MANITOBA

THE PUBLIC UTILITIES BOARD ACT

THE MANITOBA PUBLIC INSURANCE ACT

THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT

Board Order 151/00

December 4, 2000

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

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

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Executive Summary

The Manitoba Public Insurance Corporation ("the Corporation") filed an application with The Public Utilities Board ("the Board") on June 7, 2000 for approval of premiums to be charged for compulsory driver and vehicle insurance ("basic insurance") for the insurance year commencing March 1, 2001 and ending February 28, 2002 ("fiscal 2002"). The Corporation subsequently amended its application on October 2, 2000 and on November 8, 2000. The Corporation is seeking no overall change in vehicle insurance premium revenue and no change to existing driver basic premiums, but requested a surplus dividend totalling $75.4 million by way of a ***one-time*** 16.6% reduction of motor vehicle premiums otherwise payable on insurance renewals during fiscal 2002. The surplus dividend is proposed to reduce the excess funds in the Rate Stabilization Reserve ("RSR"). Total earned revenue in fiscal 2002 is forecast to be $483.5 million, and net income is forecast to be $28.7 million after investment income of $67.7 million.

In 1995, the Corporation implemented a multi-year RSR plan to rebuild the retained earnings for basic insurance from a deficit balance of $49.9 million. The Board approved a 2% RSR contribution for fiscal 1997, followed in fiscal 1998 by a further 2% RSR contribution, and an additional 1% RSR contribution in fiscal 1999. The Board then decreased the RSR contribution in fiscal 2000 by 1% and eliminated the remaining 4% RSR adjustment in fiscal 2001.

As a result of contributions made directly and indirectly by motorists to the RSR through the dedicated RSR contributions totalling approximately $55 million, as well as from profits on operations, investment income and a $39 million gain on the sale of investments, there has been a $227 million improvement in the RSR from a $49.9 million deficit in fiscal 1996 to a surplus of $177.3 million projected for fiscal 2002.

The Corporation had initially proposed to reduce the excess RSR by way of a one-time 5% dividend surplus as well as $25 million in fund transfers targeted for other purposes. This was subsequently amended to a 10% dividend surplus and a $30 million fund transfer, proposing a $10 million fund transfer to the Division of Driver and Vehicle Licencing ("DDVL") for a new driver licence system and $20 million to fund university infra-structure initiatives.

During the hearing the Corporation revised the proposed surplus dividend to include the $30 million previously intended for other puposes, and amended the application to increase the one-time surplus dividend to $75.4 million.

Given the significant forecasted balance in the RSR, the Board has approved the one-time surplus dividend of 16.6% to be refunded to each policyholder for all policies issued during fiscal 2002.

The Board agreed with the Corporation's stated view that the purpose of the RSR is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors. In principle, the RSR should not be used to offset base premium increases which would be necessary to ensure that forecasted revenue is sufficient to cover forecosted costs in a particular year.

The Corporation's financial projections for the fiscal year ended February 28, 2002 indicate a net income of over $28 million. It is the Board's view that this level of income is inconsistent with the stated object that the Corporation will set rates to break even over the long term on basic compulsary insurance. However, in light of the magnitude of the surplus dividend approved, the Board is reluctant to consider a reduction in base premiums at this time in addition to the surplus dividend. To do so would seriously impact the accepted principles of stable, understandable and acceptable rates.

The Corporation presented a Risk Analysis which it used as a tool to analyze the financial risks the Corporation faces and the appropriate level of the RSR to meet the risks. Based on this methodology, the Corporation determined a RSR target for fiscal 2002. The Board continues in its belief that the Risk Analysis is an appropriate tool for establishing the RSR target. Accordingly the Board directed the Corporation to file an updated Risk Analysis at the next rate application.

Even though the application is based on no requirement for an overall increase in revenue, major use classifications receive different vehicle premium impacts both before and after consideration of the $75.4 million surplus dividend as follows:

	Before Dividend	After Dividend
Private passenger vehicles	-0.4%	-17.0%
Commercial	+8.5%	-9.5%
Public	+0.4%	-16.4%
Motorcycle	+15.0%	-4.2%
Trailers	+5.1%	-13.7%
Off-road vehicles	+1.3%	-16.3%
Overall	**0.0%**	**-16.5%**

Experience based adjustments vary by vehicle within a range from –15% to +15%, taking into account claims history based upon insurance use, territory in which the vehicle is driven, and type of vehicle. Those vehicles for which premiums do not cover the expected full cost of insurance benefits and coverage are therefore facing experience adjustments. The Board approved all experienced based adjustments as applied for by the Corporation.

The Board approved the requested new rates for common carrier passenger vehicles (local), based on the all purpose passenger vehicle rate plus 5%, agreeing with the Corporation's contention that it is more appropriate to align the rating treatment of these vehicles with that of light trucks used for the same purpose.

The Board approved the Corporation's proposed changes to its current bonus/malus system. The demerit point additional premiums assessed against drivers who have accumulated more than five demerits has been increased by $50 for each existing demerit point level up to a maximum of $999. The accident surcharge levied against at-fault drivers has also been increased to range from $200 to $1,200. In addition, the Corporation extended the surcharge to those drivers who have been free of at-fault accidents for six years. Now a driver who has an at-fault accident will pay the surcharge and not lose the 25% discount after the first at-fault accident.

The Corporation proposed two new rate initiatives for motorcycle rates, adopting seasonal rates and motorcycle type rate differentials.

The Board agreed with the Corporation on the benefits for the motorcyclists including a more flexible riding season and greater administrative and personal efficiency for riders. The Board did not accept the Corporation's full proposal of motorcycle type differentials. However, the Board did approve a rate differential of 105% for motorcycles in the sport bike classification as they are expected to present the greatest risk on a revenue neutral basis balanced back over the other motorcycle classifications. The Board directed the Corporation to make further refinements to the rating differentials and consult with the Coalition of Manitoba Motorcycle Groups and report back at the next year's general rate application.

1.0 Appearances

W. S. Saranchuk, Q.C. K. L. Kalinowsky	Counsel for the Public Utilities Board ("the Board")
K. McCulloch	Counsel for Manitoba Public Insurance Corporation ("the Corporation")
D. Blayden	Automotive Recyclers of Manitoba Inc. ("ARM")
P. Falk	Counsel for Manitoba Car and Truck Rental Association ("MCTRA")
J. McMaster	Canadian Union of Postal Workers – Red River Local
R. P. Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups ("CMMG")
G. Corrigal M. Scurfield	President, Insurance Brokers Association of Manitoba ("IBAM") Insurance Brokers Association of Manitoba
D. Wankling	Canadian Automobile Association (Manitoba Division) ("CAA")
B. Williams T. Doyle	Counsel for Consumers Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors ("CAC/MSOS")

2.0 Witnesses

2.1 Witnesses for the Corporation

J. W. Zacharias	President and Chief Executive Officer
M. McLaren	Vice-President, Insurance Operations
B. W. Galenzoski	Vice-President, Finance and Chief Financial Officer
W. Bedard	Vice-President, Claims

2.2 Witness for CAC/MSOS

J. G. Todd — President, Econalysis Consulting Services Inc.

3.0 Intervenors

Automotive Recyclers of Manitoba ("ARM")

Canadian Automobile Association ("CAA")

Canadian Union of Postal Workers – Red River Local ("CUPW")

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 Car & Truck Rental Association ("MCTRA")

4.0 Application

The Corporation applied to the Board on June 7, 2000 for approval of premiums to be charged for compulsory driver and vehicle insurance ("basic insurance") for the fiscal year commencing March 1, 2001 and ending February 28, 2002 ("fiscal 2002") pursuant to *The Crown Corporations Public Review and Accountability Act*, *The Public Utilities Board Act*, and *The Manitoba Public Insurance Corporation Act*. On October 2, 2000, the Corporation filed amendments to its application. Further amendments to the application were filed during the hearing on November 8, 2000.

The Board held a pre-hearing conference on June 26, 2000 to consider the procedures and other issues relating to the application. Subsequent to the pre-hearing conference, the Board issued Board Orders 92/00, 108/00 and 143/00 regarding applications for intervenor status and establishing a timetable for the orderly exchange of information and procedures to be followed.

The public hearing was originally scheduled to commence October 2, 2000. On September 22, 2000, with the consent of the Corporation, the Board adjourned the hearing until November 6,

2000. During the course of the hearing, the Board heard evidence from the Corporation and the witness for CAC/MSOS. The public hearing was held from November 6 to November 10, 2000. Closing remarks were heard on November 13, 2000.

5.0 Program Costs

The Corporation estimates that the costs of providing compulsory basic insurance to Manitoba motorists for the fiscal year ended February 28, 2002 will be as follows:

	Total Estimated Expense 2002 ($ millions)	**Percentage of Total**
Claims Incurred	$388	74.3
Claims Expenses	54	10.3
Operating Expenses	40	7.7
Commission and Premium Taxes	33	6.3
Regulatory/Appeal Expenses	2	0.4
Road Safety Expenses	5	1.0
Total Claims Costs And Expenses	$522	100.0%

5.1 Claims Incurred

Claims incurred is the largest component of total costs representing costs paid, or forecast to be paid, to insureds by the Corporation to settle claims for various insurance benefits provided by basic insurance. The major expenditures of claims incurred expense from 1998 to 2002 are as follows:

Claims Incurred ($ millions)

For Years Ending February 28, 29	1998	1999	2000	2001	2002	Five Year Change $	%
Physical Damage							
Collision	$123	131	140	152	167	44	36
Comprehensive	45	34	37	48	48	3	7
Property Damage	22	25	19	24	23	1	5
	190	190	196	224	238	48	25
No-Fault Accident Benefits	137	121	154	141	142	5	4
Public Liability	14	20	3	7	9	(5)	(36)
Total	$341	331	353	373	388	48	14

5.1.1 Forecasting Claims Incurred

The Corporation prepares three different forecasts of claims incurred using methodologies that will result in rates that are, in the Corporation's view, actuarially based and statistically sound. These three methods are Financial, Linear, and Exponential. The Corporation uses the financial method as the primary tool to forecast the claims incurred component of revenue requirement. For fiscal 2002, claims incurred are forecast to be $388 million using the Financial method; $382 million using the Linear method; and $400 million using the Exponential method.

A comparison of the Corporation's recent forecast of claims incurred to actual results, is as follows:

Claims Incurred ($ millions)

	Initial Forecast	Actual	Variance (%)
1994	$323.4	$320.8	(0.8)
1995	290.2	297.8	2.6
1996	303.4	302.0*	(0.5)
1997	311.8	296.0	(5.1)
1998	322.6	340.8	5.6
1999	332.7	330.8	(0.6)
2000	365.3	352.7	(3.4)

* A tort run-off adjustment increased the actual to $352.3 million.

Over the period since 1994, and including the effect of the tort adjustment, the Corporation's overall forecasting approach has resulted in less than 2% variability between actual and forecasted results for claims incurred. The Corporation explained that by their very nature of being forward looking, forecasts can be expected to vary from actual results. Many of the factors which are implicit in the forecast are inherently variable and difficult to predict – including effects of weather, the economy, financial markets, business trends, underwriting cycles and changing customer attitudes.

Some severe PIPP claims have a long duration which increases the credit risk of some reinsurers participating in the reinsurance treaty. The Corporation considered it prudent to establish a reserve provision for the reinsurers' share of unpaid claims. The Corporation included a $3.4 million increase in claims incurred in fiscal 2001 for an allowance for doubtful accounts which represents approximately 10% of the reinsurers' share of unpaid claims.

5.1.2 Physical Damage

All Perils coverage is for any direct accidental loss of or damage to an insured vehicle arising out of perils such as fire, theft, collision and hailstorms. It includes collision and comprehensive coverages. Total physical damage claims incurred are forecast to increase from $224 million in fiscal 2001 to $238 million in fiscal 2002.

Collision costs are substantial and continue to rise. The Corporation attributes this to the higher repair costs of new vehicles and the higher costs of the vehicles themselves. Furthermore, whereas previously parts could be repaired, new vehicles often require replacement of entire components. Comprehensive and property damage costs remain relatively unchanged from previous years.

5.1.3 No-Fault Accident Benefits

Accident Benefits include amounts payable under the Basic insurance plan prior to March 1, 1994 and amounts payable thereafter under the Personal Injury Protection Plan (PIPP). They are paid on a no-fault basis and include weekly disability payments, death benefit, funeral expenses, medical expenses and impairment benefits arising from bodily injury.

The following table compares the actual PIPP Accident Benefit costs with those previously forecast by the Corporation.

PIPP Accident Benefits ($ millions)

	Initial Forecast	Revised Forecast	Actual Cost	Difference Revised to Actual
1995	$132.8	$119.4	$112.6	$(6.8)
1996	140.2	126.6	105.3	(21.3)
1997	135.9	95.1	90.1	(5.0)
1998	118.8	115.5	132.7	17.2
1999	119.3	132.1	124.3	(7.8)
2000	139.0	136.3	144.1	7.8
2001	139.6	138.2	-	-
2002	139.8	-	-	-

Major variances have occurred between the forecast and actual costs for PIPP Accident Benefits over the years, which has been attributable to fluctuations in both frequency and severity of claims.

5.1.4 PIPP – Third Party Liability

PIPP coverage includes payments on a third party basis to claimants injured in accidents caused by Manitoba motorists beyond Manitoba's borders. The forecast cost of claims has been projected to increase from $6.8 million in fiscal 2001 to $8.4 million in fiscal 2002. The results are attributed by the Corporation to the low frequency – high severity nature of those claims resulting in high variability.

5.1.5 Pre-PIPP Tort Claims

Six years have passed since the introduction of PIPP. The Corporation routinely reassesses the expected cost of settlement of the outstanding tort claims, which may require adjustments These adjustments that reflect an increase in the ultimate cost of settlement of those claims are referred to as adverse run-off.

The Corporation actively monitors this tort run-off. As at March 1, 1994 there were more than 20,000 open claims with tort exposure. By February 29, 2000 this has been decreased to 638 open claims with an outstanding reserve of $84 million and further decreased to 369 claims by October 2000 with reserves totalling approximately $60 million. The Corporation has a Tort Tactical Plan which it revises regularly, and continues to aggressively manage the tort run-off. In addition, the Corporation has purchased $20 million of reinsurance coverage that will engage if paid claims exceed $97 million for all outstanding losses since January 1999 .

5.2 Claims Expenses

The administrative costs associated with processing and settling claims are referred to as claims expenses. These expenses include employee compensation, vehicles and buildings, amortization,

data processing, office supplies, telecommunications and other day-to-day costs. For fiscal 2002, claims expenses are forecast to be $53.9 million, an increase over the $49.6 million forecasted for fiscal 2001. A financial provision for a continuation of the funding of the Winnipeg Police Services anti-theft initiative is included in the overall expenses, and therefore charged to all territories and use classifications. This initiative has stemmed the increases in theft claims previously experienced. Accordingly, along with the 96% recovery rate for stolen vehicles, the Corporation has viewed this initiative to be a success.

5.3 Operating Expenses

Operating expenses consist mainly of employee compensation, data processing, telecommunications, depreciation, amortization, building expenses, and supplies for staff not directly handling customers' claims. The Corporation has budgeted a 2% operating expense growth, exclusive of new projects and initiatives. Operating expenses are projected to be $40.3 million in fiscal 2002. The Corporation's target is that operating expenses be no more than 58% of the Canadian industry average, (as a percentage of premium) which target has been achieved in the past two years.

6.0 Program Revenue

6.1 Revenue Requirement

The Corporation derives revenue from motor vehicle premiums, drivers' premiums, investment income, service fees and other income to fund its total cost of service and to provide a net contribution to the Rate Stabilization Reserve ("RSR"). The Corporation's latest forecast operating results for fiscal 2001 and projection for fiscal 2002 are as follows:

($ thousands)	**2001 Initial Forecast**	**2001 Forecast Filed November 2000**	**2002 Projection at Requested Rates**
Premiums Earned			
Motor Vehicle Premiums	$428,128	443,420	448,509
Drivers' Premiums	27,983	27,750	30,521
Reinsurance Ceded	(8,122)	(9,285)	(10,117)
	447,989	461,885	468,913
Service Fees and Other Revenues	12,969	13,858	14,546
Total Earned Revenue	460,958	475,743	483,459
Net Claims Incurred	377,514	373,121	388,495
Claims Expense	50,334	49,607	53,851
Operating Expenses	35,998	37,795	40,329
Commissions	20,297	20,611	19,356
Premium Taxes	13,683	14,135	13,160
Regulatory/Appeal Expenses	1,589	1,809	1,845
Road Safety Expenses	6,986	5,168	5,447
Total Claims and Expenses	506,401	502,246	522,483
Underwriting Income (Loss)	(45,443)	(26,503)	(39,024)
Investment Income	57,130	71,752	67,680
Gain (Loss) on Sale of Investments	-	(1,507)	-
Net Income before RSR Allocation	11,687	43,742	28,656
RSR Allocation	7,386	7,196	-
Net Income	$ 4,301	36,546	28,656

The Corporation's October 2000 forecast for fiscal 2001 indicate earned revenues will increase by $14.8 million and claims and expenses will decrease by $4.2 million from the original projection.

Total earned revenues are projected to be $483.4 million in fiscal 2002 compared to $461 million in fiscal 2001 as initially forecast. This is mainly due to the growth in vehicle premiums as newer and more expensive vehicles are purchased by Manitobans at an unprecedented rate.

6.2 Vehicle Premiums

Motor vehicle premiums are based on rating territory, insurance use, rate group, and owner's driving record. Vehicle premiums account for over 80% of the total revenue of the Basic insurance program. No overall change in vehicle insurance premium revenue is being sought in this Application. Vehicle premiums earned for fiscal 2001 were forecast at the last GRA to be $428.1 million, which forecast was updated in October 2000 to be $443.4 million, and which is expected to increase to $448.5 million in fiscal 2002. A more expensive and newer vehicle fleet contributes to this increase in premiums written.

For fiscal 2001, the $7 million in additional earned vehicle premiums from the June 2000 to the October 2000 forecast was mainly due to an increase in the upgrade factor from 3.5% to 4.1% and an increase in volume of approximately 10,000 more vehicles. The upgrade factor reflects an increase in the average rate group over time in the fleet of vehicles insured. An increase upgrade factor reflects a decrease in the average age of vehicle in the fleet, as newer vehicles are purchased to replace older vehicles at an accelerated pace. This is attributable to a strong economy and the increasing use of leased vehicles. The Corporation has included an upgrade factor of 3.0% for fiscal 2002 on the basis that it does not anticipate this will carry on indefinitely.

6.3 Drivers' Premiums

When obtaining a driver's licence, all motorists are assessed a premium based on the principle that all drivers should contribute to the insurance fund, regardless of whether they own or insure a vehicle. Drivers' premiums are forecast to earn $30.5 million in fiscal 2002. There are no changes to the existing base premium fee.

Additional premiums are assessed against motorists who have accumulated six or more demerit points on their driver licence as a result of traffic convictions. Since conviction-prone drivers represent a higher risk, assessment of additional premiums is common in the automobile insurance industry. The Division of Driver and Vehicle Licencing ("DDVL") administers the demerit point system. The Corporation proposes an increase of $50 to each demerit point surcharge level. These revised premiums will range from $200 for six demerit points to $999 for 22 or more demerit points. Total revenues are expected to be $2.3 million from the demerit point additional premiums.

Drivers' premiums also include accident surcharges which are intended to deter accidents and to require accident-prone drivers to pay a larger share of overall insurance costs. Currently, accident surcharges of $150 are assessed on the first at fault accident for drivers who do not own vehicles. For all drivers who have a second at fault accident in a 36 month surcharge period, a $300 surcharge is applied. This surcharge increases to $600 for the third accident and $900 for the fourth and subsequent accident. The Corporation proposes to increase the surcharge structure ranges from $200 to $1,200.

One further revision is that vehicle owners who have been free of at fault claims for at least six years will no longer lose the 25% discount on their vehicle insurance for a first at fault accident. Instead, they will pay the first accident surcharge on their driver's licence which was previously only charged to non-owners.

These changes are forecast to increase revenues by $4.1 million, for a total of $8.7 million.

6.4 Investment Income

The Corporation has cash, equities, short and long-term investments totalling in excess of $1 billion. Funds available for investment are primarily related to unearned premiums and unpaid claims. Of the $86.1 million in total investment income in fiscal 2002, $67.7 million is allocated to Basic insurance which reduces the revenue the Corporation is required to collect through premiums. The Department of Finance acts as the Corporation's investment manager, administering the Corporation's investment portfolio. Investment policies are monitored by the Investment Committee of the Board of Directors.

Investment income has increased for fiscal 2001 from what was originally forecast. At last year's GRA, investment income for fiscal 2001 was forecast to be $57.1 million. This was increased to $70.2 million in the November 2000 amendment. Investment income for fiscal 2002 is projected to be $67.7 million.

6.5 Service Fees and Other Revenues

The Basic insurance program is forecast to earn $14.5 million from service fees and other revenue in fiscal 2002. This revenue consists mainly of income from the time payment plan, late fees, dishonoured payment fees and miscellaneous fees. There are no changes requested in the current application related to service fees and other revenue.

6.6 Net Income

Net income has varied widely from what was originally projected to the actual, sometimes varying by up to as much as $36 million in a single year. The following table illustrates this variance, and indicates that the actual net income has consistently exceeded the forecast:

Total Net Income ($ millions)

For Years Ending February 28, 29	1997	1998	1999	2000	2001	2002
Projected	4.0	10.7	18.9	19.3	11.7	28.7*
Actual	25.6	46.9	41.9	40.5	-	-
Variance	21.6	36.2	23.0	21.2	-	-

*November 8, 2000 revision

For fiscal 2001, the revised forecast net income (before RSR allocation) is $43.7 million, representing a $32 million variance from original $11.7 million projection. This variance was attributed to the length of time (almost two years) between preparing the forecasts and the actual earning of the revenue. Major variances were the $15.3 million additional earned vehicle premiums for the upgrade factor and increase in number of policies, and a $13.1 million increase in investment income. The Corporation denied any systemic bias in its claims forecasting, though it did acknowledge conservatism in its premium forecasting.

Net income for fiscal 2002 is forecast to be $28.7 million. The Corporation is committed to ensuring Basic insurance remains financially self-sufficient and stable through maintaining an adequate RSR and breaking even over the long term. Breaking even over the long term was defined as matching revenues and expenditures over a period of years, assuming adequate levels of reserves.

7.0 Rate Stabilization Reserve

7.1 RSR History

In 1995 the Board of Directors of the Corporation approved a Rate Stabilization Reserve (“RSR”) Plan to rebuild the Corporation’s retained earnings for Basic insurance from a deficit balance of $49.9 million. The goal was to achieve an RSR balance equal to 15% of direct premiums written through a multi-year plan consisting of increasing annual dedicated RSR

contributions of 2% until a cumulative total of 8% RSR contribution was included in rates. The Board approved a 2% RSR contribution to be effective in fiscal 1997, an additional 2% in fiscal 1998, and an additional 1% in fiscal 1999. The Board then decreased the RSR contribution in fiscal 2000 by 1%, and eliminated the remaining 4% RSR adjustment in fiscal 2001, as requested by the Corporation.

The Corporation has seen a marked improvement in the basic RSR, from a $49.9 million deficit balance in fiscal 1996 to a forecasted $148.6 million surplus for fiscal 2001. The improvement in the RSR is attributed to approximately $55 million due to the RSR dedicated contributions, a $39 million gain from the sale of investments in fiscal 1998, as well as $105 million from profit on operations during this five year period. The Basic RSR is now forecast to be $101.9 million at February 28, 2002 after a proposed $75.4 million rebate of the RSR in the form of a Surplus Dividend.

A summary of the RSR balances for Basic insurance from fiscal 1997 through to fiscal 2002 is as follows, assuming the application is approved.

Basic Insurance Rate Stabilization Reserve ($ millions)

For Years Ending February 28, 29	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**
RSR Opening Balance	(49.9)	(24.4)	22.5	64.4	104.9	148.6
Net Income (loss)	21.8	36.3	25.5	23.4	36.5	28.7
Contribution to RSR	3.7	10.6	16.4	17.1	7.2	-
	(24.4)	22.5	64.4	104.9	148.6	177.3
Surplus Dividend						(75.4)
Total Basic RSR	(24.4)	22.5	64.4	104.9	148.6	101.9

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

7.2 Risk Analysis History

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

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

The following year the Corporation submitted its Risk Analysis to update the risk factors and respond to the Board's concerns. Applying the actual correlations and including operating expenses, the recommended RSR requirement at a 95% confidence level was $78 million. With operating expenses removed, this decreased to $67 million. The Corporation viewed its

approach and methodology to be statistically sound as it was based on a variance of costs and revenues from long-term averages rather than the accounting variance of budget-to-actual as proposed by CAC/MSOS. It was the Corporation's view that any budget-to-actual variance would render the methodology to one of stress testing to identify budgeting errors rather than a statistical variance of costs and revenues. The Risk Analysis also included pre-PIPP data since there was not enough PIPP data to be statistically valid according to the Corporation. A Value at Risk Analysis to measure the maximum predicted loss for the Corporation's investment portfolio over a time horizon, determined that at the three year time horizon the appropriate investment risk would be $0.

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

7.3 Current Risk Analysis

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

The Corporation engaged actuarial consultants Milliman & Robertson, Inc. ("M&R") to perform the updated operational Risk Analysis and again engaged Comstat Asset Consulting Group ("Comstat") to perform the updated investment Risk Analysis (Value at Risk study). The current Risk Analysis as filed contained both the M&R and Comstat reports as appendices to a summary report prepared by the Pricing & Economics Department of the Corporation.

Board Order 177/99 sets out the Board's requirements and expectations for the current Risk Analysis, as follows:

> "It is therefore ordered that …
>
> 7. The Corporation conduct various Risk Analysis scenarios and file the scenarios at the next general rate application including:
>
>   (a) Risk Analysis including all operating expenses;
>
>   (b) Risk Analysis excluding all operating expenses;
>
>   (c) Risk Analysis excluding pre-PIPP data; and
>
>   (d) Risk Analysis including all available data for the prior ten-year period.
>
> 8. The Corporation's Risk Analysis to be filed at the next general rate application utilize the variance between forecast and actual results for each of the risk components.
> 9. The Corporation's Risk Analysis to be filed at the next general rate application should consider the actual correlation between the risk components recognizing the direction of the effect on net income.
> 10. The Corporation's Risk Analysis include a Value at Risk Analysis regarding investment risk undertaken annually."

In its report, M&R indicated that it has relied on data, methodology and programmed spreadsheets provided by the Corporation. In particular, M&R stated "We have not re-derived the formulae underlying the methodology or thoroughly rechecked all of the underlying spreadsheet calculations, and do not express an opinion on the correctness or the reasonableness of the methods employed." The purpose of the M&R report was primarily to update the

Corporation's calculations used for the 1999 analysis, adapted in certain instances in response to Board Order 177/99.

In performing the current operational Risk Analysis, M&R addressed the Board's requirements in a somewhat stepwise fashion, presenting results on the following bases:

M&R Report Appendix	Variance Of Actual To	Correlation Basis	Experience Period
B	Average	Perfect	10 years
C	Average	Actual	10 years
D	Average	Perfect	PIPP years
E	Average	Actual	PIPP years
F	Budget	Actual	10 years

In each appendix, risk margins are presented both including and excluding operating expenses, and both with and without an attempt to recognize the directional effect of each risk component on net income. However rather than simply reflecting the directional effect on net income, the adjustments in Appendix E impose a negative correlation between revenue and each cost component, and the adjustments in Appendix F impose a negative correlation between revenue and each cost component and a positive correlation between each of the cost components. As a result, the M&R report did not present the results of a scenario reflecting actual-to-budget variances and actual correlations reflecting the directional effect of each risk component on net income.

In concluding its report, M&R offered four suggestions and observations with respect to the methodology employed in the current Risk Analysis. The second suggestion saw merit in recognizing the directional effect of each risk component on net income, as concluded by the Board from its review of the last previous general rate application. The other three M&R

suggestions dealt with the basis of measuring variability. The Corporation indicated that M&R's suggestions will be explored in future Risk Analyses.

The Comstat report was similar to that previously presented but updated to February 2000. It defined value at risk as "a measure of predicted maximum loss (or worst loss) of an investment portfolio over a target horizon at a given confidence level." Comstat's analysis reflected the composition of the Corporation's total investment portfolio (i.e., not just the Basic share) as at the end of February 2000. Considering the characteristics of this portfolio and the circumstances of the Corporation, Comstat recommended using a time horizon of three years, and found a $0 value at risk up to a 97.5% confidence level, and a $14 million value at risk at a 99% confidence level. The Corporation scaled down the reported Comstat findings to reflect only the Basic share, and recast the results using three different assumed levels for the equity portion of the portfolio (10%, 20% and 30%). The Corporation indicated that while equities currently represent approximately 10% of the portfolio, current plans call for increasing this up to 20% over the next two years.

In interpreting the findings of the M&R and Comstat reports, the Corporation assembled the results of many different combinations of assumptions and methods, at different confidence levels (90%, 95%, 97.5%, 99%), and different equity concentrations (10%, 20%, 30%), assuming perfect correlation between operational risk and investment risk. The Corporation concluded that "The analysis suggests a wide range of potential risk magnitudes from as low as $32 million to as high as $283 million to the Basic Autopac Plan", implicitly giving equal weight in its consideration of each of these varied results.

The Corporation contended that a purely statistical approach as provided by the current Risk Analysis is insufficient for making a policy decision to set the RSR target, favouring instead a more contextual basis for risk assessment. With reference to two academic papers on risk assessment, the Corporation focused on contextual considerations of dread (eg., fear of setting

the RSR too low and fear of the lack of complete control over financial results) and social context (eg., the costs and benefits to the public of setting the RSR target low or high).

7.4 RSR Target

Based, in part, on the results of the Risk Analysis and other contextual considerations, the Corporation's Board of Directors reaffirmed its previous commitment to an RSR target range of $80 to $100 million for a three year period ending February 28, 2003. One of the Corporation's goals is to achieve financial stability and set a range to promote rate stability.

The Corporation acknowledged that the range for the RSR adopted by the Board in Board Order 177/99 for rate setting purposes is $65 to $80 million as opposed to the $80 to $100 million range adopted by the Board of Directors of the Corporation.

The Corporation is committed to ensuring that Basic insurance remains financially self-sufficient and stable through maintenance of the RSR and by breaking even on operations over the long term. The purpose of the RSR is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors. Breaking even over the long term is essential to overall stability and predictable and stable rates are very important to the ratepayers, according to the Corporation.

The Corporation had retained earnings of $104.9 million for Basic insurance for fiscal 2000. The Corporation has forecast an RSR in Basic insurance in the current fiscal year 2001 to be $148.6 million. The forecasted RSR for fiscal 2002 is estimated to be $177.3 million before a proposed refund of a $75.4 million surplus dividend. This amount is well in excess of the $80 to $100 million target set by the Corporation's Board of Directors and the Board's target of $65 to $80 million for rate setting purposes.

To deal with this excessive level of the RSR, the Corporation included two different approaches in its initial application to reduce the RSR: a surplus dividend and a fund transfer consisting of a driver's licence improvement fund transfer and a legacy/endowment fund transfer.

7.5 Fund Transfers

In its original application the Corporation intended to allocate $25 million from the RSR in the current 2001 fiscal year by providing $10 million to the DDVL for a new driver licence system and $15 million to establish a community investment fund. In an amendment, dated October 2, 2000, the community investment fund was increased by $5 to $20 million. The Corporation attributed the increase in the fund to further improved forecasted financial results. Immediately preceding the commencement of the hearing, the Corporation announced the $20 million would be transferred to selected universities to fund infrastructure improvements. The Corporation cited the contribution as being appropriate in that the Corporation, as a Crown Corporation, was owned by all Manitobans and reasoned that all Manitobans, not only motorists, should benefit from the Corporation's financial strength.

Following a significant public response demanding that surplus RSR monies be refunded to the policyholders who had contributed to the RSR, the Board of Directors, on November 8, 2000, indicated that the surplus dividend would be increased to include the $30 million originally considered for fund transfers.

7.6 Surplus Dividend

Strong positive financial results in Basic insurance over the recent past has led to the Corporation applying for a one-time surplus dividend of $75.4 million or 16.6% reduction of motor vehicle rates otherwise payable in fiscal 2002. Originally planned as a 5% surplus dividend, this was increased to 10% in the October 2, 2000 amended application. This increase to the dividend resulted from better than expected financial results for the first six months of fiscal 2001, which the Corporation expects to continue until year-end. Whereas fiscal 2002 net income was forecast previously to be $18.1 million, this now increased to $26.7 million. On November 8, 2000 the Corporation again revised the application increasing the net income to $28.7 million for fiscal 2002, as a result of direction from its Board of Directors to include the

$30 million contemplated fund transfers as part of a surplus dividend to be returned to motorists rather than for fund transfers in fiscal 2001.

The Corporation has indicated that in future situations where the RSR exceeds the top of the target range approved by the Board of Directors, the excess RSR, on an earned basis, will be returned to motorists in the form of surplus dividend as contemplated in this application. In dealing with the excess RSR the Corporation considers the following:

- Manitobans value rate stability and will not support large decreases followed by increases or vice versa;
- Financial risk must be mitigated by an appropriate RSR level to the extent possible; and
- Rate applications must be based on rates that are sufficient to pay expected costs, precluding applications that would generate a financial loss.

Therefore, surplus funds will be returned to policyholders on a percent of premium basis once they are actually realized, but not beforehand based on a premium written basis or based on forecasts and projections.

The Corporation noted that an effective communication strategy will be put in place to avoid customer confusion and to communicate clearly that the 16.6% reduction is a one-time surplus dividend. The Corporation stated that the communication of such a rate reduction is much easier than the confusion customers would face by an alternative 5% rate reduction and 11.6% surplus dividend as proposed by CAC/MSOS.

The public notice indicated an 11.2% decrease in premium for private passenger vehicles in fiscal 2002 that was further decreased to –17%. When questioned about the public notice next year, all other things being equal, the Corporation responded that amount would be near 0%. The Corporation has proposed taking great pains to ensure customers know there is a one-time rebate by including this as a separate line item on policyholder statements and that the rates have not changed.

The Corporation's goal regarding rates, as set out in the Strategic Plan states, "Rates and rating categories will be equitable, stable over time, and understandable." Stability and predictability is a major factor to the Corporation in rate-setting, along with cost recovery. The Corporation considered year over year rate stability to be another important factor, particularly in light of future indicated rate increases. With a staggered renewal system, only approximately half of the required revenue is earned in the year of the application. If a 5% revenue increase is required for the upcoming year, a 10% increase in rates is required for that year to yield the appropriate revenue. Given the long tail on rates, rate increases almost have to be applied for the year prior to needing the revenue.

Within the next three to four years, the Corporation has forecast it will require a rate increase to cover costs. Rather than use the current surplus in the RSR to smooth future rate increases, the Corporation will refund to its customers that surplus in this year. Only when the rate increase is required, will the Corporation request approval for a rate increase. This will assist the Corporation in managing issues of intergenerational inequity.

8.0 Rate Design

8.1 Actuarial Methodology

This application reflects an actuarial methodology for forecasting the required rate levels which is substantially unchanged from that used in the last previous application, but with several important exceptions.

In Board Order 177/99, the Corporation was instructed to file with the 2001/02 application the results of a study concerning averaging large losses (appropriately defined) over a longer period of PIPP experience, within each Major Classification, Insurance Use and territorial category, to enhance rate stability. The intent of such a procedure would be to contain the distortion that may be caused by the presence, or absence, of extraordinary large losses in a particular year or experience period.

The Corporation implemented such a change in methodology with this application in the analysis of Major Classification rates, and territory and Insurance Use rate relationships. Average serious losses based on the six available years of PIPP experience were substituted for the actual serious losses in each of the five latest years of experience used in the analysis. It is expected that this averaging process will be extended each year until at least ten years of PIPP experience are available, after which time the need for additional years of experience for averaging will be assessed.

In Board Order 177/99, the Corporation was instructed to adapt its ratemaking methodology for the analysis of Major Classification rates with the 2001/02 application, so as to test and adjust for any underlying differences in the distribution of vehicles by Major Classification across the territories. The Corporation had previously stated that in the analysis of Major Classification rates, it was assumed that the distribution by Major Classification was uniform among territories, an assumption that was in fact not supported by the experience.

The Corporation implemented such a change in methodology with this application in the analysis of Major Classification rates. It was assumed that the territorial distribution was different and independent for each Major Classification, and separate territorial relativities were determined for each Major Classification.

In Board Order 177/99, the Corporation was instructed to file with the 2001/02 application a redeveloped bonus/malus system reflecting a reassessment of the scale of surcharges and additional premiums charged to motorists. Previously, the Corporation had maintained that any analysis of the statistical relationships indicated for rate surcharges and discounts must only be undertaken within the context of an overall review and potential redevelopment of the bonus/malus system.

As noted elsewhere in this Board Order, the Corporation has proposed several changes to the bonus/malus system for implementation in 2001/02, namely increases to the driver's licence accident surcharges and demerit point additional premiums, and forgiveness of the first at fault

accident in determining vehicle merit discounts for vehicle owners free of at fault claims for at least six years. These changes were predicated on considerations of public acceptability, affordability, rate stability and operational feasibility. These changes were not predicated on any analysis of experience. The Corporation maintained that this approach, as a departure from strictly statistically driven and actuarially sound rates, is appropriate for a penalty/reward system such as this.

In Board Order 177/99, the Corporation was instructed to file with the 2001/02 application a report regarding its policy position respecting the capping of commuter premiums to be no greater than Territory 1 premiums. The Corporation had previously indicated that the original intent of this cap was to contain the commuter premiums because of the uncertainty of the limited experience available.

The Corporation eliminated the cap with the current application, allowing the commuter rates to respond to the experience, consistent with its objective of having rates that are statistically driven and actuarially sound.

In Board Order 177/99, the Corporation was instructed to file with the 2001/02 application a report that considers establishing more rate groups for trailers valued under $2,500. The intent of possibly introducing a more refined categorization of trailers below $2,500 in value was to create more homogeneous groupings, thereby enhancing the fairness of the rates.

The Corporation reported on its consideration of this issue in the current application. It noted that the dominant component of the trailer rates is currently the provision for operating expenses, which does not vary with the value of the trailer. The Corporation also noted that anecdotal evidence suggests that refinement of the declared value ranges for trailers will burden customers who already find the current level of categorization challenging. Accordingly, the Corporation proposed no changes to the rate group structure used for trailers.

In Board Order 177/99, the Corporation was instructed to file with the 2001/02 application a report on Canadian Loss Experience Automobile Rating (“CLEAR”), explaining among other things, the system employed to adapt CLEAR as promulgated by the Vehicle Information Centre of Canada (“VICC”) for application to Manitoba motorists. Over the last several years, the Corporation has made substantial progress to bring the Manitoba fleet of private passenger cars and light trucks to the recommended CLEAR rate groups, as adapted from those promulgated by VICC.

The Corporation filed the requested report, and noted that with the transition to CLEAR rate groups now more or less complete, it was appropriate to begin the process of establishing experience-based rate relationships between rate groups, consistent with the principles of CLEAR. After considering and rejecting the adaptation of VICC rate group relationships due to concerns about severe policyholder dislocation, the Corporation changed its ratemaking methodology to introduce the analysis of rate group relationships in tandem with the analysis of Insurance Use and territory rate relationships. To mitigate the potential policyholder dislocation due to changing rate group relationships, limitations were introduced to contain the rate group adjustment.

8.2 Vehicle Classification System

The Corporation continues to classify vehicle risk by considering insurance use, rating territories and rate groups. Insurance use classifications categorize vehicles by the nature of the vehicle and its intended insurance use. The one addition to insurance use classification in this application is common carrier passenger vehicles (local) use, which accommodates passenger vehicles used for courier and similar light delivery purposes. Currently, these vehicles are classified in the all-purpose passenger vehicle use category. This change aligns the usage of these vehicles with light trucks used for the same purpose. The rates for common carrier passenger vehicles (local) will be established arbitrarily at a level 5% higher than all purpose use to reflect higher use and risk. As claims experience develops, rates will be adjusted.

Vehicles are assigned to one of five geographic territories in Manitoba. There have been no changes to the rating territories in this application.

Rate groups categorize vehicles to reflect vehicle make, model, model year, weight, engine size, declared value, and CLEAR assignment as promulgated by the VICC.

8.3 Major Classification, Insurance Use and Rating Territory

The Corporation developed indicated adjustments by insurance use categories within the Major Classifications and for each territory. To avoid rate shock, the Corporation continues to cap experience adjustments as follows: if the indicated experience adjustment is 10% or less, then the rate is adjusted by the indicated amount; if greater than 10%, then the rate is adjusted by 10% plus one-third of the difference between the indicated adjustment and 10%, up to a maximum of 15%. The Corporation continues its practice of rebalancing the capped experience adjustments to ensure the capping process does not create any overall rate level shortfall or redundancy. The Corporation has made significant progress in moving to rates that are within 10% of the indicator. In fiscal 1998, 51% of vehicles were within that range, whereas in the year of this application it is 97% of all vehicles (excluding trailers) are within the range.

The Corporation noted it was amending its treatment of reinsurance by allocating it between casualty and catastrophe, the latter of which is applied to all categories except motorcycles and off-road vehicles.

In Board Order 154/98 the Corporation was directed to file at the next GRA a report on possible alternative methods of allocating operating and other non-claims expenses across major classifications. The Corporation currently charges a fixed amount per policy of $63.87 to cover operating expenses, with total operating costs shared among the total vehicle population on a per unit basis.

The Corporation intends to modify its rate making methodology next year to change from a per unit allocation of operating expenses to a primary vehicle per unit allocation. Under this method,

operating expenses are allocated on a flat per unit basis to the private passenger, commercial and public classes only. This recognizes vehicles such as trailers and motorcycles are secondary vehicles, but likely the owner owns another primary vehicle. Furthermore, a more customer based view of policy holders through Autopac On-Line permits one renewal notice and statement of account to be issued to each customer that includes all vehicles. This methodology of allocation increases private passenger, commercial and public classes portion of rates from $64 to $74, and decreases motorcycle, off-road vehicles and trailers by $64 to $0.

8.4 Canadian Loss Experience Automobile Rating ("CLEAR")

The Corporation is continuing with its multi-year implementation of the CLEAR system for passenger vehicles and light trucks. The Corporation estimates that by the end of fiscal 2002, all motor vehicles will have reached their appropriate CLEAR rate group. Even though the Corporation is not proposing any change in average vehicle premiums rates the continued implementation of CLEAR results in changes to individual vehicle premiums. Three factors cause the CLEAR recommendation to be adjusted each year: actual experience for new vehicles is developed; loss costs for repair decrease as vehicles age; and new trends emerge such as higher theft rates for a particular market model.

Two objectives of CLEAR are: to categorize makes, models, and model years of vehicles into groupings (rate groups) which reflect a reasonably common level of risk (expected claims costs), and to establish rate differentials for establishing premiums by rate group that reflect these different levels of risk. To date, the Corporation has substantially implemented the first objective. The Corporation is now proposing to start implementing the second objective, using its own experience (using the minimum bias technique) rather than VICC recommendations which would cause substantial dislocation and was not indicative of Manitoba experience. Whereas CLEAR provides rate groups that indicate the relative risk of different vehicles, these are not related to the actual cost of providing the coverage in Manitoba.

This second stage also gives rise to issues of managing policyholder dislocation, as did the first stage. To temper dislocation, a 10% cap has been applied to the rate group re-adjustment for the year of the application. The Corporation, while seeing value in taking this first step, was unable to indicate whether it would continue this change in methodology beyond the first year, thereby leaving it partially implemented. This would be reviewed annually.

The VICC calculates three different CLEAR rate groups for passenger vehicles and light trucks: Collision, Comprehensive and Accident Benefits. The Corporation then combines these rate groups and collapses the VICC scale of 1-99 down to 27 rate groups to form an overall rate group for each vehicle. CLEAR recommendations for Collision and Comprehensive span 99 rate groups, but for Accident Benefits five rate groups. Injury claim costs vary less by vehicle type than do the actual vehicle damage costs, so Accident Benefits are accumulated within five rate groups. The process of applying the rate group is to determine the weighted average of the CLEAR collision and comprehensive rate groups and then adjust this by the Accident Benefit rate group. The weighting factors used represent the historical overall relationship between Collision (72%) and Comprehensive (28%) losses. The combining process is predicated upon an assumption that VICC assigned rate groups for collision and comprehensive different by more than 5 are uncommon, whereas 22% of the vehicle population exceed this threshold. Furthermore, the CLEAR data has no cap in terms of value for claims whereas Manitoba legislation caps the amount at $50,000 for Basic insurance coverage. Therefore any uncapped rate group beyond 28 in the CLEAR system merely gets capped at 27 in Manitoba.

With respect to accident benefits to increase the sensitivity of the Accident Benefit injury component, the Corporation proposes the combining process be modified as follows:

- if the CLEAR accident benefit rate group is 1, the rate group is adjusted down by two rate groups;
- if the CLEAR accident benefit rate group is 2, the rate group is adjusted down by one rate group;
- if the CLEAR accident benefit rate group is 3, the rate group remains unchanged;

- if the CLEAR accident benefit rate group is 4, the rate group is adjusted up by one rate group;
- if the CLEAR accident benefit rate group is 5, the rate group is adjusted up by two rate groups.

The effect of this change for passenger vehicles is 257, 745 (58%) will be moved to lower rate groups 16,706 (4%) will be moved to higher rate groups and 167,059 (38%) will remain unchanged. Currently the rate group is adjusted down one if the CLEAR Accident Benefit rate group is 1 or 2, and up one if 4 or 5.

8.5 Premium Impacts

The Corporation's Application seeks approval of motor vehicle premiums which, on an overall basis, would result in no change in average vehicle premium rates. However, a proposed 16.6% surplus dividend will be refunded to all ratepayers, thereby resulting in a reduction of premiums that would otherwise be payable. The following table indicates the difference between the experience rate requirement indicators based upon the financial forecast, the average rate adjustment before surplus dividend, and the change in average vehicle premium including the impact of the 16.6% surplus dividend.

Major Use	Change Based on Financial Forecast %	Average Rate Adjustment Before Surplus Dividend %	Total Requested Change %
Private Passenger	-5.7	-0.4	-17.0
Commercial	5.6	8.5	-9.5
Public	-5.3	0.4	-16.4
Motorcycles	22.1	15.0	-4.2
Trailers	4.5	5.1	-13.7
Off Road Vehicles	-3.7	1.3	-16.3
Overall	-5.0	0.0	-16.5

The overall impact of rate adjustments on the total vehicle population is as follows:

- 742,098 or 99.2% of vehicles will receive a rate decrease. Fifty percent will experience decreases up to $100; and
- 5,144 or 0.7% will receive an increase in rates.

8.6 Motorcycles

8.6.1 Motorcycle Premiums

The applied for rate adjustments for motorcycles would result in an average vehicle rate decrease of 4.2% for the Motorcycle Major Classification, compared to the previous year's increase of 10.6%. Although the actual experience based adjustment indicates that an increase of approximately 25% on an overall basis, the motorcycle premium increase historically is capped at 15% to mitigate rate shock and the 16.6% surplus dividend is further subtracted from the experience based adjustment. As proposed, 94.6% of motorcycles will be experiencing a decrease in rates.

8.6.2 Seasonal Premiums for Motorcycles

In Board Order 177/99 the Board ordered "The Corporation file a report at the next general rate application considering the merits of implementing seasonal premiums for the Motorcycle Major Classification." Beginning March 1, 2001, the Corporation proposes to change the current method of determining rates on an annual basis to a seasonal rating system.

Most motorcyclists register and insure for approximately five months per year which coincides generally with good weather. Motorcyclists who register and insure for longer than five months do so because they perceive the value in being able to ride occasionally, before the weather is too severe, is worth the additional cost of insurance. The current system of annually based premium earning forces motorcyclists to undertake this cost/benefit analysis. The Corporation's view is that opportunities to ride motorcycles outside the core period of May 1 to September 30 are, over the long term, infrequent and unpredictable, but when they occur, motorcyclists would take

advantage of them if registration and insurance was not a perceived barrier. Earning all motorcycle premiums between May 1 and September 30 is based on the assumption that any risk assumed by the Corporation between October 1 and April 30 will be a very small proportion of the total risk. If weather patterns exhibit sustained change over time, the earning season could be lengthened.

By establishing annual policies that are earned seasonally, service will be improved to motorcyclists by reducing their need for additional trips to brokers for transaction processing. Motorcyclists who choose to register and insure for only a part of the riding season will continue to be able to do so. Few are expected to do so. The Corporation proposes earning all motorcycle premiums between May 1 and September 30. This five month period equates to 42% of the year and on that basis all rates will be adjusted by a factor of 42%.

The Corporation indicated there is no loss of revenue since seasonal rating does not change the premium that is actually charged for the riding season. The only change is in the refund/cancellation rules.

8.6.3 Motorcycle Vehicle Type Differentials

The Corporation also proposes adopting and implementing the following VICC motorcycle vehicle type differentials to differentiate the relative risk of motorcycle types:

Type	Custom	Touring	Sports	Dual Purpose	Motorscooter
Differential	1.0	0.9	1.5	1.0	0.7

Under this measurement 1.0 is 100% of the rate with sport motorcycles at 1.5 being the highest risk and highest cost of claims.

The basis for the proposed differentials is a study undertaken by VICC in 1996 using a 1989 study. Witnesses for the Corporation testified the relativities between the different styles are unlikely to change significantly over time. In the long term the Corporation expects to introduce rate groups for motorcycles as established by VICC. However, since these have not yet been

established by VICC, the Corporation will adopt these rate differentials as directional indicators of future rate groups. The Corporation also admitted under cross-examination that the VICC study does not include Accident Benefits which are approximately 80% of the claims costs for motorcycles. No variation had been made to include Accident Benefits.

The introduction of motorcycle type differentials will alter motorcycle rates. Due to the significant effect of the 1.5 differential for sport motorcycles, this change is to be phased in at 1.2 in year one, 1.35 in year two, and 1.5 in year three. The Corporation is applying for the 1.2 increase this year, but indicated that in future years it will be applying for increases of 1.35 and 1.5. As a result of adopting these differentials, 364 motorcycles (all sport) will rise in rates and 6,137 motorcycles will decrease in rates.

9.0 Intervenors' Positions

9.1 ARM

ARM encouraged the Corporation to minimize vehicle repair costs by greater use of after market parts, especially since original equipment manufacturer's parts prices have increased beyond the rate of inflation. ARM maintained that the recyclers' ability to assist the Corporation in obtaining these savings is hindered by the Corporation's method of using original equipment manufacturer's parts numbers which benefits the after market suppliers at the expense of recyclers. ARM further questioned the need for a public auction to dispose of salvage vehicles.

9.2 CAA

CAA argued that the treatment by the Corporation of the RSR and its intended transfer of $30 million undermined the Corporation's integrity. A Board ruling on both the purpose of the RSR and transfer of funds in the future, was requested to ensure that only policyholders may benefit from the funds in the RSR, since policyholders contributed all such funds whether through a direct surcharge or providing the capital upon which investment income is earned.

Furthermore, the Corporation may only remove funds from the RSR with the consent of the Board.

CAA requested all surplus monies are to be returned to the policyholders in one surplus dividend payout to avoid intergenerational inequities and since the Corporation's forecasting abilities are less than adequate.

CAA questioned whether the Corporation was improving its financial position at the expense of the PIPP claimants. CAA and several presenters criticized the Corporation for being adversarial and heavy handed in its treatment of some PIPP claimants.

9.3 CAC/MSOS

CAC/MSOS presented the Board with five recommendations. First, the RSR target range for rate-setting purposes should be $65 to $80 million as per Board Order 177/99. With the evidence of John Todd demonstrating the total risk is below $54.5 million, the Board could be satisfied its target of $65 to $80 million is somewhat conservative.

Second, the base premium should be reduced by 5% on the basis that the forecast net income of $28 million is excessive and the Corporation should be budgeting more on a break even basis. Furthermore, with the Corporation's experience in over-forecasting, any rate increase required for fiscal 2004 should not be pre-collected through excessive rates requested in this application. Rate increases should only be granted in that year in which the revenue is required.

The third recommendation is that the Board approve a one-time rate rebate of 11.6% to avoid intergenerational inequity and to prevent the Corporation from transferring away any further surplus that may remain in the RSR. CAC/MSOS would feel more confident that the money should remain with the consumers, rather than the Corporation, which may be unable to resist the temptation to strip away reserves. CAC/MSOS rejected its own witness's recommendation to phase-in the rate rebate over a period of two years.

The fourth recommendation of CAC/MSOS is to bring closure to the RSR target by the Board requiring the Corporation to apply the specifics of the directives contained in Board Order 177/99. The Board should make absolutely clear what the Corporation is required to do to finalize the RSR Risk Analysis methodology and assumptions.

Finally, the Board should direct the Corporation to provide for the next GRA, an analysis of the sources of net income variance from forecast. CAC/MSOS submitted that the Corporation has a systemic bias resulting in underestimating net income earned over the past five years. A determination of whether this can be corrected is required.

9.4 CAC/MSOS Witness

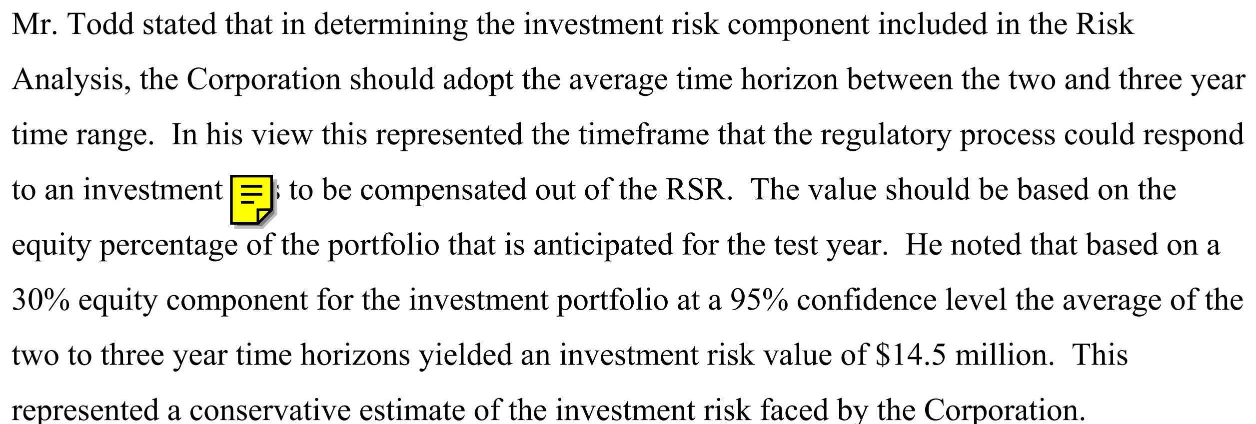
Mr. Todd, on behalf of CAC/MSOS, stated the Corporation has set base rates for fiscal 2002 well above what the Corporation needs to recover its costs in the application year and that it is misleading to the public to have rates set higher than necessary. Rates should be set to produce an appropriate net income on an annualized basis. A 5% base premium reduction would provide greater discipline for the Corporation in controlling costs, reasoning that if the Corporation anticipates a rate increase, it will take actions to control costs to avoid a rate increase. In cross examination by counsel for the Corporation, Mr. Todd agreed that there was no evidence suggesting that the Corporation lacked discipline in controlling costs.

As an alternative to the one-time rebate, Mr. Todd suggested a combination of a base premium revenue reduction of 5% with an 11.6 % one-time rebate to consumers for fiscal 2002.

Mr. Todd took issue with the Corporation’s recommendation of an RSR target based partly on contextual considerations of dread and social context. Mr. Todd rejected the Corporation's view that contextual considerations necessitate a more judgmental, and less statistically-driven approach to setting the RSR target. The examples of dread and social context cited by the Corporation were only illustrative of considerations that could be used in selecting assumptions in the statistical modelling. Hence the RSR target could be established by reference to a suitably

focused Risk Analysis. Mr. Todd asserted that the Board-approved RSR target of $65 to $80 million was more than adequate and it should be retained until the Risk Analysis is recalculated.

Mr. Todd stated that the Corporation's Risk Analysis was seriously flawed and its methodology inconsistent with Board Order 177/99. Of the five alternative calculations of operational risk, the first four alternatives incorporated year-to-year variances rather than budget to actual variances as directed in Board Order 177/99. Mr. Todd stated that the RSR is intended to deal with unexpected variances in net income and costs and that the risk to measure is the variance between actual and forecast. Mr. Todd also noted that the fifth alternative presented reflected budget to actual variance but was deficient in that it used correlations without considering their directional impact on net income as set out in directive 9 of Board Order 177/99.



Mr. Todd stated that in determining the investment risk component included in the Risk Analysis, the Corporation should adopt the average time horizon between the two and three year time range. In his view this represented the timeframe that the regulatory process could respond to an investment [illegible] to be compensated out of the RSR. The value should be based on the equity percentage of the portfolio that is anticipated for the test year. He noted that based on a 30% equity component for the investment portfolio at a 95% confidence level the average of the two to three year time horizons yielded an investment risk value of $14.5 million. This represented a conservative estimate of the investment risk faced by the Corporation.

Mr. Todd further stated that the investment risk component should not be just added to the value determined for operational risk as it implies that operational and investment risk are perfectly correlated. Mr. Todd stated that if investment risk is to be treated as another component of risk, then correlation between operational and investment risk should be taken into account.

Mr. Todd noted that the range of the RSR target of $32 to $283 million set out in the Risk Analysis was derived by more than 300 different combinations of assumptions, and that the Corporation has treated all combinations as being equal in determining the appropriate RSR

target. Mr. Todd stated that the Risk Analysis should be limited to identifying relevant measures of the risk, making use of only appropriate indicators pursuant to Board Order 177/99. Mr. Todd suggested the Risk Analysis should be recalculated and the Corporation should not include calculations based on methods rejected by the Board.

Mr. Todd urged the Board to direct the Corporation to file in the next GRA a thorough analysis of variances between projected and actual net income for the fiscal years 1996/97 though 2000/01 that identifies the source for the variance and quantifies the impact of each source of variance to determine whether the pattern of repeated favourable variances is the result of fortuitous events or conservative forecasting.

9.5 CMMG

Counsel for CMMG argued that the motorcyclists will receive an overall decrease in premiums charged for the first time in almost two decades. Although not all will experience the overall 4.2% reduction, and some will even get increases, this will be welcome relief for motorcyclists. CMMG questioned particular aspects of rate-making, noting the large discrepancy between the amount paid to date for a serious claim ($250,000) compared to a $1.2 million ultimate loss cost. This warranted further review by the external actuary to ensure forecasting motorcycle claims was accurate, especially considering the length of many claims.

CMMG welcomed the seasonal rates initiative for motorcyclists but opposed the introduction of the VICC based type differentials, noting this was based on a study categories that was outdated, unsubstantiated, incomplete, and unscientific. Furthermore, CMMG was not consulted on the introduction of the latter rate change, only the former.

CMMG encouraged the Corporation to increase road safety expenditures, especially to fund motorcycle safety courses similar to its funding of the driver's education programs at high schools. CMMG urged the Board to review the 10% allowance for doubtful reinsurance recoveries which CMMG maintained increased the claims costs unduly.

9.6 CUPW

CUPW questioned the fairness of comparing passenger vehicles with light trucks relative to passenger vehicles based on the all purpose passenger vehicle rate plus 5%. CUPW also contended that the 5% increase was arbitrary and that the Corporation ought to deal with the issue after tracking data and basing the new rate on actual experience.

9.7 IBAM

IBAM indicated its support for the one-time surplus dividend payment to the policyholders. However, because brokers' commissions are based on a percentage of premium written, this one time pay out has the effect of decreasing broker commissions. Notwithstanding the increase in the fleet and its upgrade, the amount of the surplus dividend means a decrease in payments to brokers overall. IBAM appealed to the Board to remove the surplus dividend for determining brokers' fees such that brokers are held harmless by this one time payment. IBAM was also opposed to transferring money out of the RSR unless it is paid to policyholders.

9.8 MCTRA

In its first active intervention, MCTRA questioned the inclusion of rental vehicles within the major classification of public service vehicles. Unlike police vehicles or hearses, a rental vehicle had a dramatically different use – one that was more in line with all purpose. Whereas the owner of a rental vehicle was never going to use that vehicle, the owner of the public service vehicle (or its employees) were the only drivers of that vehicle, thereby further differentiating these two types. Accordingly, MCTRA urged the Board to direct the Corporation to implement this change in classification. Furthermore, the inability to obtain a merit discount from the applicable base premium was argued to be unfairly denied. Counsel for MCTRA questioned the division of vehicles into rental as opposed to leased categories based on a thirty day delineation.

According to MCTRA, the Corporation is not entitled to charge higher base premiums for rentals of less then 30 days than for a vehicle leased for more than 30 days. Rather, it was the use of the

vehicle, not the duration of the rental/lease that was important. Such rates as charged currently are unjust and unreasonable.

10.0 Presenters

The Board heard oral and written presentations from many individuals who expressed concerns with the Corporation transferring $20 million to universities in the province and $10 million to DDVL to upgrade systems. All but one presenter encouraged the Board to ensure that this money was refunded to the policyholders since the two proposed transfers were beyond the mandate of the Corporation, and constituted indirect taxation by government. The presenters were adamant that the monies belonged to policyholders and were not to be used for any purpose other than for motor vehicle insurance and in particular the purpose of the RSR reserve fund. Many presenters were accident victims who sought to have the monies fund improvements in benefits rather than being transferred outside of the Corporation. Many of the presenters were outraged and angered with the proposed $30 million fund transfer. Those presenting to the Board included:

Eric Allen
Scott Allen
Liz Carlyle
Ed Barkman
Claude Bisson
Dorothy Brown
George Czmola
Henry Dettrich
David Farschou, M.L.A.
Stephen Fletcher
R. D. Girouard
Dr. Agnes Grant
Bob Greenhalgh
L. or N. Hallgrimson
Steve Humphrey
Roy Kading
W. R. Kirkup
Garry Knoll
Robert Kury
K. Lesyk
John Loewen, M.L.A.
George Marshall
John Matthews
Adina Matthews
Todd Mitchell
R. L. Moffat
John Neufeld
Al and Irene Peden
Michael Plett
Fred Pollard
Guy and Audrey Prince
Bonnie Proven
Andrew D. Rae
Nick Roberts
Ray Scouten
Edward Solomchuk
Barry Steinfeld
Bob Strong
Vivien Swehla
Dennis Tanguay
Keith Todd
D. and J. Waters
Gord Winter
Sharon Yee

Only one presenter, Ms. Liz Carlyle, on behalf of the Canadian Federation of Students, urged the Board to approve the $20 million transfer to the universities as this would provide benefits to the public.

Mr. Robert Kury requested that the Board pursue appropriate corrective actions on the Corporation's policies which he believed now favoured drivers who have major accidents, own either expensive or no vehicles, engage in criminal activity, and who drive great distances. Finally, although the merit discounts are appropriate, their application is problematic. A number of examples were provided to the Board in support of his viewpoints.

Mr. John Lejins stated that the Corporation should be spending its money on accident victims, and in particular, expanding income replacement indemnity payments to include victims such as himself. Mr. Lejins alleged that the Corporation was not following certain precedents on income replacement indemnity, and that certain Corporation employees have misrepresented the facts in this regard.

Mr. Bob Strong stated that the Board must safeguard the public interest and prevent the Corporation from distributing the surplus funds other than to accident victims and motorists, to whom such monies belong. Mr. Strong argued against the imposition of the no-fault system and pointed to many deficiencies, particularly the individual's right to sue. Mr. Strong also led the Board through a number of specific accident benefit treatments and rules that he considered unfair and how the claimants were still treated as adversaries notwithstanding the no-fault regime.

Mr. Barry Steinfeld, on behalf of the Manitoba Lawyers for Responsible Automobile Insurance, stated the best way to stabilize premiums and keep costs from escalating is to reduce claims frequency and severity. To accomplish this aim, the Corporation and government will have to be proactive on driver education, reward good drivers, penalize bad drivers, and ensure safe roads. With motor vehicle related fatalities increasing, and costs of claims rising, the effectiveness of the road safety initiatives were questioned. The Board was urged to undertake an independent

review of road safety initiatives, and to consider whether the no-fault insurance system contributes to irresponsible driving. Mr. Steinfeld further stated the $30 million fund transfers were incompatible with the objectives of the Corporation and its monies should not be used for general community purposes, but only to benefit the driving public, and particularly accident victims. A further independent study was requested on the reserve setting methodology and to determine whether there is a link between setting reserves and financial outcomes.

Mr. Nick Roberts, on behalf of the Manitoba Used Car Dealers Association asked the Board to deny the Corporation's Application for a 15% increase in premiums for dealer plates since the rate increase is not justified. They submitted that the Corporation had miscalculated the premiums payable since the revenue was based incorrectly on 1,252 dealer plates rather than the approximately 5,000 dealer plates in existence. Accordingly, the rates were far too high from the correct experience indicators.

11.0 Board Findings

The Board wishes to thank the many presenters who took time to make their views known to the Board. The Board has responded to many of their requests in the Board Findings, particularly relating to the proposed transfer of the RSR funds and the surplus dividend. Several presenters sought the Board's assistance in respect of the no-fault insurance regime and the level of accident benefits. Both the no-fault system and the level of accident benefits are matters that are beyond the jurisdiction of this Board. These matters were adopted either by separate legislation or regulation, and any change to legislation and regulation can only be accomplished in another forum.

Rate Stabilization Reserve (RSR)

In 1995, the Corporation established an RSR rebuilding strategy. Under this multi-year plan, the Corporation anticipated raising approximately $86 million to replenish the RSR by way of an RSR surcharge. Over the subsequent years, the full anticipated surcharge was not required, and through Board approved RSR surcharges in lesser amounts than originally contemplated by the Corporation, the RSR increased by approximately $55 million. In addition to the RSR surcharge, the Corporation realized a gain on sale of Investments of approximately $39 million in fiscal 98, and earned approximately $105 million from operations during the five-year period after 1996. As a consequence, the RSR has gone from a deficit of approximately $50 million at the end of the 1996 fiscal year, to a forecasted amount of $177 million at the end of the 2002 fiscal year before any surplus dividend.

In a previous Board Order, the Board stated that an RSR target in the range of $65 to $80 million was appropriate for rate setting purposes. In the current application, the Corporation submitted various risk studies and information to support the Corporation's view that an appropriate RSR level is in the range of $80 to $100 million. There is some debate as the level of acceptability of the various risk scenarios presented by the Corporation in support of its position on an appropriate RSR target. The Board's views on this matter are discussed in another section of this Board Order in an attempt to bring some closure to the debate. However, the fact remains that the forecasted RSR level at the end of fiscal 2002 is far in excess of the high end of either target. Accordingly, some immediate action is required to adjust the RSR balance to a more appropriate level.

In the original application, the Corporation contemplated a surplus dividend of 5% of premiums otherwise payable, and a further transfer of $25 million from the RSR to be used for other purposes. Because of favourable improvements in the Corporation's forecasted operating results for fiscal 2001, the application was subsequently amended to include a surplus dividend of 10%, and a transfer of $30 million from the RSR to be used for other purposes. There was a large

public response to this proposal, most of whom strongly objected to the proposed transfer of funds. Following the strong negative public response, the Corporation amended its application to include the $30 million as part of the proposed surplus dividend to policyholders. This decision will refund approximately $75.4 million to policyholders, and result in a one-time reduction to premiums that would otherwise be payable of approximately 16.6%.

As a basic principle, the Board believes that for rate setting purposes, the RSR should be utilized to protect motorists from rate increases that would otherwise be necessary because of losses from unexpected and non-recurring events. This is consistent with the Corporation's stated view of the purpose of the RSR. The RSR should not be used to offset base premiums increases which would otherwise be necessary to ensure that forecasted revenue is sufficient to cover forecasted costs in a particular fiscal year. Given the significant forecasted balance in the RSR at the end of fiscal 2002, the Board will approve the requested one-time surplus dividend requested by the Corporation. In approving this request, the Board understands that the Corporation will clearly disclose this item separately on all statements of accounts issued to policyholders.

One of the Corporation's objectives is for rates for basic insurance to be equitable, stable over time and understandable. The Board agrees with this objective, and is further of the view that a one-time refund in excess of the amount proposed by the Corporation would begin to compromise this objective, both in terms of the impact on current rates, as well as the impact on future rates.

The witness for CAC/MSOS cautioned against a one-time refund of 16.6% noting that this should be spread over two years to avoid future rate shock, and urged the Board to approve an 11.6 % surplus dividend and a 5% reduction in base premiums for fiscal 2002. Many other intervenors and presenters urged the Board to approve the one-time 16.6% refund. The Board notes that most intervenors and presenters stated that any surplus dividend should be paid only to policyholders since it is they who contributed to the surplus. The Board has considered these arguments in arriving at its decision, as well as the concern expressed by many that if a large

surplus remained in the Corporation, the Corporation's Board might use those funds for other purposes in the future.

The Corporation's financial projections for the fiscal year ended February 28, 2002 indicate a net income of approximately $28 million. It is the Board's view that this level of income is not consistent with another stated object of the Corporation that it will break even over the long term on basic compulsory coverage. However, in light of the significant surplus refund already approved, the Board is reluctant to consider a reduction in base premiums at this time in addition to the surplus refund. To do so would seriously impact the accepted principles of stable, understandable, and predictable rates. The net income for the 2002 fiscal year will increase the balance in the RSR at the end of 2002, and should be considered by the Corporation in next year's application by way of a plan for the disposition of any amount in the RSR that is surplus to an acceptable target based on an updated Risk Analysis. In addition, future applications should be prepared based on operating results that are closer to a breakeven, given the significant RSR balance forecast for the near term and the Corporation's stated objective of breaking even over the long term while maintaining an adequate basic RSR.

As previously stated, the Board will approve a one-time surplus dividend of 16.6% to be refunded to each policyholder for all policies issued between March 1, 2001 and February 28, 2002. This one-time surplus dividend should be clearly shown as a separate item on all statement of accounts with the policyholders. The Corporation must carefully manage the communication of this one-time refund so that all policyholders have a clear understanding of premiums that would otherwise be payable, but for the one-time refund.

In the Board's view, the RSR is derived from policyholders, whether directly from premiums and RSR contributions approved by the Board, or indirectly from income earned from the investment thereof. Since policyholders are the sole source of the RSR funds, they should be the sole beneficiaries of any surplus refunds, in accordance with a refund strategy to be reviewed and approved by this Board. In approving this one-time refund, the Board recognizes that the

balance of the RSR after the refund may still be considerable and will require a reasonable plan for the future. However, the excess surplus issue is one that likely should not be corrected in one fiscal year. Just as the RSR was built up over a period of years in accordance with an approved plan, so to should any significant excess be dealt with in a reasoned fashion, likely over a period of time that exceeds one year.

Forecasting Net Income

On an overall basis, the Corporation's forecasts of claims costs and other operating expenses since 1994, when PIPP was introduced, has been reasonably accurate. On the other hand, the Corporation has consistently under-estimated its annual premium revenue over the same time period. Higher than expected premium revenues in combination with improved investment income, and gains on sales of portfolio holdings, and approved RSR contributions has resulted in a significant RSR balance, part of which is now being refunded.

The Board understands that claims costs generally will tend to increase over time due to inflation, indexing of Accident Benefits, cost of vehicle repairs, and increased operating costs. While being mindful of the difficulties of precisely forecasting the future, the Board finds the historic trend in understating forecasted vehicle premiums of some concern, and urges the Corporation to focus its attention in this area. In all other material respects, the Board believes that the Corporation's forecasting methodologies and results are reasonable.

Risk Analysis

The Board's desire is to bring closure as to the methodology to be employed in determining the appropriate RSR target for rate setting purposes. The Board notes the Corporation's comments that in one year there was an underwriting loss of approximately $55 million. The Board wishes to point out, however, that of this amount, approximately $39 million was a provision for adverse development of pre-PIPP claims. With the advent of no-fault insurance, such an occurrence in the future is unlikely. Nevertheless, this is precisely the type of unexpected event which the RSR

is designed to cover. The Board continues in its belief that the appropriate tool to establish the RSR target is the Risk Analysis.

The Board wishes to clarify and refine its position advanced in Board Order 177/99 with respect to the means of determining the appropriate RSR target level. The Board will therefore direct the Corporation to utilize the following criteria together in the Risk Analysis in establishing the proper RSR target for rate setting purposes:

- At a 95 % confidence level, both including and excluding operating costs; and
- At a 97.5 % confidence level, both including and excluding operating costs.

Each of the four scenarios should:

- Include only PIPP data;
- Include investment risk using a Value at Risk Analysis assuming a 25% equity component and a time horizon of between two and three years;
- Use variances between forecast and actual amounts for revenues, losses, operating expenses and claims expenses; and
- Use actual correlations between all risk components recognizing the directional effect on net income.

The Board considers the movement to a 25% equity component appropriate since the Corporation's plans for its investment portfolio are expected to take it to this level over the next two years. The two-way treatment of operating costs recognizes that not all operating costs are controllable, and that the "correct" answer will lie somewhere between these two extremes. The use of two confidence levels is intended to focus the review to reasonable levels of risk tolerance. The Board will also encourage the Corporation to review in detail the four recommendations contained in the M&R report, and incorporate these, if appropriate, in the next year's Risk Analysis.

Rate Design

The Corporation has proposed a number of new rate design initiatives. Many of these initiatives result in rates that are fairer and more equitable for the individual policyholder. In instances of major dislocation, the Corporation has instituted capping rules approved by the Board to prevent undue rate increases or decreases for the individual policyholder.

The Board will approve the Corporation's Application for experienced based rate adjustments capped at -15% to +15%, in addition to the applied for classification offset adjustments ranging from -1.6% to +28.2%. Both of these are continuations of previous design initiatives.

The Board will approve the requested new rates for common carrier passenger vehicles (local), based on the all purpose passenger vehicle rate plus 5%. This is specifically aimed at passenger vehicles used for courier and similar light delivery purposes. The Board accepts the Corporation's evidence that it is more appropriate to align the rating treatment of these vehicles with that of light trucks used for the same purpose. The Board recognizes there is no actuarial or statistical basis for the requested 5% increase. However, notwithstanding the opposition of CUPW, the Board is satisfied that based on the experience of light trucks used for the same purpose, the expected experience for these vehicles is directionally higher than all purpose passenger vehicles and that rates in the future will be adjusted to reflect actual experience.

The Board notes that the implementation of CLEAR rate groups has been virtually completed. With the first phase implemented, the Corporation is embarking upon a second phase to establish rate group differential relationships to reflect different levels of risk. Some further dislocation may result from this initiative. However, the Board is of the view that Manitoba based experience to be used for this purpose is appropriate. The Board approved the request by the Corporation to limit dislocation by imposing a plus or minus 10% cap from the current rate for each rate group. The Board also heard that while the Corporation sees value in this partial stepped implementation, it has not committed to a complete implementation, since it wishes to reassess this initiative annually. The Board believes it prudent to follow through with this

initiative once commenced. The Board will direct the Corporation to develop a multi-year plan to implement this change fully so as to ensure that individual rates are just and reasonable, and review that plan as part of next year's application.

The Corporation prepared a report in response to a request in Board Order 177/99 on the adoption of CLEAR, including amongst other things, the collapsing of the 99 VICC rate groups into 27 used by the Corporation. The Board is satisfied with the approach taken by the Corporation to collapse the 99 rate groups into 27, but would note that VICC, when requested to review the Corporation's approach, commented that utilizing 30 rate groups may be more appropriate. The Board will direct the Corporation to report back next year on its assessment of this recommendation.

The Board will approve the change in the Accident Benefit weighting in the assignment of CLEAR rate groups to increase the sensitivity of the injury component of risk. This will ensure the premiums paid more appropriately match the risk, especially since Accident Benefits costs are larger than comprehensive costs. Though this will result in dislocation, with 58% of passenger vehicles decreasing in rates, 4% increasing, and 38% remaining unchanged due to this procedural change alone, the Board believes the heightened sensitivity of Accident Benefits in assigning rate groups is appropriate.

Two rate design issues were raised by intervenors or presenters that the Board has considered and will address. MCTRA raised concerns about the U-drive classification. After hearing the cross-examination and reviewing the relevant information requests, the Board has determined there is insufficient evidence or rationale to remove U-drive Insurance Use categories from the public vehicle Major Classification. However, the Board will direct the Corporation to review and prepare a report for the next GRA to determine the most appropriate Major Classification assignment for the U-drive Insurance Use categories based on an assessment of the homogeneity of the resulting Major Classification experience, or some other suitable measure.

The Manitoba Used Car Dealers Association raised an issue in respect of the calculation of premiums paid for dealer plates. The Board is satisfied with the Corporation's responses that certain of its exhibits did contain an error that had no effect on the required rates for dealer plates or any other category, but did have an effect on the capping and rebalancing of experience adjustments, and the resulting proposed revenue adjustments. Exhibits reflecting a correction of the dealer plate error, and summarizing the corrected proposed revenue adjustments by Major Classification, before and after the 16.6% surplus dividend were filed by the Corporation.

While the $45 fee for a driver's licence remains unchanged, two other aspects of driver's licence premiums are proposed to change. Both accident surcharges and demerit point increases changes will result in additional premiums or surcharges for at fault drivers. These are in keeping with the results of customer surveys which indicate that at fault drivers should pay higher premiums or surcharges since they are higher risks. The Board agrees and considers each of the proposed increases to be appropriate and accordingly both will be approved.

The Corporation has included the Winnipeg Police Services costs for its anti-theft initiative to be allocated across all territories. This is contrary to prior approved practice in which the Corporation allocated these costs to territories 1 and 5. The Board will again reiterate that for future applications, the Corporation allocate all such costs to territories 1 and 5 as these are the territories which will benefit from this initiative. The Board also encourages the Corporation to work together with ARM to resolve their issues to the extent possible.

Motorcycle Rates

Seasonal rates and motorcycle type differentials are two new rate initiatives proposed in this application for the motorcycle class. The seasonal rate initiative has many potential benefits for the motorcyclists including a more flexible riding season, greater administrative and personal efficiency, and no need for riders to second-guess the weather either to register or cancel their insurance. Furthermore, the seasonal rate will be introduced on a revenue-neutral basis, and if the riding season does lengthen under seasonal rating, the Corporation will in due course, be required to adjust rates in the future to reflect the increased risk under the expanded riding season. The Board also notes that CMMG was consulted on the implementation of seasonal rates and has recommended its approval. The Board will approve seasonal rates as applied for.

The Corporation also requested approval of motorcycle type differentials based on a preliminary study by VICC. The Board was urged by the Corporation to approve this initiative, arguing that VICC may never proceed with full CLEAR motorcycle rating, and that the VICC type differentials at least reflect different expected levels of risk. CMMG noted it had not been consulted on this initiative and opposed these rating differentials. The Board finds the VICC study to be problematic in Manitoba because it is outdated and does not take into account Manitoba experience, and particularly Accident Benefits which comprise over 80% of motorcycle claims costs. However, the Board does note that for the motorcycle rate group, relativities and differentials were reviewed and recalculated in 1995-96 using current data. Furthermore, VICC will be updating this study early in the next year to conduct validation analyses on the currently utilized factors, relativities, and differentials.

The Board believes it to be prudent to wait for a further year to get current information. The Board encourages the Corporation to make further refinements to the rating differentials and encourages the Corporation to meet with CMMG with regard to the Type differentials prior to the filing of next year’s application. In the meantime, the Board is satisfied that some motorcycle Type differential is required and that sport bikes are expected to present the greatest

risks. Accordingly, the Board will approve a Type differential of 105% of the base motorcylcle rate for motorcycles in the sport bike classification, on a revenue-neutral basis balanced back over the other motorcycle classifications for the 2002 year, following much the same philosophy used in the treatment of common carrier passenger vehicles (local). Thereafter, should the Corporation's evidence support further changes based on newly tracked experience, then the Board will consider further capping of such Type differential changes. At this time, the Board will not approve any other motorcycle Type differentials.

12.0 It Is Therefore Ordered That:

1. Motor Vehicle premiums for the Basic Automobile Insurance Program, for the year ending February 28, 2002, as applied for by the Corporation, BE AND ARE HEREBY APPROVED, subject to the following:

   (a) The adoption of Motorcycle Type differentials as applied for by the Corporation BE AND IS HEREBY DENIED.

   (b) The Corporation adopt a Motorcycle Type differential rate for sports bikes of 105% of the base motorcycle rate, on a revenue neutral basis balanced back over the other motorcycle classifications.

2. The one-time $75.4 million surplus dividend to be refunded to each policyholder for all policies issued between March 1, 2001 and February 28, 2002 as applied for by the Corporation BE AND IS HEREBY APPROVED.

3. The Corporation prepare and file at the next general rate application a Risk Analysis incorporating all of the following criteria:

   - At a 95 % confidence level, both including and excluding operating costs; and
   - At a 97.5 % confidence level, both including and excluding operating costs.

   Each of the four scenarios should:

   - Include only PIPP data;
   - Include investment risk using a Value at Risk Analysis assuming a 25% equity component and a time horizon of between two and three years;
   - Use variances between forecast and actual amounts for revenues, losses, operating expenses and claims expenses; and
   - Use actual correlations between all risk components recognizing the directional effect on net income.

4. The Corporation review in detail the four recommendations contained in the Milliman & Robertson Report, and incorporate them as appropriate in future Risk Analyses.

5. The establishment of a separate rate for common carrier passenger vehicles (local) as applied for by the Corporation BE AND IS HEREBY APPROVED.

6. The Corporation file a multi-year plan at the next general rate application for the implementation of appropriate experience-based rate group rate relationships.

7. The Corporation report at the next general rate application on whether it will adopt the recommendation made by VICC to expand CLEAR rate groups from the current number to 30 rate groups.

8. The change in the Accident Benefits weighting process in assigning CLEAR rate groups as applied for by the Corporation, BE AND IS HEREBY APPROVED.

9. The Corporation file a report at the next general rate application to determine the most appropriate Major Classification for the U-drive Insurance Use category.

10. The demerit point additional premiums (charge 1) changes as applied for by the Corporation BE AND ARE HEREBY APPROVED.

11. The accident surcharges (charge 2) changes as applied for by the Corporation BE AND IS HEREBY APPROVED.

12. The Corporation allocate all costs related to the Winnipeg Police Safety anti-theft initiative exclusively to territories 1 and 5 for the next general rate application.

13. The seasonal rating for motorcycles as applied for by the Corporation BE AND IS HEREBY APPROVED.

14. The Board encourages the Corporation to meet CMMG and consult with regard to rate group differentials for motorcycles and report back at the next general rate application.

15. The Corporation file a revised schedule of compulsory driver and vehicle insurance premiums to be implemented March 1, 2001 and related supporting information that reflect the decisions set out in this Board Order, for review and approval by the Board.

The Public Utilities Board

Chairman

Acting Secretary

THE PUBLIC UTILITIES BOARD

"G. D. Forrest"
Chairman

"Hollis Singh"
Acting Secretary

Certified a true copy of
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The Public Utilities Board

Acting Secretary