS referred to the Ference Weicker report regarding the methodology that ICBC utilizes to evaluate its performance, and noted that while MPI is aware of this report it has not produced any written analysis thereof.

With respect to the driver's education program, CAC/MSOS referred to a study completed by North Port in 2001, where it was concluded that there appears to be no significant difference between driver education program graduates and non-driver education program graduates, in terms of accident risk. CAC/MSOS reserved the right to reflect upon this issue, and explore it in greater detail in future years.

CAC/MSOS recommended that the Board direct MPI to file an independent report in respect of auto theft, and in respect of proposed driver education curriculum. CAC/MSOS further requested that MPI be directed to provide a written response to the 2001 North Port report, to the literature from organizations such as the John Hopkins Medical School, to the Australian studies and to the Ference Weicker report. CAC/MSOS also requested that all of these issues regarding road safety be open issues during next year's hearings.

The third major area addressed by CAC/MSOS was that of staff salary and staff growth. While CAC/MSOS recognized this might be a significant issue in next year's hearing, as the collective agreements are only in effect until September 2005, it noted that the actual compensation paid by MPI for 2003/2004 were well in excess of the approved, forecasted amount for that year. It also noted that MPI's budget for 2004/2005 had not been revised by MPI, notwithstanding the Board's order suggesting that the forecasts were too high.

CAC/MSOS also recommended that, in future Board Orders, there be a best practice report with respect to MPI's actual contact and comparison with other industry players, with emphasis on preventative measures and containment of costs.

With respect to reliance by the Basic Insurance on SRE and Extension earnings, and Extension and SRE transfers to the RSR, CAC/MSOS submitted that the Board is bound by its existing RSR target. CAC/MSOS stated that given the very close relationship between the Basic Insurance and Extension programs, it is appropriate to recognize the transfers as valid and ongoing.

With respect to investment issues, CAC/MSOS held that the allocation by MPI from its net investment monies to pension related liabilities was not unacceptable, and that the diversification of MPI's portfolio should be approached on a very gradual basis, if at all.

Regarding loss transfer, which CAC/MSOS characterizes as a policy issue, it noted that there have been thorough previous discussions before the Board and that absent new evidence, considerable weight should be given to past Board decisions recommending against loss transfer implementation.

CAC/MSOS also did not endorse a change to the 15% cap of rate increases to motorcycles.

With respect to the integration of DDVL, CAC/MSOS contended that it should be administered entirely outside the Basic Insurance, though it is mindful of the advantages of DDVL being subject to the Board's scrutiny. CAC/MSOS expressed a concern about the loss of the commission sharing from the Province.

CMMG

CMMG contended that over the course of the hearing, it had uncovered a variety of factors that combine to result in the apprehension of an incorrect premium requirement and higher rates for motorcycles.

CMMG stated that motorcyclists have been treated inequitably, relative to other vehicle groups. CMMG indicated that this unfairness is evidenced by the availability of only one class of insurance for motorcycles, i.e. the lack of a pleasure class, by a difference in the rate line adjustments applied to motorcycles, and by including the substitution of capping for proper credibility weightings.

CMMG relied upon the evidence presented by its expert witness, Mr. Rifai, and, in particular, his opinions that:

(a) The Buhlmann method of credibility is not appropriate for a rate level change for the province;

(b) MPI had determined the “K” value arbitrarily;

(c) The credibility resulting from MPI’s calculations was unrealistically high for the motorcycle class; and

(d) Loss transfer is a necessary component of a no fault insurance scheme due to issues of predictability, incentives for driving behaviour and on the basis of fairness and equity.

CMMG maintained that the current practice of not transferring losses to the class “at fault” for the accidents affects rates for motorcycles, and results in rates that are not truly reflective of the risk for all territories and classifications. CMMG submitted that the correct method would be to assign costs on the basis of accident responsibility using the system of loss transfer.

CMMG also suggested that there are a number of inconsistencies and errors in the data submitted by MPI, including the Motorcycle Risk Study, such that the latter ought to be abandoned by the Board in its decision making process. CMMG is concerned that there is no consistent method of determining percentages of responsibility in cases of multiple vehicle accidents. In addition, CMMG stated that there has been data selection bias by MPI, by choosing short periods of time to analyze rather than longer periods, particularly as regards sport bikes.

With respect to credibility, CMMG suggested that the Board should rule that the assigned credibility for motorcycles is too high, and should be lowered to the ten to 20% range. CMMG proposed that this be accomplished either through the application of alternate techniques, or through an increase in the “K” value from that assigned by MPI.

Regarding sport bikes, CMMG requested the Board to decline any further increases in rates, and to roll back the surcharges that are in effect. CMMG stated that the list of sport bikes is flawed, resulting in non-sport bikes being charged sport bike rates.

CMMG also contended that MPI’s current treatment of serious losses be rejected, and that a provision capping losses at $200,000 be introduced.

With respect to investment issues, CMMG submits that MPI should be considering more sophisticated approaches in order that increased revenue can be earned and included in the revenue base, with benefits accruing to all motorists.

CMMG concluded by recommending that a pleasure use category be introduced for motorcycles.

MUCDA

MUCDA submitted that there many errors in MPI data relating to dealers' claims experience, and that in order to restore trust in the data the Board should order an independent audit of the sources and compilation processes used.

MUCDA also contended that costs should not be attributed to the dealer class in cases of accidents for which the dealer was not at fault. MUCDA suggested that the Board should order MPI to set rates based on costs being allocated to the responsible groups, hat is, using loss transfer.

MUCDA also stated that, in the past, rate adjustments have been capped at 15% to avoid rate shock, and that this capping should continue in upcoming years. MUCDA further stated that an increase in premiums to the dealer rate group will eventually result in a smaller pool of dealers.

As such, MUCDA requested that MPI's request for an increase in dealer plate rates be denied, or restricted to a 15% increase.

Canadian Automobile Association – Manitoba Division ("CAA")

CAA identified two specific areas of concern.

The first related to the merger of DDVL into MPI, and the potential negative impact on Manitoba ratepayers resulting from the discontinuation of the cost sharing arrangement between the Manitoba Government and MPI. CAA expressed concern that there does not appear to be a clear specified agreement between MPI and the Government as to what costs will be borne by whom, and that the result will be that the ratepayers will bear additional costs.

CAA was also concerned that by placement of the DDVL operations and the extension program, in that the Board will not have jurisdiction over its operations.

CAA's recommendations with respect to this issue were that:

1. The operation of DDVL by MPI and any potential impact on Manitoba ratepayers be required to fall under the jurisdiction of the Board;

2. The formal merger agreement between the Government and MPI be submitted for review by the Board, so that the Board can properly assess any possible rate impact associated with the agreement;

3. A clear specific definition be put forward in the agreement as to the responsibility for future DDVL costs, and the benefit of any cost savings associated with the merger; and

4. MPI not be permitted to increase rates as a result of the discontinuation of the cost sharing agreement, or future costs associated with the operation or integration of DDVL.

The second area of concern to CAA was the efficiency and effectiveness of MPI's anti-theft initiatives, given the claims costs associated with theft remain at approximately $24 million per year.

In particular, CAA suggested that the anti-theft device discount program now extends an insufficient incentive to the public, and, the discount should be increased to approximately three times its current amount. CAA also recommended that MPI consider a cap on the discount, rather than extending the discount for as long as an individual insures a particular vehicle.

CAA recommended a number of additional initiatives to prevent theft of high-risk vehicles. The first was that the MPI computer system prompt an insurance agent to mention the risk associated with a particular vehicle, and offer the anti-theft discount option to the vehicle owner.

CAA suggested that MPI could also consider providing agent and brokers' incentives to achieve the installation of anti-theft devices. Another suggestion from CAA was that there be an implementation of a high-risk vehicle premium surcharge, to be waived if the ratepayer installed an authorized anti-theft device.

Manitoba Bar Association ("MBA")

The MBA urged the Board to direct MPI to undertake a comparative study of the handling of personal injury claims by the WCB, noting the WCB's use of claims advisors, and exploring the applicability of WCB procedures to handling of injury claims by MPI.

MBA suggested that the way in which MPI handles personal injury claims is unnecessarily adversarial, given that MPI records the answers of claimants during initial telephone interviews, and that MPI looks for a pre-determined list of "red flags" to assist in claims control.

MBA also maintained that the method by which claims are handled tests the ability of claimants to advance their claim, given that most claimants are not familiar with the general principles of proof, and the burden of proof.

MBA also suggested that the customer satisfaction surveys conducted by MPI are not independent, because MPI creates the questions, defines the potential participant pool, defines the way in which participants will be selected from those pools, and has the ability to adjust questions midstream in a survey.

MBA also urged the Board to order MPI to undertake a study to identify any increases in revenue or expenses that would result from legislative changes to enable personal injury lawsuits against uninsured motorists, extra-territorially insured drivers, and the manufacturers of defective motor vehicles.

Insurance Brokers Association of Manitoba ("IBAM")

IBAM stated that brokers will not be receiving $5.7 million in additional commission expense indicated in MPI's forecasts going forward, due to the DDVL merger and resulting discontinuance of the cost sharing arrangement between MPI and the Government. IBAM intends to discuss the role that brokers can provide in handling some DDVL services, to leverage synergies that are mutually beneficial, and will improve customer service and efficiency.

Scootering Manitoba ("SM")

SM opposed MPI's rate increase for the Moped class, and in support of this submission cited a need to keep that environmentally friendly transportation option affordable and accessible for Manitobans.

SM disagreed with MPI's submission that there is an emerging trend in claims experienced by mopeds. SM suggested that given the small number of mopeds in Manitoba, MPI's current approach to ratemaking presents a skewed picture.

Finally, SM was of the view that the implementation of loss transfer would stabilize the rate of the small moped rate group.

8.0 Presenters

Mr. Doug Houghton stated that Manitoba motorcyclists reflect a cross section of the population of Manitoba. He suggested that motorcyclists are generally dedicated members of the community, often involved in fundraising. Mr. Houghton sought the implementation of loss transfer, such that premiums reflect the cost of accidents caused by the at fault vehicle category, in order that motorcycle rates be stabilized.

Mr. Houghton also noted that the policies of motorcycles do not include comprehensive coverage for fire, theft and vandalism, and that motorcyclists cannot obtain rental insurance when renting a motorcycle in another jurisdiction. In addition, Mr. Houghton complained there are sometimes unnecessary delays in obtaining insurance such as when a used motorcycle is purchased.

Mr. Houghton asked the Board to commission future studies on loss transfer, and other insurance issues, and that these studies should be performed by an independent consultant. He asked that the PIPP portion of a premium be listed as a separate item on an MPI insurance statement, and suggested that there be additional advertising on motor safety initiatives for motor vehicles and motorcycles, including the adoption of a motorcycle component to the driver education program.

Ms. Veronica Jackson, President of the MBA, stated that the function of the Board goes beyond the fixing of rates, and that the Board has a broader power to protect the public interest, derived from applicable legislation and the common law. Ms. Jackson suggested that most claimants who deal with MPI in respect of personal injuries lack a real understanding of the law, or the procedure by in which to advance their position, the result being that all claims are not evaluated in a fair and consistent manner. She expressed the view that many claimants do not receive adequate compensation for their losses.

Ms. Jackson concluded by recommending that that MPI's governing legislation be amended to increase MPI's revenue for the benefit of all Manitobans.

Mr. Maurice Pankhurst spoke in opposition to MPI obtaining any rate increases. It was his view that particular expenditures by MPI are wasteful.

Mr. Robert Ramsay appeared as the President of the Motorcycle and Moped Industry Council, a national non-profit industry association representing the major manufacturers and distributors of motorcycles across the country.

Mr. Ramsay advocated the implementation of loss transfer, with which he has had experience in other jurisdictions. He suggested that motorcycles are not inherently risky, although he agreed that a motorcycle does afford less protection in an accident.

He also stated that to make a decision with respect to premiums based on a small of number motorcycle units cannot lead to absolute certainty of the statistics. Mr. Ramsay was concerned with respect to the future of the motorcycle industry in Manitoba, given the level of insurance premiums.

Mr. Ramsay recommended that there be an independent investigation of the apparent bias by MPI in treatment of motorcycles versus automobiles.

9.0 Board Findings

The Board appreciates the contributions made and cooperation extended by MPI and the Intervenors during the GRA. The Board also expresses its particular appreciation to the Presenters, who took the time to appear and make their views known.

MPI is important to Manitoba, not only with respect to its insurance offerings and service, but also through its investments. Its investment pool is one of the largest in Manitoba, and provides an important source of capital at reasonable interest rates and costs for Manitoba's public sector.

MPI's current year was marked by the retirement of its long-service President Jack Zacharias, and the appointment of Ms. Marilyn MacLaren, formerly a Vice-President of MPI. The Board notes the transition appears to have been smooth from a regulatory standpoint, this process has been assisted by Ms. MacLaren's long service with MPI. The Board looks forward to future hearings and the father participation of Ms. MacLaren and her executive team. The Board found the MPI witnesses forthright and helpful, and a key factor in the Board's ability to reach its findings.

The Board found the following matters arising out of or in the hearing as being of particular importance:

(a) The transfer of DDVL to MPI, and actions and events related thereto;

(b) The reliance of MPI on future transfers of retained earnings from SRE and Extension to the Basic Insurance RSR;

(c) The level of the Basic Insurance RSR, and the views of its adequacy;

(d) The longstanding dissatisfaction of CMMG related to the claims cost allocation methodology and related rate setting approach employed by MPI, and related matters, a dissatisfaction joined by certain other Intervenors and Presenters;

(e) An apparent disconnect between the approach taken by MPI to passenger vehicles as contrasted to the approach taken to motorcycles and scooters with respect to the availability of a pleasure use category;

(f) The definition of what motorcycles should fall within MPI's sports bike classification;

(g) The differing approaches proposed by MPI with respect to moving customer classes to their actuarially indicated rates and the overall issue and definition of what constitutes "rate shock";

(h) Cost experience, trends and determinant factors related to the PIPP segment of benefits;

(i) MPI's plans with respect to reviewing the Bonus/Malus system, particularly given MPI's new DDVL function responsibilities;

(j) An apparent need to develop further analyses with respect to PIPP costs;

(k) MPI's investment policies and practices;

(l) The implications of the prior cessation of vintaging and the on-going annual revenue supplement provided by upgrading for revenue requirement and how that impacts brokers' commissions;

(m) The ever increasing cost of vehicle theft and the effectiveness of other road safety initiatives by MPI; and

(n) Issues concerning the assistance provided by MPI concerning prospective claimants at pre appeal stages, conducting customer surveys and subrogation claims.

The Board comments and findings on each of these items follows:

DDVL

DDVL was a department of the Manitoba government until its transfer to MPI in April 2004. The transfer was affected pursuant to an interim agreement between MPI and the Province, an agreement to be supported by enabling legislative amendments and finalized in contract form.

DDVL operations include administering drivers' licensing and vehicle registrations, and, as such, its functions and responsibilities are important to MPI's Basic Insurance. Leaving aside the obvious revenue significance arising out of driver license fees, the provision of a driver license and the supervision and regulation of drivers are of critical importance with respect to the costs incurred by MPI and the resultant level of insurance premiums levied on vehicle owners. DDVL manages the Bonus/Malus system, which "penalizes bad drivers" and "rewards good drivers." An effective Bonus/Malus system is an important predictor of costs and rates.

DDVL's connection to MPI's unregulated and competitive lines of business, SRE and Extension, is considerably more tangential in nature than the virtual "cause and effect" relationship and importance to mandatory Basic Insurance operations.

Since the advent of the Bonus/Malus system in 1988, which followed a large loss sustained by MPI and its Basic Insurance operation, MPI has, through numerous GRA hearings, maintained an inability to refine the Bonus/Malus system due to DDVL's involvement. MPI has also regularly contended that the limitations of DDVL's computer systems determined the Bonus/Malus options available, in that the computer system was constrained by initial design and age, and was outside MPI's authority to change.

The Province's decision to transfer the administrative functions and responsibilities of DDVL to MPI was accepted with some enthusiasm by the Intervenors to this GRA, and is so greeted by the Board. Both parties to this transaction are to be congratulated as to the opportunities the transfer now presents. As indicated however, the explanation given by MPI for its decision to place the DDVL operation within Extension, means that its functions and responsibilities would be outside of the regulatory process and, therefore, not within the purview of the Board. This is not acceptable to the Board.

This is not a decision that the Board can accept without comment and criticism. The decision on the placement of DDVL is a public policy decision taken without consultation with the Board and its process. If left as it is, the Board and future GRA processes will have no jurisdiction to question, discuss or direct major areas of concern and importance relative to Basic Insurance.

MPI has stated at numerous past GRA hearings that the Bonus/Malus system is an important tool in the pursuit of amending poor driving habits. The design of the Bonus/Malus system and the actions of DDVL in its oversight of the registration of vehicles and the supervision of drivers are of critical importance to the economic well-being of Basic Insurance and the equity and fairness of rates. DDVL's functions, responsibilities and actions impact on vehicle premiums, revenue requirement and even the level of RSR.

The Board and Intervenors have expressed significant and abiding interest in the design and management of the Bonus/Malus system. Strong interest is held with respect to influencing motorists' driving habits, the terms imposed for violations, and the education and other informative, rehabilitative and punitive measures affecting them.

The Board heard evidence that the incidence of vehicle accident injuries in Manitoba is among the highest, if not the highest, in Canada. As to vehicle thefts, it appears that Manitoba also holds the dubious honour of having a high, if not the highest, incident level. Through actions taken by DDVL, accident, injury and theft incidences can be positively affected. The Board and the Intervenors have an interest in participating in discussions related to DDVL's functions, responsibilities and actions, which can positively affect Basic Insurance revenue requirement and vehicle insurance premiums.

Approximately three hundred employees of DDVL became employees of MPI effective October 2004. Along with the compensation costs associated with a workforce of that size, there are other cost elements associated with DDVL operations. These other cost elements include the

DDVL computer system, apparently dating back to the 1960s and, by all accounts, requiring a major upgrade. MPI advised the hearing that its understanding of the terms of the agreement being developed with the Province for the transfer to MPI includes that there will be a contract provision requiring the Province to reimburse MPI each year an amount towards the operating costs of DDVL. This amount would apparently be established at the current level required to meet DDVL costs, and would not vary in the future regardless of expense level changes.

The income derived from DDVL operations with respect to vehicle registrations would continue to flow to the Province, without a commission to DDVL (MPI).

From what was indicated by MPI at this and prior hearings, computer upgrades are required, but if effected, would be at the cost of MPI, not the Province. As well, as collective agreements are re-negotiated with higher compensation costs, these costs will apparently fall to MPI, and potentially reduce its earnings. MPI indicated that it expected savings to arise from operating synergies following the merger of DDVL and MPI functions. MPI opined that as synergies developed, MPI would achieve overall administrative savings to the benefit of MPI and its policyholders. MPI indicated that it was its understanding that the funds to come from government to meet DDVL function expenses would not change from the current level.

If DDVL remains outside of the purview of the Board, there would be risks associated with possible cost growth with DDVL functions. The Board can have little assurance as to the security of the intended annual flow of net income from the competitive lines of business to Basic Insurance and the RSR with this situation. The costs of operating the DDVL division, including potential and long overdue computer upgrades, could reduce the transfer of funds from these lines to Basic Insurance and the RSR. The Board could then be required to consider rate increases for vehicle classes that would otherwise have been unnecessary.

Unless the revenues and costs of DDVL are segregated in the accounts from Extension and SRE insurance lines of business, it will be impossible to gain an appreciation as to the results of the pure insurance aspects of those lines of business. This arrangement is contrary to the interests of openness and transparency.

Accordingly, the Board will recommend that MPI reconsider its placement of DDVL within the Extension division, and strongly recommends that DDVL functions be allocated within Basic Insurance operations, and thus fall under the purview of the Board.

To further clarify, the Board's interest in DDVL functions concerns the Bonus/Malus system and related matters. If DDVL were relocated within the Basic Insurance, the Board would not consider its jurisdiction to extend to the setting of registration fees, which would remain the prerogative of the Province, only to premiums due MPI under Basic Insurance.

Finally, with respect to DDVL, there is the matter of the former cost share related to broker commissions incurred by MPI and Basic Insurance with respect to the brokers' responsibilities for the registration of vehicles. MPI advised that this cost share ended on February 1, 2004, and was a unilateral decision of the Province.

Similar to other aspects of the DDVL transfer to MPI, this also occurred without discussion with the Board, though it clearly affects the revenue requirement of MPI and Basic Insurance. MPI confirmed at the hearing that the work requirements of the brokers as related to DDVL functions will continue now and in the future, and the commissions paid by MPI with respect to these functions would continue to be paid. In fact, IBAM indicated that the projected commission cost increases cited by MPI in its Application did not represent additional income to the brokers, but only the cessation of the longstanding cost sharing.

MPI gave no explanation for this change, other than to indicate that it was a decision MPI did not make. The Board is concerned with the apparent ready acceptance of MPI to a change that appears to be unwarranted and unfair to the interests of MPI policyholders. Left unaddressed, this change will increase the annual revenue requirement by $5.7 million, inflating with increases in either registration fees or commission rate increases.

After carefully considering the evidence, and noting the potential impact on rates and prospective rates, the Board finds that the transfer of DDVL to the Extension Division was and is not in the public interest. The Board has recommended to MPI that it reconsider its initial decision, and reallocate the functions and responsibilities, revenues and costs, assets and liabilities to Basic Insurance.

The Board will also recommend that MPI negotiate or re-negotiate the terms of the transfer so that MPI and its ratepayers may be assured that MPI will not incur costs that should be assessed against the Province. A fair sharing of costs related to the operations of the former DDVL with the Province should continue.

Openness, transparency and fairness are in the public interest, and, as such, the contract should provide for an annual accounting and allocation of the revenues and costs related to the DDVL functions, and the Contract should be filed with the Board. With respect to possible synergies, the contract should provide for a fair sharing of the benefits, just as increases in costs should be done fairly.

With respect to the recent loss of the brokers' commission cost share, estimated at approximately $5.7 million per year and this to increase, the Board recommends that out of the proceeds generated by vehicle registrations, the cost share should be reinstated by the Province retroactive to the date it ceased. The Board will direct MPI to seek the recommencement of the discontinued commission expense cost sharing with Province, as of the date the cost sharing ceased (February 2004).

In the interim, the Board will direct MPI to reduce the revenue requirement for fiscal 2006 by $5.7 million, and reduce its proposed rates accordingly.

All of these measures are important, the placement of DDVL functions within Basic Insurance, the re-introduction of the commission cost share arrangement, revised terms related to future cost experience associated with the DDVL functions now within MPI. Without these changes, the policyholders of MPI will have been negatively impacted.

Net Income

The Board agrees with MPI that, at a minimum, Basic Insurance operations should achieve an annual break-even result. The Board has agreed in the past, and understands, that a break-even position would not necessarily result in a zero net income in any one year, given the uncertainty in forecasting costs and revenues. The Board notes the great variability of net income that has been experienced through the years, and that MPI is currently budgeting for a loss of $9.3 million in fiscal 2005 and a further loss of $500,000 in fiscal 2006. The Board accepts the current projection for fiscal 2006 as essentially a break-even objective.

The Board is aware that the fiscal 2006 forecast is prepared approximately twenty-one months in advance of the end of the fiscal period. The forecasts are based on many assumptions including forecast premiums earned, investment income, claims incurred and operating costs. By reason of this lead time, actual results have, varied significantly from estimates. The Board considers that projections further into the future will be less precise and, given the most recent claims experience for fiscal 2004, could understate or overstate net income. The Board notes that the current application does not project any increase in rates, yet claims costs are escalating, leaving the potential for greater variations in net income in the future which may impact rates.

RSR

Previously, the Board determined that the appropriate level of RSR should be in the range of $50 million to $80 million. The Board heard no compelling evidence at this hearing warranting a change to the appropriateness of that range. MPI's higher range for its target for the RSR, one determined in part by applying private sector guidelines, continues to be unacceptable to the Board.

Unlike a private insurer, MPI is a Crown Corporation, possessing a monopoly with the government as its titular sole shareholder. Solvency concerns are not present with MPI, as they are with private insurers. As well, MPI has other reserves and protective measures that it may rely upon including:

(a) The Basic RSR and the retained earnings of Extension and SRE, aggregating over $144 million as of February 29, 2004;

(b) Actuarial reserves held with the Provision for Unpaid Claims;

(c) Unrealized gains on securities held in its investment portfolio; and

(d) An annual rate setting process that is not dependent upon marketing concerns.

This being said, and after considerable thought and review of the evidence, the Board finds that its range for the RSR requires minor amendment, as it does not provide any inflation factor. The Board will amend its range for the RSR, and increase it annually to match the percentage increase in MPI's Gross Written Premiums.

With respect to the RSR rebuilding plan, MPI determined the levels of necessary retained earnings for its competitive and unregulated lines of business, Extension and SRE. MPI also decided that retained earnings of Extension and SRE above the required levels, would be transferred to Basic Insurance and the RSR. This decision effectively links Basic Insurance and its RSR with the Extension and SRE lines of business.

In the absence of the government providing an extension of the Board's jurisdiction to allow the Board to review Extension and SRE as a component of the annual GRA process, the Board will have difficulty assessing the value of MPI's inclusion of SRE and Extension earnings as a factor in the development of the RSR.

As to MPI's reliance on the net earnings of Extension and SRE for Basic Insurance and the RSR, which the Board does not oppose, the Board will direct MPI to seek a formal indication by government of its acceptance of MPI's decision to allocate future earnings of Extension and SRE to the RSR. With this formal acknowledgment, the Board will be able to place a higher degree of reliance on MPI's intentions to transfer retained earnings from the unregulated competitive lines of business to the Basic Insurance RSR.

Rate Design

As in previous applications, the Board has considered the various aspects of MPI's rate design and continues to be of the view that it produces fair and equitable rate relationships that are reasonably reflective of risk. The actuarial rate making methodology is substantially unchanged from that of previous applications.

The Board will approve MPI's Application for experience based adjustments ranging from -15% to +15% based on rate adjustment rules and classification offsets subject to an no overall change in premium revenue. Both of these are continuing rate design initiatives from previous years. The Board, however, is concerned with the exceptions to the experience based adjustments rule and the lack of consistency in moderating rates to mitigate rate shock. In the Application MPI proposed to:

1. Increase dealer plate premiums by 20 to 25% for fiscal 2006; and further adjustment next year to the actuarially indicated rate;

2. More than double the average rates for scooter premiums, while reducing the premiums for off-road vehicles and trailers by up to 40.9% and 22.2% respectively in one year;

3. Changes in motorcycle rates by average rate changes continuing the sharp upward movement of these rates towards the actuarially indicated rates; and

4. Increase the differential between sports motorcycles and other motorcycles, along with the general rate increases for motorcycles.

These vastly different approaches from a proposed overall 0% and from each other suggest to the Board that MPI needs to review its definition and approach to rate shock.

The Board is concerned that rate shock considerations were not applied consistently throughout the Application. For the purposes of this Order, the Board will impose a final overriding cap (plus or minus) of 20% relative to those rates currently in effect.

In the case of dealer plates, the Board believes that dealer rates should be moved to their indicated rate expeditiously, however in consideration of the rate impact on dealers of moving to the indicated rate in one year may be excessive, the Board will direct MPI to phase in the indicated rate increase over a two year period and apply the greater of 50% of the actuarially indicated rate increase in the current application, or 20%, any shortfall to be recovered from the entire insurance pool.

Loss Transfer

When the PIPP was introduced in 1994, the objective was to reduce claims costs and insurance premium rates. The tort system, where the "at fault" party takes responsibility for the costs incurred, was abandoned, and with it the ability to sue, which, MPI maintained, created long delays and high legal costs. One of the major problems cited was the high incidence of "whiplash" injuries, which oftentimes did not result in either hospitalization or time off work, but nonetheless greatly impacted claims costs.

The PIPP program, involving a significant expansion of no fault accident benefits, resulted in income indemnities and other payments without reference to fault; i.e. injured accident victims are compensated regardless of who is at fault for the accident.

The Board is unaware if the extensive communications that accompanied the launch of PIPP included any indication to allocate costs on the same "no fault" basis. Under this cost allocation methodology, claims costs are allocated to the vehicle classification of the injured party. For rate setting, this allocation was not particularly important, that is if the vehicles involved in accidents were all of the same vehicle class. However, if the accident was between a motorcycle and a truck, or a motorcycle and a car, or a car and a truck, there are now implications to consider.

A total no fault system for benefits need not adopt a no fault claims cost allocation model. In Ontario, which has a modified no-fault system, it has retained "loss transfer" which is the system employed in all tort jurisdictions, and applied in Manitoba before PIPP. What is involved in loss transfer is that the "at fault" vehicle is allocated all of the costs related to the accident. If fault is attributed to more than one vehicle class, then the costs are allocated accordingly.

Since the introduction of PIPP, motorcycle rates in Manitoba have increased significantly. Along with an increase in rates, at fault motorcyclists have also gained a significant increase in accident benefits. According to MPI, the rates will rise substantially this year, with more substantial increases to come. Since 1994, the average motorcycle premium has risen dramatically. MPI attributes this to the "inherent risks" of motorcycles, i.e. little or no personal protection in case of an accident. CMMG, now joined by MUCDA and Scootering Manitoba, attributes a large part of these increases not to inherent risk but to the move from loss transfer to first party claims allocation.

This "loss transfer" issue has been before the Board for many years. The Board has consistently supported MPI's position relative to it. The approach taken by MPI remains unacceptable to motorcyclists, and now scooter owners and the used car industry, as was evident at this hearing.

Ten years ago, motorcycle registrations were considerably higher than they are today, though MPI cites an increase in registrations in recent years. One Presenter at the hearing, an industry representative, maintained that sales of motorcycles fell in Manitoba last year, and that some dealerships are experiencing economic difficulties. Nonetheless, MPI remains convinced that its position is correct, namely, that motorcycles are "inherently dangerous." On the other hand, CMMG has long held that it is not motorcyclists that cause accidents, it is other drivers, and CMMG has argued that, on balance, motorcycles are at fault less often than other vehicles when it comes to assessing fault in multi-vehicle accidents involving motorcycles. An internal study last year by MPI indicated that the indicated premium for the average motorcycle would fall by about 6% if loss transfer were adopted and claims costs were allocated on a fault basis.

While no evidence was adduced on that specific point, CMMG maintained that the indicated rate for motorcycles could fall by as much as 60% with loss transfer. Whether 6% or 60%, in any event it appears that there would be a difference in indicated rates not only for motorcycles but also for trucks and public service vehicles if loss transfer were to be implemented.

One of the arguments for loss transfer advanced by CMMG and its witness, Mr. Raffai, was that loss transfer has a predictive value. In short, the adoption of loss transfer could be expected to influence the driving behaviour of all motorists. The Board has not heard enough evidence to reach the conclusion that there is a statistically valid predictive value in loss transfer. However, it does understand the question as to whether it is fair to charge the costs of an accident to an innocent motorist as opposed to the at fault driver.

MPI and CAC/MSOS both cited the Bonus/Malus system, as providing sufficient deterrence and caution and contended that the cost of accidents are effectively reduced by that system. The Board is not convinced.

At this hearing, the Board finds there was no new evidence, to warrant a departure from the current first party claims cost allocation as compared to loss transfer. CMMG's witness, Mr. Raffai, was unconvincing and, indeed, his report was very similar to a report filed in 1998 by CMMG's other actuarial witness. In his report, Mr. Raffai suggested he was involved in the Ontario decision to retain loss transfer when it adopted a modified no fault system, while in cross examination, he admitted that he was not. As well, his testimony appeared to the Board as that of an advocate rather than an impartial witness.

The Board is left with a dilemma. On the one hand, it is unconvinced there is enough evidence to justify the Board changing from its longstanding support of MPI's first party claims cost allocation methodology, and its view of the indicated rate for motorcycles. On the other hand, the Board has reservations about the fairness of the approach, regardless of whether the indicated rates for motorcycles and other classes would be affected. In fact, if the other classes were affected, that may not be an improper result.

Taking all of the evidence into account, and weighing the implications associated with staying the course or adopting loss transfer, the Board is influenced by evidence that was not new but was more heavily emphasized at this hearing. This, being the consensus that the adoption of loss transfer as opposed to first party cost allocation is not an actuarial issue, but a public policy issue.

Accordingly, the Board intends to hold a special hearing in the spring or summer of 2005 on the loss transfer issue.

Motorcycles

MPI provides passenger vehicles and light trucks with a pleasure use category, along with an all purpose category. The rates for the pleasure use category are understandably lower, as the definition of the category assumes that the vehicle is not used for work or trade, and, hence, is less likely to be on the road during work hours, or in heavy traffic.

At the hearing, the Board was advised that 80% of motorcycle owners also had another vehicle, generally a passenger car and light truck. With motorcycles generally used in Manitoba for only about five months of each year, it seems probable that a high percentage of motorcycles are not regularly driven to and from work or school. Introduction of a pleasure use category for motorcycles and scooters would permit their owners to make the same choices as are provided to passenger car and light truck owners. In the Board's view, this also should apply to the owners of scooters.

In recommending that a pleasure use category be extended in that manner, the Board appreciates the administrative process that would be involved in doing so, and therefore would hope that the change could be implemented in the 2006/07 insurance year.

At the hearing, CMMG pointed out numerous examples where MPI had improperly classified motorcycles as sports bikes, when they were not. MPI indicated acceptance of CMMG's advice on this topic, and a willingness to consult with CMMG to ensure the classification of sports bike included on sports bikes. The Board finds that the sports bike category needs to be refined, prior to any further increase to the differentiation in rates between motorcycles and sports bikes, and will therefore deny MPI's request to increase the rate differential for sports bikes.

Upgrades, Vintaging and Broker Commissions

MPI came before this hearing not seeking any general rate increase. How can this be, when claims costs continue to rise faster than the percentage increase in either vehicle registrations or inflation? The answer lies in vehicle upgrading.

When a vehicle owner purchases a new or newer vehicle, the premium related to that new or newer vehicle is generally higher than the premium associated with the previous vehicle.

The retirement of old vehicles and the registration of new vehicles is an ongoing process. Even without a general rate increase, therefore, MPI is nonetheless able to secure increasing revenues every year.

This process of gaining annual revenue increases without overall rate increases was furthered by a change to MPI's rate setting approach, which took place seven years ago. Until that time, MPI employed vintaging. Vintaging is the process by which the insurance classification for a vehicle declines as the vehicle ages. For example, the insurance premium for a 1985 Dodge Aries in 1992 would have been lower than it was in 1985, assuming all other factors were the same.

With the increasing complexity of vehicle repairing, and the significance of bodily injury/PIPP claims, there is justification for the prior decision to end vintaging. However, it does lead to:

(a) Old vehicles with associated premiums higher than the vehicle's value;

(b) New high-cost large vehicles, such as vans, having a modest premium due to the safety and theft protection features; and

(c) Brokers' commissions rising even if the size of the overall fleet does not, and with the increases often being in excess of the rate of annual inflation.

The Board has and continues to accept MPI's approach to classifying vehicles for rate purposes, and has, in particular, accepted the use of the CLEAR system. Nonetheless, the Board suggests that MPI consider the effect of upgrades on broker commission expense, and will direct MPI to file a report with the Board on the topic.

As to the effect of upgrading and the discontinuation of vintaging, the Board believes that MPI should incorporate this information in its standard policy booklets for its policyholders.

Investment Portfolio

MPI engaged Mercers to review the asset mix for its large investment portfolio. Since 1994, and as indicated, MPI has been a no fault income replacement insurer, and this suggests lengthy relationships with a component of its claimants, ever increasing Unpaid Claims and an increasing investment portfolio.

Exceeding $1.5 billion, MPI's investment portfolio may be one of the largest non-pension plan corporate investment holdings in Manitoba, exceeding the aggregate assets of many pension plans. MPI has acknowledged the importance of this portfolio, and that the income generated by it is an important contributor to premium levels. As such, the net yield of the portfolio is important. If there were no investment income, insurance premiums would be required to be substantially higher than is the case.

The evidence indicates that MPI is a cautious and conservative investor, and the rate of return it has been earning is consistent with this. However, there are many forms of risk with an investment portfolio, and one of those risks is yield risk – the cost to the organization of a sub-optimal yield.

The current yield on a ten year Government of Canada bond is approximately 4.5%, and treasury bills attract yields considerably below that level. MPI has approximately 70% of its investment portfolio in bonds and treasury bills, albeit a mixture of Federal, Provincial, Manitoba municipal and corporate bonds, and Manitoba treasury bills. While the coupon rate on these investments may well exceed the 4.5% level, the current market rate for a basket of bonds is still well below 6%. Equity returns have not been exceptional over the past five years, and MPI's American investments have been affected by the rapid and sustained climb of the Canadian dollar. In short, at market rates, the portfolio is unlikely to produce a yield much above 5-6%.

MPI rejected the advice of Mercers, which recommended MPI invest more in equities, and include non-U.S. foreign stocks and real estate holdings. MPI indicated that it rejected the advice for a number of reasons, these including:

1. MPI is required to invest in Manitoba municipal, hospital and education bonds;
2. MPI lacks experience in non-U.S. foreign stocks and real estate investments;
3. Foreign exchange concerns; and
4. Evidence suggesting to MPI that its present portfolio mix would have earned more over the past five years than the Mercer recommended asset mix would have.

MPI might consider some further diversification out of fixed income securities (bonds and treasury bills), into equities, and diversification in some non-U.S. foreign stocks and Canadian real estate may improve the overall risk level of the portfolio, not worsen it. Yield is important in setting premium levels, and the current approach may be too conservative, conservative whereby yield risk is being actualized. It is the yield expected in the future that is important, not simulations based on previous yields on past or present portfolios.

The Board suggests that the size of the portfolio and the continuing annual positive cash flow of MPI is such that further diversification could occur without affecting the buy-Manitoba bias and objective of MPI. On the other hand, the Board does not suggest that further diversification take place without appropriate investment expertise being put in place.

The Board also noted MPI's indication that it pays a management fee to the Department of Finance, based on its entire portfolio. As a material percentage of the portfolio is invested in Province of Manitoba securities, the Board suggests that MPI discuss with the Department an exemption from the management fee levy with respect to such securities. This approach would avoid a perception of conflict of interest, since the Department of Finance is the statutory authority over MPI's investments.

With respect to Manitoba-based bonds, the Board noted MPI's indication that it does not calculate a market value for municipal based bonds, as the bonds are not as liquid as Provincial or Federal bonds. The Board accepts this explanation, but is of the view that it would be possible and useful for investment management purposes, for MPI to derive an estimated market value for these securities based on coupon rate and current market rates for government bonds. The Board suggests that MPI remain vigilant in ensuring that the yields obtained on Manitoba securities are no less than the market rate. There is value in access to funds, but obtaining a market rate benefit at the cost of vehicle owners would not be reasonable and would represent a subsidy.

Finally, with respect to investment portfolio issues, MPI has indicated that it complies with GAAP in reporting its security holdings on a cost rather than market basis. This approach results in unrealized gains and losses, not being included in the reported net income of the year under review. The Board is aware that there is a CICA re-exposure draft, Financial Instruments-Recognition and Measurement (Section 3855) dated July 2004, outstanding, that, if implemented in its current form, would require certain investment securities be valued at balance sheet date on the basis of fair value, not cost. This possible change may affect the annual reporting of investment income for both financial reporting and rate setting purposes.

Road Safety/Loss Prevention

The Board is concerned that the accident prevention and driver education and training programs of MPI are not as successful as they should be. Studies reported at the hearing, and cited by CAC/MSOS, suggest that the driver education programs supported by MPI are having no overall positive impact on accident volumes. As well, the evidence at the hearing provided by CMMG suggests that not enough is being done to reduce motorcycle accidents, or educate to avoid accidents. No evidence was available to consider the impact of red light cameras in Winnipeg, though many other jurisdictions have utilized the devices for many years. Also, there was no evidence presented to indicate the level of value MPI is receiving from the Winnipeg Police Service, particularly in relation to MPI's annual payment of $550,000 to that service.

The Board seeks additional information from MPI, and new ideas on next steps with respect to MPI's efforts to achieve loss and accident reduction. A comparison with the initiatives of other jurisdictions, such as SGI, ICBC and Quebec would be helpful. The involvement of the Intervenors interested in this area would also be useful. The Board notes in particular, CAC/MSOS' interest in being involved in the assessment of the effectiveness of MPI's efforts in the areas of driver education and accident prevention.

MPI reported at the hearing that theft claims continue in the range of $24 million annually, despite its efforts to reduce the prevalence of vehicle theft. The Board notes that MPI also incurs operating expenses related to theft prevention. High speed chases, significant property damages, higher than necessary insurance premiums, personal inconvenience, risk to life and limb, health care costs, damage to youth offenders future employment and other opportunities, court costs, corrections cost, damage to the reputation of the community, are but some of the implications of vehicle theft.

The Board is concerned that despite the best efforts of MPI, which provides $550,000 of annual funding to the Winnipeg Police Service, and offers inducements for vehicle owners to install theft resistance devices, the problem persists.

At the hearing, MPI opined that it could not solve the problem itself, and that other agencies would have to be part of the solution. CAC/MSOS sought a direction from the Board that MPI commission and file with the Board a report from an independent expert on the vehicle theft problem. CAA suggested the incentives to purchase theft protection devices be increased dramatically. Other suggestions were made that went as far as to suggest surcharges be placed on high-risk vehicles, to be removed only when the theft protection devices were purchased.

The Board agrees with MPI that MPI requires assistance to solve this problem. Accordingly, and given the importance of the issue to all Manitobans, the Board is considering a separate hearing to which it would invite interested parties to work in a collaborative way to assist MPI in reducing the frequency and impact of vehicle theft. Such a hearing may also assist in gaining input from interest parties with respect to MPI's accident prevention and driver education programs. The Board has recommended that MPI engage an independent expert to review its accident prevention and safety programs, the results from such a study would inform the hearing.

Claims Incurred

CAC/MSOS reviewed the on-going and significant increases in PIPP claim costs since PIPP was implemented, and suggested that MPI should do more to bring its claims cost under control. In response to a question from the Board, MPI indicated that it lacked PIPP cost analyses, and could not provide detailed reasons to support its claims cost increases.

MPI was urged to review the policies and practices of the Manitoba WCB, as well as other no fault jurisdictions, to determine what actions it could take to improve its understanding of the factors driving its injury cost increases, towards possibly implementing reasonable claims cost control measures.

The Board believes that, ten years after the introduction of PIPP, MPI should be proactive in understanding the factors that are driving its claims cost and claims cost increases. The WCB and its management information system and claims cost analyses should be a useful resource for MPI.

The Board noted MPI's indication that it plans to enhance its claims analyses capacity and practices, and therefore encourages and expects MPI to follow-through prior to the next GRA. As well, the Board will direct MPI to develop claim duration, frequency and cost benchmarks, for comparison with its own experience and that of other no fault jurisdictions and agencies.

PIPP, was introduced and implemented in 1994, ten years have passed and the Board suggests it is time, and in the public interest, for an assessment of its results and implications. PIPP represents the most major change to MPI's policies since MPI were incorporated. PIPP was enacted to achieve particular goals, and in the Board's view, the results need to be compared to these goals. Accordingly the Board will direct MPI to commission an independent expert study of MPI's experience related to PIPP for the last ten years including a determination of whether amendments in benefit design, claims handling, related claims cost allocation methodology, etc. are warranted.

Bonus/Malus

MPI vehicle insurance premiums do not have separate vehicle and driver components. MPI has one premium per vehicle, and the differentiation based on driver experience is left to its merit discount program. The Merit Discount Program was introduced in 1988, it allowed MPI to recognize good individual claims and traffic infraction experience while penalizing adverse experience. The change was accompanied by a substantial increase in the basic deductible, which also contributed to an increased awareness in drivers of the importance of driving safely.

That program provides discounts from the regular driver license fee for up to five years of accident free driving, and also assesses demerit points against driver licenses for deemed excessive traffic violations, and surcharges for at fault accidents.

Overall, the system results in a reduced differential between the highest premiums and lowest premiums compared to private insurers. As well, the system is limited because of an outdated computer software managed by DDVL, which can accept no higher than a $999 or three digit surcharge, this being the case since the system was adopted.

Recent events with respect to influencing driving behaviour have included the introduction of red light cameras in Winnipeg. Violations do not result in demerits and surcharges on the license, but fines are imposed upon vehicle owners under the Highway Traffic Act. There has been some evidence that the number of police-issued violations have been falling, while the number of accidents and injuries in Manitoba are high compared to the other provinces.

All of this suggests a need to review and revise the Bonus/Malus system, and at the hearing MPI indicated it was prepared to undertake this project now that it has had DDVL operations transferred to it.

The Board supports MPI in its plan to review and amend the Bonus/Malus system, and encourages it to seek the suggestions and comments of the Intervenors in doing so. The Board will direct MPI to provide a report to the Board for the next GRA, reviewing its progress in this initiative.

Other Matters

MPI has devoted itself to provide the highest level of service reasonably possible for its policyholders and claimants. It commissions customer surveys, and has amended its benefits, such as with the RIB introduced a few years ago, all towards assessing and improving its service.

MBA raised questions related to MPI's surveys, not in opposition to surveying customers but to point out a possible inherent conflict of interest. The Board is inclined to the view that MPI discuss with Crown Corporations Council its possible involvement in overseeing the surveys to provide the independence that the current process appears to lack.

The Appeal Commission's work is expanding, and now it has the assistance of claimant advisors. The Board anticipates that increased involvement of the Appeal Commission will lead to higher claims cost, notwithstanding that these increases may well be justified. It is important in projecting future claims costs and premium levels, to understand the financial implications for MPI of the Appeals Commission. The Board will therefore direct MPI to file a report reviewing its experience with the Appeals Commission.

The Board finds merit with MBA's suggestion that MPI undertake a study to identify any increase in revenue or expenses that would result from legislative changes to enable personal injury lawsuits against uninsured motorists, extra-territorially insured drivers, and the manufacturers of defective motor vehicles.

The Board heard much evidence and received considerable information related to the issue of credibility in MPI's ratemaking procedures, particularly with respect to estimating rate indications at the Major Use classification level. The CMMG witness, Mr. Rifai, challenged the actuarial methodology of MPI in this regard, citing arbitrariness and lack of statistical foundation in the selection of credibility model parameters. Mr. Rifai concluded that the credibility assigned by MPI to the Motorcycle Major Use classification at 61% was far too high, and should be somewhat less than 20% by his estimation.

The Board finds MPI's approach to using credibility acceptable. The persistency of the Motorcycle Major Use experience over the years lends intuitive support to attaching a reasonably high credibility to the experience of this classification. Furthermore, the Board finds that MPI does fully disclose the basis and rationale for its credibility model parameter selection, which has been used consistently for many years. MPI's use of the Buhlmann credibility model seems to comply with the circumstances under which Mr. Rifai himself indicated the Buhlmann model is most appropriate, and in any case, MPI's credibility model provides an appropriately objective measure of reliability of the experience at the Major Use classification level.

As indicated above, the Board intends to hold a special hearing related to the loss transfer issue, to provide the issue the public policy dimension that is required. At the hearing, the Board anticipates the involvement of MPI and such Intervenors and Presenters that have an interest in the matter. Among other information, the Board intends to obtain direct evidence from a professional directly involved in the Ontario decision to affect loss transfer, and the Board will also obtain its own expert actuarial evidence.

10.0 It Is Therefore Recommended That:

1. Manitoba Public Insurance reconsider its decision to include DDVL operations within the Extension division, and reallocate the operations of DDVL to Basic Insurance, and report to the Board by no later than the next General Rate Application.

2. Manitoba Public Insurance negotiate the terms of the transfer of DDVL with the Province to ensure it is compensated by the Province for all costs of administering DDVL, including reinstatement of the commission cost sharing arrangement as well as the recovery of all amounts that would have been paid under the agreement since its cancellation, and report to the Board by no later than the next General Rate Application.

3. Manitoba Public Insurance seek a formal indication from the Province of its acceptance of Manitoba Public Insurance's decision to allocate future earnings of Extension and SRE deemed to be in excess of requirements to Basic Insurance and the RSR, and report to the Board by no later than the next General Rate Application.

4. Manitoba Public Insurance incorporate information related to the effect of upgrading and the discontinuation of vehicle vintaging in its standard policy booklet for policyholders.

5. Manitoba Public Insurance consider further diversification of its investment portfolio, and discuss with the Department of Finance the possible granting of an exemption from investment management fees related to the portion of MPI investment portfolio that is invested in Province of Manitoba securities.

6. Manitoba Public Insurance consider introducing a pleasure use category for the motorcycle class for the 2006/07 insurance year.

7. Manitoba Public Insurance commission an independent study of MPI's approach and options with respect to vehicle theft, accident prevention and driver education.

8. Manitoba Public Insurance discuss with Crown Corporation Council their possible involvement in either overseeing or conducting customer surveys on behalf of its Corporation.

9. Manitoba Public Insurance prepare and file a report with the Board at the next General Rate Application on the experience with the Appeals Commission, and the effect, if any, of the Commission's decisions on costs, policies and/or practices.

10. Manitoba Public Insurance undertake a study to identify any increases in revenue or expenses that would result from legislative changes to enable personal injury lawsuits against uninsured motorists, extra-territorially insured drivers, and the manufacturers of defective motor vehicles

11.0 It Is Therefore Ordered That:

1. Motor vehicle premiums and fees for the Basic Insurance Program, for the year ending February 28, 2006, as applied for by Manitoba Public Insurance, BE AND ARE HEREBY APPROVED, subject to the following:

   (a) Rates be reduced to reflect a reduction in Commission expense of $5.7 million related to DDVL for the year ending February 28, 2006, the reduction to apply to all Major Classes.

   (b) The rate increase applicable to dealer plates be limited to the greater of 50% of the range of the actuarially indicated rate changes, or 20%, any shortfall to be recovered from all Major Classes.

   (c) The rate differential for sports bikes remains unchanged.

   (d) The schedule of vehicle premium rates be subject to an overriding cap (plus or minus) of 20% relative to those rates currently in effect.

2. Manitoba Public Insurance file a revised schedule of compulsory driver and vehicle insurance premiums that reflect the above decisions to be implemented March 1, 2005 along with related supporting information, for review and approval by the Board.

3. Manitoba Public Insurance refine its category of sports bikes to ensure only sports bikes are included within that category for the next General Rate Application, and consult with CMMG prior to finalizing its categorization.

4. Manitoba Public Insurance report to the Board at the next General Rate Application concerning a review of its commission arrangements with brokers, considering the effect of upgrades on commissions relative to general annual inflation.

5. Manitoba Public Insurance develop claim benchmarks for duration, frequency and cost, for comparison with its own experience and that of other no fault jurisdictions and agencies and file a summary of the benchmarks established by Manitoba Public Insurance with the Board at the next General Rate Application.

6. Manitoba Public Insurance commission an independent study of Manitoba Public Insurance's PIPP experience for the last ten years, including a determination of whether changes are warranted to benefit design, claims handling, cost allocation methodology, etc., and file a report with the Board at the next General Rate Application.

7. Manitoba Public Insurance provide an update to the Board at the next General Rate Application of Manitoba Public Insurance's progress on its intended review of amendments to the Bonus/Malus system.

8. Manitoba Public Insurance file with the Board a copy of the final contract with respect to the merger of DDVL and Manitoba Public Insurance, and provide the Board a report prior to the next General Rate Application with respect to Manitoba Public Insurance's efforts to seek assurances from the Province that it will not incur future costs that should be assessed against the Province.

The Public Utilities Board

"GRAHAM F. J. LANE, C.A."
Chairman

"G. O. BARRON"
Secretary

Certified a true copy of
Board Order 148/04 issued by
The Public Utilities Board

Secretary

Appendix A

Appearances

W. S. Saranchuk, Q.C. C. Everard	Counsel for The Manitoba Public Utilities Board
K. McCulloch	Counsel for Manitoba Public Insurance Corporation
J. W. Kruk	Representing the Canadian Automobile Association (Manitoba Division)
R. P. Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups
B. Williams	Counsel for the Consumers' Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors
M. Scurfield	Representing the Insurance Brokers Association of Manitoba
R. Dawson	Counsel for the Manitoba Bar Association
C. Sousa	Representing Scootering Manitoba
N. Roberts	Representing Manitoba Used Car Dealers Association

The Board was also assisted by Mr. Roger Cathcart, CA, and Mr. Brent McLean, FCA of PricewaterhouseCoopers, Mr. Brian Pelly, FIAC, of Eckler Partners, and Board staff.

Appendix B

Witnesses for MPI

M. J. McLaren	President and Chief Executive Officer
B. W. Galenzoski	Vice-President, Corporate Finance
W. Bedard	Vice-President, Claims

Witness for CMMG

H. Rifai	IAO Actuarial Consulting Services Inc.

Appendix C

Intervenors

Canadian Automobile Association - Manitoba Division

Coalition of Manitoba Motorcycle Groups

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

Insurance Brokers Association of Manitoba

Manitoba Bar Association

Manitoba Used Car Dealers Association

Scootering Manitoba