MANITOBA	**Order No. 203/02**
THE PUBLIC UTILITIES BOARD ACT	
THE MANITOBA PUBLIC INSURANCE ACT	
THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT	**November 29, 2002**

Before: G. D. Forrest, Chairman
D. Côté, 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 29, 2004

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Executive Summary

The Manitoba Public Insurance Corporation ("MPI") filed an application with The Public Utilities Board ("the Board") on June 11, 2002 for approval of premiums to be charged for compulsory driver and vehicle insurance ("Basic insurance") for the insurance year commencing March 1, 2003 and ending February 29, 2004 ("fiscal 2004"). MPI did not request any change in overall vehicle and driver premium revenue. As well, MPI did not request any change in service and transaction fees or permit and certificate fees. Premium revenues will be greater because of the application of the vehicle upgrade factor projected to be 4.5% for 2003 and 3.5% for 2004, and an estimated 1% annual increase in the size of the vehicle population for the next several years. The Board found these factors to be reasonable at this time.

MPI's claims forecasting methodology has not changed in any material way from that used last year. In its Financial Forecast approach, the cost of claims incurred for fiscal 2003 was forecast to be $446.1 million, with these costs projected to increase by $22.2 million to $468.3 million in fiscal 2004. Collision and comprehensive claims are expected to increase by approximately $20 million due to the following factors:

- An increase in the number of claims due to a larger fleet;
- An increase in the cost of repair parts; and
- An increase in the average value of vehicle write-offs.

There are no significant changes anticipated for Personal Injury Protection Plan ("PIPP") accident benefits and weekly indemnity payments. Increased claims expenses, commissions and premium taxes are reflected in the anticipated increase in claims incurred costs. The Board found these, as well as MPI's operating expenses, to be reasonable.

MPI's application forecasted a net operating income of $10.2 million for fiscal 2003 and $9.8 million for fiscal 2004. The Board is of the view that "break-even" does not have to mean projected costs should be equal to projected revenues each and every year. Such an interpretation, in the Board's view, could lead to rate instability. However, the Board agreed with the submissions of certain Intervenors that a projected net operating income of $9.8 million, together with a Rate Stabilization Reserve ("RSR") in excess of the range set by the Board, stretches the bounds of what might be considered "break-even". The Board does recognize, however, that uncertainty in the current investment markets could negatively impact MPI's investment income in 2004. Considering all of these factors, the Board has ordered MPI to refile its rate schedules so as to reflect a decrease of 1% in overall vehicle premium revenue in fiscal 2004.

In the Application as filed, the vehicle premium for the Major Use classifications will be impacted differently as between the classifications shown in the table below. With the 1% premium revenue reduction contained in this Board Order, the impact to the vehicle premium revenue may be less than shown below, but the impact to each Major Use classification may not necessarily be an identical 1% reduction.

Private passenger vehicles	0.0%
Commercial	+3.6%
Public	+3.7%
Motorcycle	+15.0%
Trailers	-9.8%
Off-road vehicles	-8.7%
Overall Premium Revenue Change	**-0.0%**

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 used, and type of vehicle. Those vehicle premiums do not cover the expected full cost of insurance benefits and coverage for those vehicles whose owners are facing experience adjustments. Some have their adjustments capped at 15%. The Board has approved all experience based adjustments as applied for by MPI.

Another component affecting the requested premium changes is the continued implementation of the Canadian Loss Experience Automobile Rating System ("CLEAR") for passenger vehicles and light trucks, with only minor modifications from last year. The Corporation proposed a multi-year phase-in of CLEAR, on a revenue neutral basis. The impact of rate group changes, rate line differentials and offset adjustments to ensure revenue neutrality results in annual premium decreases for 46% of all vehicles, most receiving decreases of $50 or less, 1% remaining unchanged, and 53% having premium increases of $50 or less. The Board has approved the CLEAR rate group premium changes.

The Board reaffirmed that the appropriate RSR target range for rate setting purposes is between $50 and $80 million. MPI's Board of Directors instituted a new policy, effective March 1, 2002 that established the upper limit for retained earnings in MPI's Special Risk Extension ("SRE") Division at $33 million until fiscal 2005. Funds in excess of that amount are to be transferred to the Basic RSR in accordance with MPI's policy. The transfer for fiscal 2003 is $14.5 million, with an estimated annual transfer thereafter of $3.0 million until fiscal 2005. The Board agreed with MPI's position that the funds should be considered a transfer, and not net income to the Basic program. After these transfers, the RSR is forecast to be $75.7 million at February 28, 2003, and projected to be $88.5 million at February 29, 2004.

MPI continues its attempts to control the costs of automobile repairs through the increased use of aftermarket and recycled parts, where suitable without sacrificing safety, and to train its staff in current repair technology. Although savings attributable to the use of aftermarket and recycled parts were $18.5 million in fiscal 2002, and $16.1 million in fiscal 2001, claims costs continue to increase. MPI initiatives to control bodily injury costs remain unchanged from last year. The Board encouraged MPI to continue and expand, if possible, efforts to control the costs of property damage and bodily injury claims.

MPI continues with its educational programs targeted to increasing the use of occupant restraints, reducing impaired driving and unsafe speed incidents, and promoting the high school Driver's Education program. MPI filed an independent report ("the Manifest Report") that evaluated MPI's road safety initiatives. Since the report was not filed until September 30, 2002, just prior to the hearing, the Board instructed MPI to prepare and file a report with the Board including MPI's response to the Manifest Report and MPI's future plans in respect of road safety programs at the next GRA.

The Board has serious concerns about the rising claims costs associated with auto thefts, noting that claims costs for fiscal 2002 were $24.9 million and that since 1996, $145 million has been reported in such claims. The Board recognizes MPI alone cannot address this problem and that enforcement agencies must also play a critical role in dealing with this societal problem. The Board recommends MPI inform other agencies of the Board's concerns. The Board encourages MPI to work with other stakeholders to ensure a greater and more coordinated effort in achieving improvements in addressing this problem.

The Board noted that, as in past years, the loss experience of the motorcycle class indicates the required premium increase should be over 36%, but the requested increase has been capped by MPI at 15%. The Board further notes that unless driving attitudes change, claims costs will likely continue to increase. The Board recognizes that almost four years have elapsed since the Board first considered the use of a loss transfer model to determine premium rates. Circumstances such as the fleet mix of vehicles and the loss experience for the Major Use classifications may have changed, thus rendering MPI's current method worthy of review. The Board will require MPI to review the loss transfer model and to report its recommendations in this regard at the next GRA.

In response to concerns raised by the Manitoba Car and Truck Rental Association respecting MPI's Fleet Rebate Program, the Board accepts MPI's offer and directs it to co-ordinate meetings with all parties having an interest in this issue, and to report the results of those meetings to the Board at the next GRA.

1.0 Appearances

W. S. Saranchuk, Q.C. K. L. Kalinowsky	Counsel for The Manitoba Public Utilities Board (“the Board”)
K. McCulloch	Counsel for Manitoba Public Insurance Corporation (“MPI”)
J. W. Kruk, D. Wankling P. Shaw	Representing the Canadian Automobile Association (Manitoba Division) (“CAA”)
G. Wood	Counsel for Canadian Bar Association - Manitoba Branch (“CBA”)
R. P. Oakes	Counsel for the Coalition of Manitoba Motorcycle Groups (“CMMG”)
B. Williams	Counsel for Consumers Association of Canada (Manitoba) Inc./ Manitoba Society of Seniors (“CAC/MSOS”)
M. Scurfield, M. Terin	Representing the Insurance Brokers Association of Manitoba (“IBAM”)
J. E. Foran, Q.C. A. Foran	Counsel for Manitoba Car and Truck Rental Association (“MCTRA”)
N. Roberts	Representing the Manitoba Used Car Dealers Association (“MUCDA”)

2.0 Witnesses

2.1 Witnesses for MPI

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

2.2 Witness for MCTRA

P. Wintemute, FCA	Chairman and Chief Executive Officer, The Exchange Group

3.0 Intervenors

Canadian Automobile Association - Manitoba Division

Canadian Bar Association – Manitoba Branch

Coalition of Manitoba Motorcycle Groups

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

Insurance Brokers Association of Manitoba

Manitoba Car and Truck Rental Association

Manitoba Used Car Dealers Association

4.0 Application

Manitoba Public Insurance Corporation ("MPI") applied to the Board on June 11, 2002 for approval of premiums to be charged for compulsory driver and vehicle insurance (“Basic insurance”) for the fiscal year commencing March 1, 2003 and ending February 29, 2004 (“fiscal 2004”) pursuant to *The Crown Corporations Public Review and Accountability Act*, *The Public Utilities Board Act*, and *The Manitoba Public Insurance Corporation Act*.

MPI’s application requested no change in overall premium revenue. The application reflected a forecasted net income for the year ending February 28, 2003 (“fiscal 2003”) of $10.2 million and a projected net income in fiscal 2004 of $9.8 million.

Vehicle premiums continue to include experience adjustments that are capped between -15% and +15%, by applying the same experience adjustment rules that were used in the last general rate application (“GRA”). As was the case last year, classification offsets were applied to achieve revenue neutrality in implementing rate group adjustments.

MPI did not request any changes for Driver Licence Premiums, Service and Transaction Fees, and Permit and Certificate Fees.

MPI requested final confirmation of interim ex-parte Order 192/01 which gave interim rate approval for City of Winnipeg Transit Buses from January 1, 2002 to March 31, 2003. Also requested in the application was a $40 discount to premiums for motor vehicles with an approved after-market anti-theft device installed.

The Board held a pre-hearing conference on June 24, 2002 to consider the procedures and other issues relating to the application. Subsequent to the pre-hearing conference, the Board issued

Order 122/02 dated June 27, 2002, regarding applications for Intervenor status and establishing a timetable for the orderly exchange of information and procedures to be followed.

On September 23, 2002, the Board heard a motion from MCTRA to compel full responses to information requests it had posed of MPI. Subsequent to the motion hearing, the Board issued Order 170/02 dated September 30, 2002 which outlined the Board's position with respect to MCTRA's request.

The public hearing relative to MPI's rate application was held from October 7 to October 11, 2002. Closing remarks were heard on October 21, 2002.

5.0 Program Revenue

5.1 Forecasted/Projected Operating Results

MPI relies on four main sources of revenue to fund the Basic program namely: motor vehicle premiums, drivers' premiums, investment income, service transaction fees and other miscellaneous revenue. MPI's forecast of operating results for fiscal 2003 based on existing rates and projection for fiscal 2004 based on requested rates are as follows:

Statement of Operations ($ millions) For Years Ending February 28	**Forecast Fiscal 2003 at Existing Rates $**	**Projection Fiscal 2004 at Requested Rates $**
Net premiums earned		
Motor vehicle premiums	501.3	529.5
Drivers' premiums	31.8	32.6
Reinsurance ceded	(8.8)	(10.0)
	524.3	552.1
Service fees and other revenues	11.4	13.1
Total earned revenue	535.7	565.2
Net claims incurred	446.0	468.3
Claims expense	59.6	63.1
Road safety/loss prevention	6.9	7.1
Total claims costs	512.5	538.5
Expenses		
Operating	37.4	38.8
Commissions	21.2	24.3
Premium taxes	15.0	17.0
Other regulatory/appeal	1.6	1.6
Total claims and expenses	587.7	620.2
Underwriting loss	(52.0)	(55.0)
Investment income	62.2	64.8
Net income	10.2	9.8

5.2 Motor Vehicle Premiums

Motor vehicle premiums are based on rating territory, insurance use, rate group, and the registered owner's driving record. Vehicle premiums historically comprise about 80% of the total revenue for the Basic insurance program. MPI has not requested any change in overall vehicle premiums in this application. The projection for motor vehicle premiums earned for fiscal 2003 at the last GRA was $484.5 million, which was revised in the current application to $501.3 million, an increase of $16.8 million. Motor vehicle premiums earned are projected to increase to $529.5 million in fiscal 2004. The main factors causing motor vehicle premiums to increase are a higher premium upgrade factor and volume factor, discussed further in Section 7.0.

5.3 Drivers' Premiums

All Manitoba motorists are assessed a basic premium on their drivers' licences based on the principle that all drivers should contribute premiums to the insurance fund, regardless of whether they own and insure a vehicle. The drivers' licence premiums range from $20 to $45 depending on the merit status of the driver. Motorists can reduce the premium by $5 for each merit point earned up to a maximum of 5 merit points, or $25.

Additional premiums are assessed against motorists who have accumulated six or more demerit points on their driver's licence, since conviction-prone drivers represent a higher level of risk. Accident surcharges are intended to deter accidents and to require accident-prone drivers to pay a larger share of overall insurance costs. The surcharge increases with the number of accidents.

Total forecasted revenue for drivers' licence premiums, demerit point additional premiums and accident surcharges for fiscal 2004 is $32.6 million ($31.8 million in fiscal 2003). There are no proposed changes to the drivers' licence premiums or accident surcharges in this application.

5.4 Service Fees and Other Revenues

The Basic insurance program is forecasted to earn $11.4 million from service fees and other revenue in fiscal 2003 and $13.1 million in fiscal 2004. This revenue consists mainly of income from time payment plans, late fees, dishonoured payment fees and miscellaneous fees. There are no changes requested in the current application related to service fees and other revenue.

5.5 Investment Income

As at February 28, 2002, MPI had investments totalling $1.2 billion, of which, Basic insurance's share of cash, equities, short and long-term investments totalled $960.7 million. Funds available for investment are primarily unearned premiums and unpaid claims. MPI is projecting investment income for fiscal 2004 of $78.2 million of which $64.8 million or approximately 83% is allocated to Basic insurance.

Investment income for fiscal 2003 is forecasted to be $62.2 million, a decrease of $4.5 million from the previous forecast at last year's GRA. MPI attributed this change to the ongoing decline and uncertainty in the financial markets. Interest income on short-term investments is also anticipated to be lower than expected, due to lower than forecast interest rates.

6.0 Program Costs

MPI projects that for fiscal 2004 the costs to provide the Basic insurance program (in $ millions) are as follows:

	Projected Expenses	Percentage of Total
Claims incurred	$468.3	75.5
Claims expense	63.1	10.2
Road safety/loss prevention	7.1	1.1
Operating expense	38.8	6.3
Commissions expense	24.3	3.9
Premium taxes expense	17.0	2.7
Regulatory and appeal expense	1.6	0.3
Total claims costs and expenses	$620.2	100.0

6.1 Claims Incurred

As indicated in the above table, claims incurred is the largest component of costs for the Basic program, and for fiscal 2004 is projected to be approximately 75.5% of total Basic program costs. Claims incurred represents the total of all claims paid or expected to be paid by MPI under the Basic insurance program. The following table shows a five-year comparison for claims incurred, by cover commencing fiscal 2000.

Claims Incurred

Five Year Comparison ($ millions)

Fiscal Year Ending	2000 $	2001 $	2002 $	2003 $	2004 $	Five Year Change $	Five Year Change %
Physical damage							
Collision	140.3	155.1	167.4	172.4	188.0	47.7	34
Comprehensive	36.8	43.4	59.8	50.3	54.9	18.1	49
Property damage	18.9	25.1	26.5	25.5	27.2	8.3	44
	196.0	223.6	253.7	248.2	270.1	74.1	38
PIPP accident benefits	154.0	154.5	180.7	189.6	189.1	35.1	23
Public liability	2.7	0.0	(0.5)	8.3	9.1	6.4	237
	156.7	154.5	180.2	197.9	198.2	41.5	26
Total	352.7	378.1	433.9	446.1	468.3	115.6	33
% of basic costs	72.9	74.3	76.3	75.9	75.5		

6.1.1 Claims Incurred Forecast and Projections

MPI analyzes field conditions, actuarial and economic factors and applies management judgement to arrive at the Financial Forecast used in its applications. To verify these results, MPI continues to prepare the Linear and Exponential method of forecasting and projecting claims incurred. MPI stated that all three methods are actuarially based and statistically sound, and use historic data to determine future claims cost growth assumptions by cover.

For fiscal 2004, using the Linear Method claims incurred are projected at $467.3 million, under the Exponential Method $484.7 million, and using the Financial Forecast method are projected to be $468.3 million.

The following table compares MPI's projections of claims incurred to actual results since 1994:

Claims Incurred Projection vs. Actual (in $ Millions)

Fiscal Year	Initial Projection $	Actual $	Variance $	Variance %
1994	323.4	320.8	(2.6)	(0.8)
1995	290.2	297.8	7.6	2.6
1996	303.4	302.0*	(1.4)	(0.5)
1997	311.8	296.0	(15.8)	(5.1)
1998	322.6	340.8	18.2	5.6
1999	332.7	330.8	(1.9)	(0.6)
2000	365.3	352.7	(12.6)	(3.4)
2001	377.5	378.1	.6	0.2
2002	433.2	433.9	.7	0.2

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

Since 1995, the variances include several adjustments for tort run-off claims. In MPI's view, variances between the initial projection and actual results are expected because of the forward-looking nature of the exercise, and since initial projections are prepared approximately 21 months prior to the end of the projection period. Factors impacting actual results are numerous, and include weather, prevailing economic and financial conditions, business trends, underwriting cycles, and changing customer and societal attitudes.

6.1.2 Physical Damage

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

Physical damage claims for fiscal 2004 are projected to be $270.1 million, an increase of $21.9 million (8.8%) over fiscal 2003. The four-year increase is estimated at $74.1 million and represents an annual increase of slightly more than 8% since fiscal 2000. The projections for fiscal 2004 assume a normal year, with a 1.0% increase in frequency and a 7.8% increase in severity.

Collision claims costs for damaged or written-off vehicles for fiscal 2004 are projected to be $188.0 million, an increase of $15.6 million (9.1%) over fiscal 2003. The average annual increase in collision claims has been approximately 7.5%. The fiscal 2004 estimate includes an increase in the frequency of claims of 1.6% and an increase in severity of 7.3%. Frequencies are expected to total 84,862 with an average severity of $2,215 per claim. Increases in severity are primarily driven by the increase in price of original equipment manufacturers, aftermarket and recycled parts. Cost increases are also expected because there are more new vehicles in the fleet, which are more costly to repair and/or replace.

Comprehensive claims costs for fiscal 2004 are projected to be $54.9 million for fiscal 2004, an increase of $4.6 million (9.1%) over fiscal 2003. Comprehensive claims costs were $36.8 million in fiscal 2000 and peaked in fiscal 2002 at $59.8 million. That increase was primarily driven by increased auto theft claims and hail damage. While the fiscal 2003 comprehensive claims are projected to decrease to $50.3 million due to the anticipation that damages related to hail will revert to normal levels. MPI is projecting further increases for fiscal 2004 related to auto thefts, which appear to be on the rise again. Comprehensive claims frequencies are expected to increase marginally and the cost per claim is expected to increase by 8.3% to $896.

Property damage claims for fiscal 2004 are projected to be $27.2 million, an increase of $1.7 million (6.7%) over fiscal 2003. Property damage claims have remained relatively stable since fiscal 2000, and the 2004 forecast reflects this experience, with frequencies almost unchanged and severity up to $461 from $433.

6.1.3 PIPP (No Fault) Accident Benefits

Personal Injury Protection Plan ("PIPP") accident benefits include weekly disability payments, death benefits, funeral and medical expenses and impairment benefits arising out of bodily injuries. These are part of the no-fault compensation plan adopted as at March 1, 1994.

As the following table illustrates, there have been significant variances between initial projections, revised estimates and actual results related to accident benefits. The PIPP plan was recently implemented (1994) and original estimates had limited data upon which to use in preparing projections; therefore variances between forecast and actual were significant. Also, provisions for claims settlements, most notably in 1998, were higher than projected for several years after the inception of the PIPP plan.

PIPP Accident Benefits ($ millions)

Fiscal Year End	Initial Projection $	Revised Forecast $	Actual $	Difference Revised/ 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	144.0	7.7
2001	139.6	138.2	154.3	16.1
2002	139.8	162.2	182.4	20.2
2003	167.8	187.2	-	-
2004	186.8	-	-	-

The significant increases in fiscal 2001 and 2002 were a result of underestimated claims frequencies, as shown below.

Year	Revised Frequency	Actual Frequency
2001	53,066	60,739
2002	62,141	69,899

6.1.4 PIPP Third-Party Liability

Claims costs for third party liability are projected to increase from $8.3 million forecast for fiscal 2003 to $9.1 million for fiscal 2004. These claims include compensation paid on a third-party basis to individuals injured by Manitoba motorists in accidents occurring outside Manitoba. A high variability in these claims can be expected because of their traditionally low frequency and high severity nature.

6.1.5 Pre-PIPP Tort Claims

MPI has managed to settle outstanding pre-PIPP third-party injury claims at a faster rate than originally anticipated. When the PIPP program was initiated in March 1994, MPI had 24,000 outstanding tort claims. As of October 4, 2002 only 121 cases were outstanding. MPI stated that the $27.5 million provision recorded for these outstanding claims is adequate.

On January 1, 1999 MPI obtained reinsurance protection of $20 million in excess of $97 million for claims outstanding at that time. The one time premium of approximately $4 million was previously paid. In accordance with the reinsurance policy if no call was made on the reinsurer, MPI was entitled to a partial premium rebate of $1 million. MPI has now cancelled the reinsurance coverage and, since no claims were made, has received payment of the $1 million premium rebate.

6.2 Claims Expenses

Claims expenses are the costs associated with processing and settling claims, and include compensation, vehicle and building expenses, amortization, information technology ("IT"), office supplies, telecommunications, and other general day-to-day administrative costs. For fiscal 2004 claims expenses are projected to be $63.1 million, a 5.9% increase over $59.6 million forecasted in fiscal 2003.

6.2.1 Claims Cost Savings Initiatives

MPI attempts to control claims severity and frequency to reduce claims costs. MPI continues to operate several programs which are geared to the needs of the accident victim to enable a full and early recovery in a cost effective manner. These programs remain unchanged from last year.

Attempts to control all perils claims costs remain focused on the use of recycled and after market parts. MPI estimates that the use of recycled parts resulted in savings of $9.0 million for fiscal 2002, up from $8.7 million saved during the prior year. The use of aftermarket parts also resulted in savings of $9.5 million, up from $7.4 million in the previous year.

6.2.2 Auto-theft Initiatives

MPI continues to contribute to the Winnipeg Police Service ("WPS") to allow for additional police staff dedicated to the control of automobile thefts and fingerprinting support services. MPI noted that although the police have had some success, auto theft claims continue to increase. MPI's funding of WPS auto theft initiatives and incidents of auto theft and the claims incurred since 1996 are as follows:

WPS Auto-Theft Initiative Funding and Auto-Theft Claims Incurred

Fiscal Year	Funding WPS Auto Theft Initiatives (in $000)	Number of Theft Claims	Claims Incurred ($000)
2002	490.5	8,398	24,879
2001	548.6	7,713	20,083
2000	379.8	7,980	19,211
1999	235.1	8,770	19,289
1998	257.7	9,857	22,131
1997	83.1	9,855	21,081
1996	-	8,512	17,764

MPI is budgeting to provide funding to the Winnipeg Police Service of $500,000 in fiscal 2003 and $510,000 in fiscal 2004. Funding for other anti-theft programs is forecast to be approximately $444,000 for fiscal 2003 and $500,000 for fiscal 2004.

To stem the increase in auto theft, MPI provides a discount for those vehicle owners with Vehicle Information Centre of Canada ("VICC") approved anti-theft devices. In its 2001 application MPI provided a one rate group reduction for vehicle owners who had installed a VICC approved anti-theft device. In the current application MPI proposed a change, where instead of a one rate group reduction, customers with VICC approved devices would receive a flat premium decrease of $40 per year.

In Order 179/01, the Board ordered, "MPI conduct a review of its auto prevention initiatives and report its findings and recommendations to the Board at the next general rate application." In response to the Board's request, MPI filed a report on its Consolidated Auto Crime Strategy. The report outlines that MPI has adopted a three-pronged approach to auto crime prevention: building public awareness, creating enforcement partnerships and working with community organizations to address auto crime issues.

6.3 Operating Expenses

Operating expenses consist mainly of employee compensation, data processing, building expenses, amortization and numerous other expenses incurred by and for staff not directly handling customers' claims.

Compensation is the most significant operating expense and comprises 52% of Basic's total operating expenses. Compensation has increased by 13% from $17.9 million in fiscal 2000 to $20.3 million in fiscal 2004, which is attributable to inflation and increasing staff levels. In terms of Basic's overall staffing levels, including operating, claims and road safety compensation, the forecasted expense is $64.8 million for fiscal 2004. This represents a 19.6% increase from fiscal 2000. The number of staff has increased from 1,204 equivalent full-time positions ("EFT") filled in fiscal 2000 to 1,341 EFT projected for fiscal 2003. Witnesses for MPI stated the increased number of vehicles insured leads to a higher volume of claims. As a result, additional employees are required to handle these claims.

In Order 179/01, the Board directed MPI to file at the next GRA, supporting documentation in respect of the appropriateness of having the expense ratio target at 58% of the industry average. MPI's strategy is to keep controllable costs at the lowest possible level relative to the services provided to customers. Beginning in fiscal 2002, road safety expenses were reclassified from operating expenses to claim costs. The rationale for the move was to recognize that the prime motivation of road safety is to reduce the cost of claims. As a result of the reallocation of road safety expenses, MPI's target is now to have operating expenses at 50% of the industry average, rather than the previous target of 58%.

6.4 Information Technology ("IT")

MPI plans to undertake significant IT upgrades in the near future. Particularly, MPI anticipates at some point in the next five to eight years, the Sybase data management system based upon the Powerbuilder programming language may become non-viable for continued use. This technology is used to operate and change Autopac On-Line ("AOL") which connects the brokers to MPI for automatic online registration and the Claims Administration Reporting Service System ("CARS") which permits computerized handling of claims by adjusters, including all financial aspects of a claim. The former system became operational in 1995, at a total cost of $23.8 million, whereas the latter system became operational in 1998, at a cost of $20.5 million.

MPI states that given the length of time it will take to replace the systems, it is necessary to mitigate the risk by beginning the migration planning, expertise acquisition and infrastructure installation over the next few years.

The Gartner Group assisted MPI in formulating their future IT initiatives, recommending MPI move to a Microsoft based system. In early 2002, the Gartner Group recommended delaying large scale development for 12 to 18 months until the Microsoft product had proven itself and completing a move to Microsoft-based systems by the end of the decade. The new systems will take longer to develop than the four years that was required to develop CARS.

MPI plans to establish a formal project charter that will include a full cost analysis and a timeline in addition to business requirements, within the next six months. At this point in time witnesses for MPI stated the total cost will likely exceed $50 million. MPI has included a $8 million capital expenditure provision for future improvement initiatives, to cover this, amongst other IT projects for each year from fiscal 2004 to fiscal 2007.

The following table is MPI's five-year operating and capital budget and projection:

For the Years Ending February 28, 29	Fiscal 2003 $	2004 $	2005 $	2006 $	2007 $
	($ thousands)				
IT departmental expenses					
Data processing	8,278	9,366	9,674	9,996	10,377
Compensation	7,882	8,266	8,607	8,961	9,331
Other	6,786	5,641	4,801	4,991	5,195
Total IT departmental expenses	22,946	23,273	23,082	23,948	24,903
Overhead	5,023	5,098	4,758	4,929	6,686
Total IT expenses	27,969	28,371	27,840	28,877	31,589
Capital Expenditures					
Deferred Development Costs					
Personal lines project	853	-	-	-	-
Sybase replacement project	4,510	-	-	-	-
Provision for future improvement initiatives	-	8,000	8,000	8,000	8,000
	5,363	8,000	8,000	8,000	8,000
Data processing equipment	4,224	1,225	1,225	4,980	2,025
Total capital requirements for IT	9,587	9,225	9,225	12,980	10,025

6.5 Road Safety

Annual Program

The emphasis of MPI's road safety program continues to be in the area of public education related to occupant restraint use, impaired driving and unsafe speed. Programs also include delivery and partial funding of student driver education. Additionally, MPI provides financial and other support for safety initiatives in co-operation with other external agencies including the Manitoba Safety Council, Manitoba Seniors Directorate, and Teens Against Drinking and Driving. No changes are anticipated for the program in fiscal 2004.

The current forecast for the fiscal 2003 Basic road safety expenditure is $6.9 million which is projected to increase to $7.1 million in fiscal 2004. MPI stated that the expenditure target of 2% of claims incurred was the upper limit, and that the intent is always to ensure claims costs are as low as possible.

External Assessment of MPI's Road Safety Program

In Order 179/01, the Board directed that "MPI undertake an assessment of all its safety programs, with the possible use of external consultants in conducting the review, and report its findings to the Board at the next general rate application."

MPI retained Manifest Communications Inc. ("Manifest") to provide an assessment of MPI's Road Safety Program at a cost of approximately $77,000. The MPI Road Safety Program Assessment report ("Manifest report") was filed a few days prior to the commencement of the Hearing. The report assessed the road safety programs from the perspective of societal marketing in order to change driving attitudes. Manifest noted that MPI is one of many stakeholders in road safety issues and MPI does not have sufficient resources to fill gaps in enforcement, engineering and research areas. Manifest recommended that MPI undertake a more focused approach, limiting initiatives to areas of expertise, specifically public education and social climate setting. While the report contained numerous other recommendations, however there was insufficient time for interested parties to fully review and analyze them.

6.6 Internal Review Process

In Order 179/01, the Board ordered that:

> "MPI conduct a study to track and analyze data pertaining to internal claims reviews to determine the cause of and any delays in the process including a review of procedures within MPI's control to compress the timeframe for internal reviews and report on findings and recommendations at the next General Rate Application."

MPI stated that it has been conducting internal reviews since the inception of PIPP, and has made a strong commitment to administer the process in a fair, equitable and timely manner through its Internal Review Office which is independent from the Claims Division. MPI's statistics indicate 523 internal reviews have been held per year, on average, of approximately 11,000 injury claims opened each year.

The review assessed customer service standards, the screening officer process, and timeliness. Customer service standards specify the process and timelines when an insured requests an internal review. MPI states that its goal is to meet the standards 100% of the time for most cases, and that MPI has met the measures 75% to 80% of the time.

With respect to timeliness, MPI submits that many claimants are not ready to proceed with the internal review on the first available date offered them. MPI states that available data indicates that the major cause of delays is the claimants desire to obtain additional information, primarily additional medical reports. As well, where legal counsel represents the claimant, many instances have occurred where legal counsel was unable to proceed on the first available date.

MPI concluded that the guidelines in place will ensure appeals will be resolved in a timely manner, and monitoring of the success of the process will continue.

7.0 Net Income

7.1 Vehicle Upgrade Factor

In projecting annual revenues, MPI includes a vehicle upgrade factor ("upgrade factor"). The upgrade factor accounts for the impact in dollar revenue due to the replacement of older vehicles in the fleet with newer vehicles resulting in classification changes and vehicle drift. It also considers the impact on revenues of drift related to standard/merit premiums. The following is a summary of projected percentage upgrade factors:

Fiscal Year	2003 %	2004 %	2005 %	2006 %	2007 %
2003 forecast	4.5	4.0	4.0	4.0	n/a
2004 forecast	5.5	4.5	3.5	3.5	3.5

The decrease in the projected upgrade factors for fiscal 2004 and beyond is primarily due to the adoption of the new rate line relativities. It is expected that the average change in rate between new vehicles and vehicles that are replaced will decrease relative to the current difference.

7.2 Volume Factor

MPI also considers increases in revenue that will result from an overall increase in the number of vehicles insured, referred to as the volume factor. The volume factor in fiscal 2002 was 1.0% and MPI is forecasting this to remain at 1% annually until the end of fiscal 2007. In the last GRA, MPI forecasted the volume factors to be 0.4% for each year. MPI attributes the increase to an improvement in the overall economic conditions in the province.

7.3 Forecasted Net Income

MPI's actual net income has varied considerably from its revised forecast since fiscal 1998, as illustrated in the following table:

Total Net Income ($ millions)

For Fiscal Years Ending February 28, 29	1998 $	1999 $	2000 $	2001 $	2002 $	2003 $	2004 $
Approved forecast	10.7	18.9	19.3	11.7	28.7	2.2	9.8
Revised forecast	17.8	17.5	18.4	43.7	(14.3)	10.2	-
Actual	46.9	41.9	40.5	38.1	(11.7)	-	-
Actual greater (less) than revised forecast	29.1	24.4	22.1	(5.6)	(2.6)	-	-

The variation between the forecast net income and actual results, has been partially caused by an underestimation of vehicle premium revenue. In response to previous Board concerns, MPI increased both the vehicle upgrade factor to recognize the increasing value of the insured fleet as well as the volume factor to recognize the increase in the size of the fleet.

MPI is forecasting a net operating income of $10.2 million for fiscal 2003, which represents an increase of $8 million from its original application approved by the Board in the prior year's rate application. MPI attributed the change to a $16.4 million increase in premiums earned due to a higher vehicle upgrade factor now forecast to be 5.5% (compared to 4.5%) and an increase in the volume factor reflecting more vehicles being insured (1% increase as compared to the 0.4% increase included in the original forecast). The increase in premiums is offset by a forecasted increase in claims of $5.7 million compared to last year's projection. The significant factor causing the changes are increases in PIPP claims cost offset by a reduction in physical damage claims. MPI also revised its investment income forecast down by $4.5 million from the previous year's application.

8.0 Rate Stabilization Reserve ("RSR")

8.1 Background

MPI is committed to ensuring the Basic program 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. According to MPI's 2002 annual report:

> "Rather than going directly to Manitobans to cover the impact of unexpected losses, the RSR has given MPI the ability to adapt its business plan and smooth adjustments, ensuring premium stability into the future."

A summary of the RSR balance for Basic insurance from fiscal 1999 to fiscal 2004 is as follows:

Basic Insurance Rate Stabilization Reserve ($ millions)

For Fiscal Years Ending February 28 or 29	**1999 $**	**2000 $**	**2001 $**	**2002 $**	**2003 $**	**2004 $**
RSR, opening balance	22.5	64.4	104.9	143.0	50.5	75.7
Net income (loss)	25.5	23.4	30.9	(11.7)	10.2	9.8
Contribution to RSR	16.4	17.1	7.2	-	-	-
	64.4	104.9	143.0	131.3	60.7	85.5
Surplus dividend	-	-	-	(80.8)	-	-
Transfer from SRE	-	-	-	-	15.0	3.0
Total RSR	64.4	104.9	143.0	50.5	75.7	88.5

8.2 RSR Transfer From Other Division

The Board of Directors of MPI decided commencing March 1, 2002 and annually thereafter SRE retained earnings in excess of an approved upper target of $33 million for the three year period ending February 28, 2005, will be transferred to Basic RSR.

MPI transferred approximately $14.5 million on March 1, 2002 from SRE retained earnings to the Basic RSR, bringing the balance up to $75.7 million. MPI has also projected an annual $3 million transfer from SRE retained earnings to the Basic RSR in each fiscal year from 2004 to 2007.

8.3 RSR Target

MPI's Board of Directors reaffirmed its previous commitment to an RSR target range of $80 to $100 million for the period March 1, 2003 through February 28, 2006. The appropriate RSR target for rate setting purposes was established by the Board in Order 179/01 to be a range from $50 to $80 million. The forecasted RSR balance for fiscal 2004 is $88.5 million, which exceeds the Board's target for rate setting purposes. MPI confirmed there was no material change in its risk profile that would warrant an update to the risk analysis presented at last year's application in support of the RSR target range.

9.0 Rate Design

9.1 Actuarial Methodology

This application reflects an actuarial methodology for projecting the required rate levels that is substantially unchanged from that used in the previous application. This involves combining claims incurred estimates arising from each of the Financial, Exponential, and Linear Methods, with appropriately consistent estimated provisions for claims expenses, operating expenses, commissions, premium taxes, and the cost of reinsurance and fleet rebates, offset in part by estimated revenue contributions arising from drivers' premiums, service fees and investment income.

9.1.1 Allocation of Operating Costs

In the current application, MPI continued the process started last year, moving towards eliminating the allocation of operating costs to the Trailer and Off-road Vehicle Major Classifications. An additional 25% of operating costs has been reallocated from Trailers and Off-road Vehicles to the Highway Traffic Act ("HTA") power units in this application. This brings the total amount reallocated to date to 50%. The effect of this change is a significant downward revision in the rates for Trailers and Off-road Vehicles as the operating cost allocation was previously the most significant cost factor in their rates. MPI has stated its intention to continue this phasing in of the new basis of allocation over the next two applications.

9.1.2 Serious Losses

Two years ago, MPI introduced a methodological change in the analysis of Major Classification rates as well as territory and insurance use rate relationships. This methodological change has been carried forward, and extended in the current application. As a result of this change, expected serious, large losses based on the eight available years of PIPP experience were combined with expected non-serious losses based on the five latest years of experience used in the analysis. The use of eight years of experience for serious losses represents an increase from the seven years used in the previous application, and this number is expected to continue to increase to ten years in fiscal 2006, at which time MPI intends to reassess the needs of the ratemaking model in this regard.

9.2 Major Classification, Insurance Use and Rating Territory

MPI continues to classify vehicle risk by considering insurance use, rating territories and rate groups. Insurance use classifications are categorized by the type of vehicles and the varying degrees of risk associated with the different purposes for which vehicles are used. In this application there are no changes to insurance uses. Each insurance use is assigned to one of six Major Classifications, namely Private Passenger, Commercial, Public, Motorcycles, Trailers and Off-road Vehicles. The province is divided into four geographical rating categories, plus one additional category to encompass Territory 2 residents regularly commuting into Territory 1. There are no changes proposed to the rating territories or their boundaries for fiscal 2004.

9.2.1 Motorcycles

For the Motorcycle Major Classification, the significant spread between the financial forecast indicator and the requested revenue adjustment continues to persist, as the history for the past five years shows:

Application	Financial Forecast Indicators (%)	Requested Revenue Adjustments (%)
1999/00	**61.0**	**14.9**
2000/01	**50.0**	**10.6**
2001/02	**23.1**	**15.0**
2002/03	**33.6**	**15.0**
2003/04	**36.7**	**15.0**

Although the spread has narrowed, MPI indicated motorcyclists are unlikely to eliminate this gap in the foreseeable future, even if the requested revenue adjustment was, for one year, equal to the financial forecast indicated rate increase, largely because of the dampening effect of credibility weighting the Major Classification indicators with the overall indicator. Furthermore, with more motorcyclists increasing the pool size annually, if the rate is deficient on a per unit basis, then the rise in units experienced recently leads to an increased revenue deficiency. According to MPI witnesses, over the past 8-10 years, MPI has paid approximately $40 million in motorcycle claims, but has only received $20 million in motorcycle premiums. Therefore, the other classes have cross-subsidized the motorcyclists for the remaining $20 million.

MPI presented information pertaining to motorcycles to demonstrate that despite an overall claim frequency being less for passenger vehicles, motorcycles have a substantially higher occurrence rate for single vehicle accidents, a significantly greater percentage of claims involving bodily injury, and materially higher average costs of claims, both for at fault and not at fault claims. It was confirmed that losses are assigned by classification without regard to fault, i.e., claim payments made to motorcyclists are assigned to the Motorcycle Major Classification. MPI provided the following information on Motorcycle claims:

- The frequency of motorcycle claims is lower than that for passenger vehicles with 10.9 per 100 exposures versus 16.5 for passenger vehicles.
- Motorcycles have a substantially higher ratio of single vehicle accidents as a percentage of all claims (25) compared to (17) for passenger vehicles
- The proportion of motorcycle bodily injury claims (33%) is higher than that for passenger vehicles (10%)
- Average costs per claim where a motorcyclist was not responsible was $19,000 per claim compared to passenger vehicle average claim of $3,400
- Average costs per claim where a motorcyclist was found responsible was $43,000 per claim compared to passenger vehicle average claim of $5,000

The motorcyclist pool is relatively small at approximately 8,300 vehicles. However, there are a significant number of catastrophic large losses which dramatically affect the claims experience. For instance, from fiscal 2001 to fiscal 2002, the reported incurred losses nearly doubled from $3.23 million to $6.20 million, largely due to one $3.15 million claim. In this application, MPI averaged large losses in excess of $500,000 over the eight years of available PIPP data to smooth the impact of these large losses, in effect, increasing the vehicle pool size in an attempt to dampen the volatility.

Two years ago, MPI proposed rate differentials based upon type of motorcycle, based on a much earlier insurance industry study. At that time, the Board approved a 5% loading only for sport bikes, relative to all other motorcycle types. In Order 179/01 the Board directed MPI to consider conducting Manitoba specific data tracking and analysis to determine the appropriate motorcycle type classifications and differentials and report at the next GRA. The table below details

Manitoba data filed in this application for loss year 2001 based on the vehicle population at that time:

Manitoba Motorcycle Data (Loss Year 2001)

Body Style	Units	Frequency %	Severity $	Relative Loss Costs %
Other	4,259	3.12	14,837	71.6
Scooter	27	3.76	608	5.3
Sport	1,132	13.60	26,618	285.5
Touring	1,587	2.39	11,552	45.5
All Combined	7,006			100.0

MPI noted this data was not sufficiently credible to establish motorcycle type differentials, and the severity and relative loss cost for sport bikes is significantly affected by the $3.15 million large loss noted above.

9.2.2 City of Winnipeg Transit Buses

MPI confirmed that the current application continued the practice of reflecting the experience of City of Winnipeg transit buses in the determination of Major Classification indications, and insurance use and territory relativities. This was introduced at the last GRA that was the subject of the interim ex-parte Order 192/01.

9.2.3 Light Local Common Carrier Truck

In 2001, MPI introduced a local common carrier passenger vehicle insurance use which involved moving some motorists who had been insured in the all purpose category, out of that category and into a higher rated courier use. MPI decided to permit these drivers to remain part of the merit discount program since the removal of eligibility would have resulted in a significant rate impact for many owners. Since most vehicles registered as "Commercial Use" have a registered owner that is not the regular driver of the vehicle, Commercial Use vehicles such as light delivery courier trucks are not part of the merit discount program. As a result of this change, courier drivers contended that MPI was treating them differently, depending on whether they drove a car or a truck.

Over the past year, MPI has met with representatives from Delivery Drivers Alliance of Manitoba ("DDAM") to discuss the potential introduction of a merit discount program for light local common carrier trucks. The result of such a change would be that a majority (71%) of the vehicle owners would experience a rate increase to fund a discount for a smaller minority of the courier truck drivers. On that basis, the delivery drivers asked MPI not to make any changes in this rate application.

9.3 Rate Groups

The rate groups into which vehicles are assigned reflect such factors as the vehicle make, model, age, gross vehicle weight, engine size, declared value and CLEAR assignment.

9.3.1 Canadian Loss Experience Automobile Rating ("CLEAR")

MPI continues with its adaptation of the insurance industry CLEAR system for passenger vehicles and light trucks. The CLEAR system uses actual loss experience data from across

Canada to determine relative loss cost indices for specific makes, models and model years of vehicles. This analysis considers repair costs, comprehensive claims, and injuries associated with different types of vehicles. This data is used to establish homogeneous groupings of these vehicles, and advisory rate group relativities for these groupings, on which vehicle premiums are based. The application continues the prior practice of adapting the CLEAR system for use in Manitoba.

9.3.2 Rate Group Adjustments for Passenger Vehicles and Light Trucks

In this application there were two types of rate group adjustments undertaken. These adjustments were:

- Revision of the relationship between the rate and rate group to be more consistent across rate groups.
- Application of annual CLEAR rate group update adjustments, as provided by the Insurance Bureau of Canada ("IBC").

9.3.3 Revision in the Relationship Between Rates and Rate Group

The rate group assigned to a vehicle is an important factor in determining the premium paid by the driver of that vehicle. An equally important factor is how the rate groups relate to each other and to the underlying cost of the coverage provided. For fiscal 2004, MPI continued a process that began two years ago that involved adjusting the relationships of the rate applied to each rate group.

New in the fiscal 2004 application, MPI tested the credibility of the underlying data used to determine the differentials. For this application, the former 10% limit on adjustments was eliminated, and instead MPI made additional adjustments to mitigate much of the impact for those cases showing an increase of $50 or more.

A second adjustment relates to the relationship between light farm trucks and all-purpose trucks. Based on insurance use and territory experience, rates for light farm trucks should be consistently lower than the comparable all-purpose truck. To eliminate any inconsistency, adjustments were made to the rate line adjustments for light farm trucks.

9.3.4 Application of Annual CLEAR Rate Group Update Adjustments

Annually, VICC updates its CLEAR rate group tables to reflect actual experience, vintaging and new trends. MPI collapsed 99 VICC rate groups down to 27 rate groups for the Manitoba fleet. In 2002, VICC combined the regression models used for passenger vehicles and light trucks instead of separate models for each vehicle type. This change is due to the increased commonality of light trucks and passenger cars.

9.4 Premium Impact

The application seeks approval of motor vehicle premiums which, on an overall basis, would result in no change in average vehicle premium rates. The following table indicates the difference between the experience rate requirement indicators based upon the Financial Forecast Method and the requested revenue adjustments:

Rate Requirement vs. Adjustment Requested

Major Use	Experience-Based Rate Requirements	Revenue Adjustments Requested
Private Passenger	-2.6%	0.0%
Commercial	+12.0	+3.6
Public	-2.8	+3.7
Motorcycles	+36.7	+15.0
Trailers	-21.5	-9.8
Off-Road Vehicles	-9.7	-8.7
Overall	0.0%	0.0%

The above-noted experience-based rate requirements are predicated on a decision made by MPI to "round" the overall required rate change from –0.53% (subsequently corrected to –0.63%) up to 0.0%, after which credibility considerations are brought to bear on the indications by Major Classification.

MPI explained the process used to transition from the experience-based rate requirements to the requested revenue adjustments as follows:

- **Step 1** - Combine and rebalance the Major Classification indicators with the updated insurance use and territory differentials;
- **Step 2** - Iteratively apply the rules for capping the experience adjustments at +/-15%, again subject to rebalancing with each iteration; and
- **Step 3** - Final testing and rebalancing in MPI's rate model to measure the premium impact on a static fleet of vehicles.

Due to this iterative capping and rebalancing process, the determination of the proposed rate for each insurance use and territory rating cell can have a potential impact on all other rating cells.

Accordingly, the impact of the capping process can vary significantly between Major Classifications depending upon the direction and extent to which individual insurance use and territory rating cells are directly affected by the cap.

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

- 46% of vehicles will receive a rate decrease, with most receiving a decrease less than $50
- 1% of vehicles will remain unchanged
- 53% will receive a rate increase, with most receiving an increase less than $50.

10.0 Intervenors' Positions

CAA

CAA stated that there seems to be a casual attitude of treating auto theft as merely the cost of doing business. CAA recommended that the Board examine the $40 discount available for VICC approved anti-theft devices and consider increasing the discount to as high as $100. CAA requested the Board pass on recommendations to the Justice Department to tighten and enforce the laws dealing with auto theft. CAA agreed that MPI cannot accept full ownership for road safety and auto theft initiatives because enforcement and engineering share these issues, but suggested MPI act as a catalyst for needed change.

CAA recommended the Board reduce forecast net income by something less than 2% after considering the uncertainty related to the investment income.

CAA stated that IT issues and initiatives should have no bearing on the Board's decision relative to this application because the issue will be before the Board next year.

CAC/MSOS

CAC/MSOS questioned whether a $10 million net income figure is consistent with MPI's principle of breaking even over the long term. CAC/MSOS recognized that MPI's definition of breaking even includes considerations for the RSR level. CAC/MSOS stated that the Board needs to be cognizant of the appropriate RSR target for rate setting purposes, which according to Order 179/01 is $50 - $80 million. At February 28, 2002, the RSR balance was $50.5 million, therefore the balance of the RSR is currently within the range, and need not be at the upper end of the limit.

CAC/MSOS challenged MPI's approach of over-collecting from its current customers on the promise that at a future date, the money will be returned as a surplus dividend, expressing the view that the money is better in the consumers' pockets than in the pocket of MPI.

CAC/MSOS stated that MPI, as a monopoly, is not subject to same market forces as companies that are operating in a competitive market. As a result, CAC/MSOS considers that it is important to ensure that the forecasts and projections are conservative which would force MPI to be prudent, accountable and not to overspend.

CAC/MSOS recommended that the Board impose a 1% rate reduction because such a reduction is consistent with the objective of breaking even over the long term.

CAC/MSOS challenged MPI's need to include in the fiscal 2003 forecast and the fiscal 2004 projection capital and operating expenditures related to the Sybase replacement project. CAC/MSOS stated that MPI is forecasting to replace Sybase prematurely, since no cost benefit analysis has been performed to justify the replacement or timing of such a change. CAC/MSOS recommended that at the next GRA, MPI present a cost benefit analysis and project plan for the Sybase replacement project, at which time it may be more appropriate to factor costs for the project in the rate application.

CAC/MSOS stated that due to the late date of receipt of the road safety report, this issue was not fully canvassed and appropriate attention was not given to this topic at the hearing. CAC/MSOS recommended that MPI be directed to provide a detailed response to the road safety report at the next GRA. Overall, in terms of road safety, CAC/MSOS contended that MPI is trying to do too much, straying from its mandate and area of expertise, and not tracking pertinent data that is necessary to respond to emerging issues and better target programs and resources.

CMMG

CMMG stated that over the past three years, there has been a reduction in the volume of single vehicle accidents as well as a reduction in the number of claims with injuries, but motorcycle rates have still increased 315% over the last decade. CMMG questioned how after a 315% rate increase over the last decade, the motorcycle class can still have a required increase of 33% to 36%.

CMMG stated that the actuarially determined rates for each of the last 10 years do not correlate to the actual claims sustained during each of the years. CMMG also questioned the appropriateness of the credibility weighting factor used for motorcycles (58%) compared to the credibility weighting factor for private passenger vehicles (99%).

With respect to dealer plates, CMMG questioned how the 312 motorcycles in this pool could be facing a 15% rate increase when in 2001 this pool experienced only one loss. In addition, territory three had zero claims costs, however, the revenue requirement for this territory is an increase of 76.9%. These were cited as examples of the inconsistencies in MPI's rate making methodology.

Since MPI does not utilize loss transfer coupled with the fact that Private Passenger vehicles cause two thirds of multi-vehicle claims involving motorcyclists, CMMG contended that motorcyclists are subsidizing the actions and consequences of the other drivers. CMMG requested that the Board order MPI to provide calculations relative to loss transfer in the current insurance environment.

MCTRA

MCTRA's expert witness, Mr. Wintemute, testified that the $15 million transfer in fiscal 2003 and the projected $3 million transfer in fiscal 2004 from SRE retained earnings to Basic RSR, are not accounted for in accordance with generally accepted accounting principles ("GAAP"), and should be recorded as income in Basic insurance and not as a direct transfer to the RSR.

MCTRA contended that at February 28, 2002, the RSR balance was $50.5 million, and that this level fell within the target established by the Board. The total projected increase in the RSR from March 1, 2002 to February 29, 2004 is approximately $38.7 million. This balance is comprised of transfers from SRE and the forecasted net income for the fiscal years ending February 28/29, 2003 and 2004. MCTRA concluded that the $38.7 million should be returned to the policyholders as a surplus dividend and that the RSR should remain at $50.5 million, a balance that falls within the parameters set by this Board. Mr. Wintemute also testified that in his opinion, a RSR balance of $50 million is adequate.

MCTRA stated that if MPI's goal is to increase the RSR above $50 million, this should be accomplished with an RSR surcharge, not with transfers from other division's retained earnings or net income from operations.

MCTRA submitted that MPI's projected net income of $9.8 million is not consistent with MPI's mandate of breaking even over the long term. According to Mr. Wintemute, "….to have a break even financial statement, you have to have zero. There is no option. If you are preparing a break-even budget, you must come to zero. This is not a contextual term. This is a term that's very specific and has no ability to say it's break even plus $9.8 million. That's not appropriate."

Mr. Wintemute testified that MPI's current approach of allocating claims expense based on a percentage of total claims is inequitable. Currently, the Public class is paying twice as much for claims expense as the Private Passenger class and three times as much as the Commercial class. Mr. Wintemute claimed that there is no evidence of a direct relationship or correlation between claims expense and the dollar amount of claims. Since claims expenses are relatively fixed by nature, they do not fluctuate with the dollar value of a claim. MCTRA recommended two alternative approaches to allocate claims expense, on a per unit basis or on a frequency of claims basis. MCTRA submitted that it is not appropriate to determine claims expense based on MPI's current methodology, and that it should be replaced by one that has a more balanced and equitable result.

MCTRA stated that the application does not allow for a determination of how MPI calculates the requested rates (3.7% for public class) from the indicated rates (-2.8% for the public class). MCTRA contended that it is not possible for the public to assess whether the rates are just and fair because it was not apparent from the information filed how the ultimate rate indicator was calculated.

MCTRA recommended that MPI be ordered to engage an independent chartered accounting firm to perform a comprehensive audit of MPI's rate model and to provide an opinion as to the accuracy and reliability of MPI's rate model. MCTRA recommended that this review be completed and presented to the Board by April 30, 2003.

MCTRA stated that the practice of requiring fleets to pay surcharges or receive rebates on a retrospective basis is not consistent with MPI's treatment of driver merit discounts, vehicle merit discounts, and related surcharges for non-fleet vehicles. MCTRA stated it intends to fully participate with MPI in all aspects of a review of the treatment of fleet rebates and to deal with the matter at the next GRA.

MUCDA

MUCDA did not prepare a closing argument, however, MUCDA did cross examine the MPI witnesses on the following matters: dealer plate revenue and claims costs, PIPP coverage and serious losses.

11.0 Presenters

Four individuals made presentations to the Board.

Mr. Watts questioned whether MPI's adjustors adhere to a code of ethics. Additionally, Mr. Watts enquired whether the directors and officers of MPI consider that they must act in the best interest of the general public, in addition to MPI's interests. Finally, Mr. Watts questioned whether MPI makes its list of customer complaints available to the public. Mr. Watts also submitted a copy of a petition that is being circulated by the Canadian Taxpayers Federation (Manitoba Division) with respect to the no fault insurance system in Manitoba.

Mr. Whittington explained the physical and psychological problems he has experienced since his motor vehicle accident. Mr. Whittington expressed dissatisfaction with the three adjustors that have worked on his case and he accused them of acting in bad faith.

Mr. Tokar thinks the accident surcharge for the first at fault accident is not fair and should be waived if the accident is a minor accident and it is the driver's first at fault accident. Mr. Tokar also suggested that MPI have a database that it would use to log complaints from the public about erratic and dangerous drivers. Once a driver received a specified number of complaints, MPI could contact this driver and review his/her driving habits.

Mr. Brown stated that MPI's rate setting methodology does not appropriately distinguish a high-risk rider from a lower risk rider. In Manitoba, the same Basic rates are offered to all riders, regardless of driving record or risk. The range from the high-risk rider to the lower risk rider is only 25%. In other provinces, such as Alberta, a driver with a good driving record is able to obtain coverage at a significantly lower cost than a higher risk rider.

According to Mr. Brown's investigation, insuring his motorcycle in Alberta would cost one-fifth of the Manitoba cost. In addition, since Albertans can choose the desired level of coverage, he could save in excess of $1,000 each year per insured motorcycle

Mr. Brown also challenged the no fault system for motorcycles and stated that in provinces that have adopted a no fault system, motorcycles are typically excluded. In a no-fault jurisdiction, he stated a loss transfer approach is more appropriate since the class of vehicle responsible for causing the accident should be the class paying for it. Mr. Brown contended the minimum insurance required for motorcycles should be third party liability.

12.0 Board Findings

The Board wishes to thank all presenters who took the time to make their views known.

The Board notes that some presenters have used the public rate-setting forum to express their concerns with their personal injury claims. While the Board understands the difficulties experienced by some accident victims, the Board's jurisdiction is limited to rate setting decisions and does not have the jurisdiction to intercede in personal injury claims. The Board suggests these presenters avail themselves of other forums, both internal and external to MPI, which are designed to address the concerns of accident victims.

If a claimant disagrees with an adjustor's decision regarding a PIPP claim, the claimant may request a review of the decision through the Internal Review Office, an office that is independent from the Claims Department. If the claimant rejects the findings of the Internal Review Office, the claimant can appeal the decision with the Automobile Injury Compensation Appeal Commission. ("AICAC"). AICAC is a special tribunal independent from MPI. Its Commissioners are appointed by the Manitoba government and administered by the Department of Consumer and Corporate Affairs.

With respect to collision claims, if a claimant disagrees with the decision of an adjustor, the first step is to discuss the issue with the claims centre supervisor. If the dispute is not settled, two independent representatives, one representing the claimant and one representing the adjuster review the case. The two representatives decide what the repairs or the settlement should be. This procedure is called an Independent Appraisal Process.

In response to Mr. Tokar's position that a $200 accident surcharge for the first at fault accident is unfair, the Board notes that this option is less punitive and expensive for registered owners than to lose their merit discount. The maximum merit discount is calculated as 25% of the Basic insurance premium. The Board supports MPI's approach to accident surcharges and recognizes that the intention of these surcharges is to have drivers exercise more caution.

With respect to Mr. Brown's correspondence related to motorcycle rates in Manitoba compared to the much lower rates in Alberta, the Board suggests that the reason for the variance in the rates is due to the extent of coverage offered to riders in Manitoba. The potential benefits payable by MPI in accordance with PIPP exceed those payable by an insurance company in Alberta.

RSR

In Order 179/01, the Board established a range of $50 to $80 million as the appropriate target RSR range for rate setting purposes based on its evaluation of MPI's Risk Analysis. In the same Order, the Board stated that MPI is not required to submit an updated Risk Analysis until so directed or if there were significant changes to the risk exposure faced by MPI.

Witnesses from MPI stated that there were no material changes in the risk profile of MPI since the last Risk Analysis was performed. The witnesses also stated that the increased risk related to less reinsurance coverage for fiscal 2003 is minimal. As a result, the Board reaffirms the RSR target range at $50 - $80 million. The Board will adjust this target only if and when MPI justifies an increased corporate risk profile.

Witnesses from MPI stated that to break even is to have income equal expenses at the point where the RSR is fully funded. The Board notes that previously when the RSR required additional funding, a percentage surcharge was assessed to fund the RSR. Similarly, in 2000, when the RSR surpassed its upper target range, the Board recommended a surplus refund distribution. To summarize, when the RSR falls short of it target range, it is historically built up with an RSR surcharge and if the known balance (as opposed to a forecast) exceeds the upper target limit the excess is to be returned to the policyholders as a surplus dividend.

The Board of Directors of MPI set the upper limit for the SRE retained earnings at $33 million for the three-year period ending February 28, 2005, and has transferred the excess proceeds to the RSR. The Board notes that $20 million was also transferred from SRE to Extension retained earnings. The Board considers the transfers from SRE to Basic and Extension accounting transactions, and that on an overall basis the retained earnings of MPI and its overall financial health has not changed as a result of these transfers. The Board reaffirms as previously stated in prior Orders that when assessing the appropriateness of Basic rates that the Board reviews the overall financial well being of MPI.

It is the view of the Board that the transfer of SRE retained earnings should be considered as a Basic RSR contribution, and not as income earned by the Basic program. These revenues do not flow from the regulated line of business. The Board will therefore not accept the position put forward by MCTRA in this regard.

Net Income

Based on the evidence filed by MPI, the overall required rate decrease for fiscal 2004 was -0.53%. However MPI rounded this to zero and requested no change in premium revenue. Evidence brought forward at the Hearing indicated that the application originally filed by MPI did not properly factor in the effect of fleet rebates. As a result of this adjustment, the actual required rate change is -0.63% and the 1% reduction ordered by the Board should not negatively impact MPI.

The Board also notes that MPI has consistently underestimated vehicle premium revenues over the past several years. The Board further notes that reducing the projected fiscal 2004 upgrade factor from 5.5% to 4.5% would result in a reduction in net income of $2.6 million for 2004 and $8.2 million for fiscal 2005. The impact on the RSR would be an increase of $2.6 million in fiscal 2004 and $9.8 million in fiscal 2005. The Board further notes that the upgrade factor has a compounding effect on revenues, that is if the base is 100 in one year a 5% upgrade factor would increase the 100 base to 105, and the year after to 110.25 (105 x 1.05).

The Board is of the view that, while the upgrade factor assumptions appear to be conservative, the impact of the changes in rate line relativities cannot be accurately determined at this time. The Board will therefore not require MPI to alter the upgrade factor projections this year. The Board will, however, expect MPI to monitor this matter and to inform the Board of the impact of the change, as well as to determine the actual upgrade factor as a matter of course.

The Board notes that the volume factor has been projected to remain at 1.0% from the current application to the end of fiscal 2007. The Board considers these forecasts to be reasonable, given the experience in the most recent years.

The Board believes the nature of MPI's forecast and the insurance business in general makes it neither practical nor meaningful to strictly adhere to the concept that "break even" means forecast expenditures exactly equal forecast revenues annually. It continues to be the Board's view that break even must encompass a longer-term view. Given that net income is forecasted to be $9.8 million for fiscal 2004 and the RSR is projected to exceed the Board's target range at that time, the Board will approve rates incorporating a vehicle premium revenue reduction of 1% over that applied for by MPI. In setting the rates for fiscal 2004 the 1% decrease in premium revenue should be implemented in a manner so that all Major Use classifications are treated fairly.

The Board also recognizes that a significant component of MPI's revenue consists of investment income. The current market is at best unpredictable, and as a result investment income can be expected to vary to a greater degree than normal. Because of these factors, the Board considers the 1% reduction to be a fair balance given the risks MPI will be exposed to in the fiscal year ahead.

Rate Design

The Board has considered the various aspects of MPI's rate design reflected in the application, and continues to be of the view that it produces fair and equitable rate relationships that are reasonably reflective of risk.

The Board's primary concern is that rates and premiums are just, reasonable and not unduly discriminatory, with a degree of rate stability over time. For MPI, the reasonableness and equity in rates is derived from actuarial analyses, based on historic statistical data to ultimately project future claims costs by vehicle type, insurance use and territory. Additionally, MPI has in the past several years embarked on changes in classification systems and other methodology refinements. Absent any external considerations, these changes, in conjunction with increasing claims costs, would have imposed significant increases for certain vehicles. To mitigate large rate increases, MPI has implemented a 15% limit on indicated increases (and decreases). The Board appreciates the need for the ongoing evolution of the rate group structure and underlying rate relativities, and finds the approaches used to be generally reasonable under the circumstances.

MPI is continuing with phasing in the reallocation of operating expenses that were previously allocated to all insured units, now being allocated only to vehicles that are HTA units. The Board will approve the second phase of the implementation, which involves an additional 25% being reallocated to HTA units, and expects completed implementation after the next two years.

The Board notes MPI's choice to "round" to 0% the overall experience-based rate requirement initially calculated as -0.53% (and subsequently corrected to -0.63%). It is the Board's preference that in the future, MPI consistently represent the rate requirement as it has been estimated, and not subject to such a judgmental override.

The Board accepts that legislative amendments require the City of Winnipeg Transit Buses to be included in the Basic program. The effective date of the amendment was January 1, 2002, and in Order 192/01, the Board approved, on an interim ex-parte basis, an annual premium of $1,245 per unit for these vehicles from March 1, 2002 to February 28, 2003, and prorated premiums for January and February 2002. The Board has considered the materials filed and will confirm as final, interim ex-parte Order 192/01.

The Board also considers that in view of the legislative amendment, the City of Winnipeg Transit Buses are properly included in the public use class. Additionally, the premiums for these units flow from MPI's claims forecasting and rate making methodologies. The Board notes that insuring these units has had only a minor impact on other insurance uses. The Board will accordingly approve the premiums for these units, subject to any impact on premiums resulting from other Board decisions contained in this Order.

The Board notes MCTRA's request that MPI be required to retain the services of an independent chartered accounting firm to perform a comprehensive review of MPI's rate making model. This request arose from MCTRA's finding that the filing documentation did not adequately disclose the interim steps involved in transitioning from the indicated to the proposed changes in average rate level by Major Classification. In considering this request, the Board acknowledges the difficulties of fully documenting this transition, due to the iterative nature of the capping and rebalancing process. Based on its review of TI.20 and responses to related information requests, the Board is satisfied as to the actuarial soundness of the rate making model, and will not require MPI to conduct any such external review. However, the Board urges MPI to significantly improve the transparency of the disclosure of this transition for the benefit of MCTRA and other interested parties.

Motorcycles

Even though motorcycle rates have increased by 215% on a non-compounded basis in the past decade, the premiums have only recovered half of the claims experience. For the Motorcycle Major Use class, the Board is satisfied the rate making process is actuarially sound, with the 58% credibility weighting, for the reasons given by MPI.

In 1998, the Board reviewed the matter of the use of the loss transfer model as an alternative to MPI's current method that establishes Major Use premiums based on all property damage costs and PIPP benefits attributed to that Major Use, regardless of fault. A proposal put forward at that time by CMMG's witness, an actuary, on behalf of CMMG was that premiums be based on degree of responsibility for causing an accident for all Major Uses. In Order 154/98, dated December 1, 1998, the Board ordered MPI to provide evidence and a recommendation at the next GRA on the appropriate methodology to be used in Manitoba.

After further investigating this issue, the Board, in Order 177/99 dated November 1, 1999, did not require MPI to make any change in the methodology to encompass a loss transfer model. The Board reasoned that the basic principle in Manitoba's no-fault plan was and should continue to be to assign costs to the Major Use that incurs the costs, and that the vehicle merit and accident surcharge program would sufficiently penalize those drivers causing accidents. The Board also expressed the view that the type of vehicle one drives is a personal choice, and that common sense dictates that the risk of personal injury is dependent on the size and type of vehicle chosen. As the choice is personal, so too must be the assumption of risk.

The Board does recognize that almost four years have elapsed since the Board first reviewed the matter, and that circumstances, such as the fleet mix of vehicles and Major Use loss experience may have changed. Although the Board recognizes that the principles stated in Order 177/99 may still be appropriate, the Board will require MPI to review the matter of loss transfer and to report its recommendations in this regard at the next GRA.

This report should include, at a minimum:

- Rationale for the current system, and it's advantages and disadvantages;
- A contrast with the loss transfer implicit in the Fleet Rating Program;
- Legislative and practical barriers to implementation of a loss transfer system;
- Summary of practices in other jurisdictions, both private and public; and
- Estimated administrative and other costs to implement a loss transfer system.

Over the past decade the Board has reviewed a myriad of suggested alternatives ranging from capping large losses, loss transfer, changing credibility weighting, rate differentials based on type of motorcycle, and enhanced road safety. As demonstrated by the existing gap between the required rates and indicated rates, the premiums still do not cover the claims experience of motorcycles. According to MPI the introduction of PIPP is a major contributor to this increased claims experience. Whereas previously under tort, coverage for third party liability was capped at $200,000 for the Basic program, under PIPP there are numerous losses exceeding that amount, including several claims in excess of $1 million. The Board believes the PIPP benefits offered to motorcyclists have driven the claims costs upward, which causes the indicated rate increases. Accordingly, the Board will once again approve the 15% rate increase for the Motorcycle Major Use class, rather than the indicated capped rate requirements increase of 37%, subject to any impact on premiums resulting from other Board decisions contained in this Order.

The Board recognizes the one year of Manitoba data is not fully adequate for determining appropriate motorcycle type differentials. Recognizing the severity may be somewhat skewed due to the aberrant nature of one $3 million claim for sport motorcycles in 2001, the Board will initially rely upon frequency as being a better indicator of claims experience based on body style differentials. The Board believes the current 5% rate differential for sport motorcycles is not sufficient, as evidenced by frequency of claims relative to other types. Accordingly, the Board will order a further 5% rate differential for sport type motorcycles, to make their total rate differential 10% greater than other motorcycle types. Once again, this implementation should be on a rebalanced and revenue neutral basis for the motorcycle Major Use class, keeping all increases to within the 15% rate cap.

Fleets

The Board is of the view that the issue of retrospective versus prospective fleet rebates and fleet surcharges, loss ratio determinations and other fleet related factors should be the subject of further discussions. The Board notes MPI's willingness to coordinate the process and MCTRA's eagerness to participate. The Board will request reviews of these matters occur not only between MPI and MCTRA, but also with any other stakeholders with a direct interest. The Board accepts that both retrospective and prospective fleet rating are acceptable and used in the industry. Additionally, the Board notes the $25,000 cap used in determining the fleet program loss ratios has not changed since the inception of the fleet program. The Board will require MPI to ensure the cap is still current and reasonable and assess whether the amount should be subject to periodic revision. The Board will expect MPI to file a report at the next GRA detailing these reviews.

Other Issues

Light Local Common Carrier Trucks

The Board notes that MPI and representatives of DDAM have agreed not to introduce the vehicle merit discount program for light local common carrier trucks, due to the large percentage of vehicles that would have received increases in premiums of up to $353. Rather, MPI has proposed to delay any further action until the views of the membership of this insurance use category can be obtained. Any further proposals would be brought before the Board at the next GRA. The Board will require that this consultation occur, and wishes to remind MPI that rating decisions cannot be based solely on the magnitude of any rate change or on the number of vehicles impacted by such changes. As well, the calculation of premiums should be experience-based and logically consistent for all comparable insurance uses. The Boards will also require MPI to review and update, as necessary, the criteria used to determine what types of vehicles are eligible for the vehicle merit discount program, and to include the results of this review in the report to the Board at the next GRA.

Assessment of Internal Review Process

The Board considers that MPI's filing complies with the Board directive in Order 179/01 requiring a review of MPI's Internal Review Process. The Board notes that some delays in hearing reviews and rendering decisions are beyond the control of MPI. However, the Board also notes that although MPI's goal is to meet the standards and guidelines at all times, this is achieved only 70% to 75% of the time. The Board encourages MPI to improve its success rate in this regard.

Road Safety

Updated statistics appear to suggest that the traditional approach to MPI's road safety efforts respecting seatbelt use has had limited success. The percentage of Manitobans using seatbelts has not materially changed and in fact has decreased over the last decade which MPI contends resulted in increased fatalities. The success in the two other areas, on which MPI has focused, unsafe speed and impaired driving, is difficult to assess. However, the Board notes the evidence indicates that there are fewer drivers being stopped by road checks, and that on a percentage basis, the number of impaired drivers operating vehicles remains unchanged over the last several years.

MPI filed the Manifest Report in response to the Board's request in Order 179/01. Unfortunately, due to the late date of receipt of the report, there was little opportunity for MPI, the Board and Intervenors to review its contents and respond to the observations and recommendations. The Board will direct MPI to circulate copies of the Manifest Report to all stakeholders as necessary, including provincial agencies involved in vehicle or highway safety.

These stakeholders should include, at a minimum, CAA, CAC/MSOS, CMMG, Manitoba Safety Council, Winnipeg Police Service, RCMP and Manitoba Justice. The Board will expect MPI to work with all stakeholders and to report on the various group's concerns, findings and recommendations, as appropriate, at the next GRA.

Anti-theft Initiatives

The Board shares the frustration of all stakeholders with the growing incidence of automobile thefts, and notes that auto-theft claims costs amounted to $24.9 million in fiscal 2002 and since 1996 claims costs related to theft have amounted to approximately $145 million. This is obviously a significant financial and social burden that is forced upon Manitoba motorists.

The Board also notes that the comprehensive claims costs have steadily increased since fiscal 2000. These increases are in large part due to increase in damages as a result of auto thefts. Although the Board recognizes that the resolution of this does not rest solely with MPI, the Board recommends MPI inform the other stakeholders of the Boards concerns at the lack of a comprehensive approach to this societal problem. Given the significant financial burden it imposes on all concerned, the Board wishes to see MPI assume the role of co-ordination to achieve with the governmental, municipal and other stakeholders, greater and more effective improvements in combating this problem.

The Board appreciates MPI's efforts in attempting to curb the problem as described in MPI's "Consolidated Auto Strategy" included with this application. The Board will require MPI to provide a further report at the next GRA summarizing any measurable successes with the existing programs, and indicating what other plans or initiatives MPI may have for the future.

The Board recognizes that, as with Road Safety Programs, MPI cannot nor should it assume total responsibility in reducing thefts.

The statistics provided by MPI respecting thefts and investment in the Winnipeg Police Service of approximately $500,000 per year for the past number of years appears to have had only limited success. On the other hand it is not possible to state what the auto-theft statistics would have been absent these expenditures. Absent enforcement and proper deterrents, it is unlikely that investing additional funds on existing programs, while keeping within MPI's core policy mandate, will have a significant impact on theft reduction.

The Board is of the view that encouraging the use of anti-theft devices has merit. The Board agrees with MPI that increasing the premium discount for vehicles with approved devices installed beyond the $40 may provide limited additional return, therefore the Board will approve the $40 discount for VICC approved anti-theft devices as applied for.

Claims Incurred

The Board accepts that the matter of accurately forecasting claims incurred is difficult because of the numerous factors involved, many of which are beyond the control of MPI. Major variables are weather, economic conditions, financial circumstances, changing vehicle population, driver demographics, and overall driver attitudes to automobile insurance and driving habits. A compounding complication is that initial projections of claims incurred are developed approximately 21 months before the end of the forecast period, while revised forecasts are prepared a year later. The Board notes that on an overall basis, MPI's claims forecasting displays a reasonable degree of accuracy.

A review of the variance between projections, revised forecasts and actual results for three of the last four years shows that the range of variance between projections and actual results is from +0.6% to –3.5%, with a similar range between forecast and actual results. The Board notes that in fiscal 2002, there was a $42.5 million increase in claims incurred for PIPP accident benefits, from an initial projection of $139.9 million to $182.4 million and the Board notes that approximately $20 million of the increase was for an adjustment for ultimate claims costs, following an actuarial review. The Board accepts that, in terms of reliability, eight years of historic data represents a relatively short time frame and significant variances can be expected, especially in view of the significant differences in benefits brought on by the implementation of PIPP. The Board expects that trending analyses and forecasting accuracy respecting PIPP accident benefits will improve with the passage of time.

The Board notes MPI continues its attempts to control bodily injury claims costs by a number of methods, but these claims costs continue to increase. The Board encourages MPI to carry on with existing programs, and to also review other avenues in an attempt to further reduce claims costs.

The Board also recognizes that collision claims and property damage claims have increased over the past several years. The Board accepts the increase in the cost for new automobile replacement parts has been increasing by about 10% per year for the past several years. Increases in the cost of new parts in turn results in increases in aftermarket and recycled parts. Additionally as newer cars replace older vehicles and the fleet increases, costs to repair and/or replace these newer vehicles is greater and claims cost will increase. The Board also commends MPI for increasing its reliance on aftermarket and recycled parts, and notes that in fiscal 2002 this resulted in savings of $18.5 million. Thus, the Board considers the increases in claims incurred over the last four years are reasonable under the circumstances. The Board would encourage MPI to maximize savings and determine if other all perils claims cost savings initiatives may be available.

Claims and Operating Expenses

Although MPI's operating and claims expenses appear reasonable, the Board encourages MPI to maintain control over these expenditures, especially in respect of additions to staff. Such control can be exercised through initiating and maintaining aggressive cost control initiatives and managing the labour force. The Board encourages diligence and efficiency to be exercised by senior management to control staffing levels.

The Board notes that the review undertaken on the appropriate target of the operating expense ratio, which is to be 50% of the industry average with the removal of the road safety expenditures, appears reasonable.

Allocation of Claims Expense

The Board has previously reviewed the issue of allocating claims, and has considered MCTRA's position in this regard. The Board considers that the basic principle must be cost allocation on the basis of cost causation that must be practically applied. While the Board agrees that claims expenses are budgeted and therefore are a "known" item, the Board sees no connection between a known amount and the appropriate allocation of that amount to a particular class. If the allocation were on a per unit basis or on a per claim basis, as initially proposed by MCTRA, trailer premiums, for example would have claims expenses greater than claims costs. The Board acknowledges that this is an extreme example, but it illustrates that no one method is the only or perfect method to allocate claims expenses.

The Board recognizes that there is no "perfect way" to allocate costs, but notes that it is common practice in the industry to allocate claims expenses as a percentage of claims costs. The Board cannot accept the premise that because a change in a method would result in a certain use category experiencing fewer costs under a different methodology, that methodology is preferable in the overall context. The Board will, however, direct MPI to review the allocation of claims expenses to assess if it is more reasonable to allocate a fixed amount to some specified level of claim, and then to allocate the remainder on the basis of a percentage of remaining claim costs.

Information Technology Expenses

The Board agrees that it is the prerogative of management and the Board of Directors to decide whether to proceed with the migration from Sybase Powerbuilder to a multi-tier architecture with Microsoft. However, it is the obligation of this Board to review decisions respecting the financial impacts as they relate to rates.

The Board expects to be fully informed of the decisions made and to review the project charter, including cost estimates and will require MPI to file the project charter and business case at the next GRA.

13.0 It Is Therefore Recommended That:

1. Manitoba Public Insurance convey the Board's concern respecting auto theft and coordinate efforts with government, municipalities, and other stakeholders to combat the problem, recognizing the significant financial burden imposed on all.

14.0 It Is Therefore Ordered That:

1. Motor vehicle premiums for the Basic Automobile Insurance Program, for the year ending February 29, 2004, as applied for by the Corporation, BE AND ARE HEREBY APPROVED, subject to the Corporation implementing a 1% vehicle premium revenue reduction.

2. The second phase of the implementation, involving an additional 25% of operating expenses being reallocated to HTA units, as applied for by the Corporation, BE AND IS HEREBY APPROVED.

3. Final approval of interim ex-parte Order 192/01 premiums for City of Winnipeg transit buses for fiscal 2003, BE AND IS HEREBY APPROVED.

4. Manitoba Public Insurance review the matter of loss transfer and report its recommendations to the Board at the next general rate application. This report should contain several requirements as outlined in the Board Findings section of this Order.

5. Manitoba Public Insurance increase its motorcycle rate differential for sport bikes to 10% greater than the base motorcycle rate, on a revenue neutral basis balanced back over the other motorcycle classifications.

6. Manitoba Public Insurance initiate meetings with all stakeholders to discuss issues raised by Manitoba Car and Truck Rental Association with respect to fleet rebates and surcharges on a retrospective vs. prospective basis, loss ratio determinations, and other matters related to U-Drive vehicles. The results of these meetings are to be reported to the Board at the next general rate application.

7. Manitoba Public Insurance initiate meetings with representatives of Delivery Drivers Alliance of Manitoba to discuss the issue of a merit discount program for light local common carrier trucks, and report the results of the meetings to the Board at the next general rate application.

8. Manitoba Public Insurance review and update, as necessary, the criteria used to determine what types of vehicles are eligible for the merit discount program and to report to the Board at the next general rate application.

9. Manitoba Public Insurance circulate the Manifest Report to all stakeholders as necessary, including provincial agencies involved in vehicle or highway safety. In addition, Manitoba Public Insurance prepare a report responding to the findings of the Manifest Report, including the various group's concerns, findings and recommendations and file that report with the Board at the next general rate application.

10. Manitoba Public Insurance provide a report at the next general rate application summarizing success with the existing auto-theft programs and indicating what other initiatives are planned for the future.

11. The $40 discount for a VICC approved anti-theft device, BE AND IS HEREBY APPROVED.

12. Manitoba Public Insurance provide a report at the next general rate application reviewing alternatives for the allocation of claims expenses.

13. Manitoba Public Insurance prepare a project charter and business case to support the expenditures relating to the replacement of Sybase Powerbuilder, and to report to the Board at the next general rate application.

14. Manitoba Public Insurance file a revised schedule of compulsory driver and vehicle insurance premiums to be implemented March 1, 2003 and related supporting information, for review and approval by the Board.

The Public Utilities Board

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Chairman

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Acting Secretary

THE PUBLIC UTILITIES BOARD

"G. D. Forrest"
Chairman

"Hollis Singh"
Acting Secretary

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Acting Secretary