MANITOBA PUBLIC INSURANCE

2018

Annual Report

MANITOBA
PUBLIC INSURANCE

Contents

Manitoba Public Insurance is a provincial Crown corporation that has provided automobile insurance coverage since 1971. We assumed a broader spectrum of services in 2004, when we merged driver and vehicle licensing into our operations. The Corporation is governed by *The Manitoba Public Insurance Corporation Act* and *The Drivers and Vehicles Act*.

This annual report is available in French at mpi.mb.ca.

Le rapport annuel est disponible en français sur le site Web mpi.mb.ca.

Letters of Transmittal

MANITOBA PUBLIC INSURANCE

May 31, 2019

The Honourable Colleen Mayer
Minister of Crown Services
Room 314, Legislative Building
Winnipeg, MB R3C 0V8

Dear Minister,

In accordance with Section 43(1) of *The Manitoba Public Insurance Corporation Act*, I am pleased to submit the Annual Report of the Manitoba Public Insurance Corporation for the fiscal year ended February 28, 2019.

Respectfully submitted,

Dr. Mike Sullivan
CHAIRPERSON OF THE BOARD

Manitoba

May 31, 2019

Her Honour The Honourable
Janice C. Filmon, C.M., O.M.
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, MB R3C 0V8

May it please your Honour,

I am pleased to present the Annual Report for the Manitoba Public Insurance Corporation for the fiscal year ended February 28, 2019.

Respectfully submitted,

Colleen Mayer
MINISTER OF CROWN SERVICES

2018/19 Year-End Summary

Dollars and Cents

Approximate Autopac claims paid per working day	$3.1 million
Total Autopac claims paid for injuries occurring in 2018/19 (before expenses)	$155.7 million
Total Autopac claims paid for property damage occurring in 2018/19 (before expenses)	$608.9 million
Amounts paid by MPI to Manitoba medical practitioners on behalf of customers	$30.9 million
Commissions expensed to independent insurance brokers for product sales	$85.6 million
Grants-in-lieu of taxes paid to Manitoba municipalities by MPI	$1.9 million
Provincial premium taxes total	$38.8 million
Dollars invested in road safety programs	$13.1 million
Savings to policyholders through use of recycled parts made available for use in claims repairs	$8.5 million
Estimated direct savings to policyholders through subrogation	$13.0 million

Significant Numbers

Average number of Autopac claims reported to Manitoba Public Insurance per working day	1,196
Total Autopac claims reported	297,920
Bodily injury claims reported	16,446
Property damage claims reported	281,474
Total theft claims reported in Winnipeg	2,817
Total theft claims reported elsewhere in province	1,098
Number of Autopac policies in force (average)	1,164,616

Corporate Five-Year Statistics

	2018/19	2017/18	2016/17	2015/16	2014/15
Premiums written ($000)	1,315,612	1,232,350	1,153,420	1,103,185	1,026,555
Net claims incurred ($000)	1,015,922	883,813	981,298	770,624	844,875
Number of claims	297,920	299,518	303,878	297,957	273,244
Average cost per claim ($)	3,410	2,951	3,229	2,586	3,092
Claim expenses ($000)	143,832	161,583	137,102	134,511	134,247
Other expenses ($000)	268,872	254,460	254,274	205,510	247,217
Net income (loss) ($000)	159,145	91,076	(85,204)	(31,314)	57,578
Investments at year-end ($000)	3,072,813	2,784,706	2,648,305	2,523,111	2,599,971
Total assets ($000)	3,795,943	3,482,897	3,349,799	3,190,917	3,215,049

Message from the Chairperson

The mission of Manitoba Public Insurance is clear: Exceptional coverage and service, affordable rates, and safer roads through public auto insurance.

We are proud to deliver on our mission, with coverage that is among the best in Canada and rates which are among the lowest in the nation.

There are many excellent examples I could offer to demonstrate how we deliver on our mission, but to choose just one, I point to our protection for Manitobans injured in automobile collisions. Through the Personal Injury Protection Plan, we ensure all Manitobans injured in a collision anywhere in Canada or the U.S. are compensated for their specific economic losses and comprehensively supported in their recovery. Supporting Manitobans — whether they are recovering from injuries, learning to adapt to new realities physically or emotionally, or coping with the loss of a loved one — is one of the most important and essential services we provide.

Our public auto insurance model also continues to provide among the lowest rates in Canada and includes our comprehensive injury protection, which is often an additional cost in other jurisdictions. To give you just one example, insuring a 2016 Ford F150 XLT SuperCrew in Winnipeg would cost $1,406, as compared to $4,182 in Calgary and $5,505 in Toronto, for a 40-year-old couple and their 16-year-old son, all with clean driving records.

We are determined to maintain our commitment to this mission and our accountability to Manitobans through our four core values:

1 Striving for Excellence

To maintain exceptional coverage and service, we must adapt to meet ever-evolving customer and industry needs. This continues to be a primary focus for MPI as we review our product and service offerings, evaluate our policies and procedures, and look to modernize our internal systems all with an eye to ensuring we meet the needs of Manitobans with exceptional coverage, service, accessibility and convenience.

2 Providing Value to Manitobans

This remains our guiding priority that drives all we do. We take seriously our obligation to keep Basic rates as stable, predictable and affordable as possible. Basic insurance must operate on a self-sustaining basis with a sufficient capital reserve to absorb any unforeseen variations in revenue, claims costs and investment income.

As we evolve to meet the diverse product and service needs of Manitobans, cost containment and fiscal responsibility remain a primary focus.

3 Doing What's Right

As a Board, we provide enhanced oversight, accountability and transparency to ensure financial responsibility, reduce red tape, and secure value for Manitobans. Manitobans have entrusted MPI with sole authority to provide auto insurance coverage, and in turn, MPI has the responsibility to ensure we follow industry best practices and demonstrate the highest level of fiscal prudence and responsibility.

4 Investing in People

We continue to empower all employees to provide service excellence, and ensure they have the tools and skills needed to fulfill our mission. We continue to have respectful collaboration with partners in industry, road safety, and the community at large to ensure we meet our mission and mandate fully.

As I enter my first full year of service as Chair, I want to acknowledge the commitment of the executive team and its clear focus on key priorities and objectives to ensure MPI succeeds now and into the future.

I also want to acknowledge the Board members for their dedication and service, and thank the outgoing Chair Brent VanKoughnet for his past guidance, expertise, and commitment. I look forward to contributing to the Board's continued diligence and expertise as, together, we work to fulfil the important mission entrusted to us by Manitobans.

On behalf of the Board, I'm proud of the accomplishments of MPI's executive team, its employees, and its many business partners and stakeholders that help to move forward and maintain our unwaivering commitment to Manitobans.

Dr. Mike Sullivan
CHAIRPERSON OF THE BOARD

Board of Directors

Dr. Mike Sullivan
CHAIRPERSON

Daniel Bubis

Richard Chale

Domenic Grestoni

Carolyn Halbert

Edna Nabess

Grant Stefanson

Valerie Wowryk

Brent VanKoughnet

Benjamin Graham
EX-OFFICIO

Message from the President and Chief Executive Officer

At MPI, transparency and customer experience is a priority for us in everything we do for Manitobans to ensure our actions, products and services all align with our core values.

Customers expect exceptional coverage and affordable rates while contributing to safer roads. To meet this expectation, we have refocused efforts on our core insurance business as we work to be a fiscally strong company with informed underwriting, effective claims management and a prudent investment strategy. We continue to be guided in these efforts by our key priorities: collaborative relationships with key partners to drive customer value, effective utilization of reinsurance, enhanced capital management focused on improving rate stability, and offering superior products and services.

Our corporate vision is for MPI to be the trusted auto insurance and driver services provider for every Manitoban. To fully gain this trust, we will identify channels to improve transparency and clearly demonstrate where premium dollars go, while ensuring those premiums are affordable and predictable. Furthermore, we will continue to be responsive to the needs and expectations of all our customers, no matter where they live in Manitoba, for insurance and driver services.

We must enact positive change that increases service excellence while maintaining world-class coverage at affordable rates. Our coverage, led by the Personal Injury Protection Plan (PIPP), is indeed already world-class. PIPP is the jewel in our crown, and provides superior coverage and benefits to support all Manitobans injured in an automobile collision. We recognize that we can do more to ensure that Manitobans understand the value of this program and its benefits in the coming year.

At MPI, we understand that agility is paramount as stakeholder and customer expectations change. As such, to achieve our vision, we are undertaking impactful change, including a modernization of our old legacy business systems. These systems have served us well, in many cases since the 1990s, but no longer are fully effective in today's world. This system modernization will roll out largely behind the scenes for customers but will revolutionize and streamline how we process transactions and work with our business and service partners.

Through customer experience initiatives we have learned that our customers would like options when transacting with us, including online supported services. As part of our legacy system modernization, we are looking to increase our online service offerings to enhance convenience and accessibility.

We have also been busy reviewing our full suite of products and services, and later this year we aim to begin rolling out new evolved and modernized options, bringing them up-to-date for the 2020s.

Financially, we are defining and implementing a Capital Management Plan, aligned with industry best practices, to reduce financial volatility and ensure rates remain stable and affordable. We will also better utilize reinsurance frameworks to further limit volatility, and we are implementing an asset-liability management strategy that will segregate and diversify our investment portfolio to maximize returns at an acceptable level of risk. In short, this will mean fewer surprises to all stakeholders.

In 2018, we continued our positive momentum and posted corporate net income of $159.1 million. Earnings grew by $68.1 million year over year, however the primary driver of the growth in net income stemmed from one-time gains on sales of equities which were $92.9 million higher than the prior year. These one-time gains were realized as we prepared our portfolio for the new asset allocation strategy in 2019.

Road safety remains an integral part of our mission. We have worked hard to update and enhance driver education programming for high school students by launching a new and dynamic curriculum, Driver Z, across the province this fall. We are also continuing our collaborative commitment to *Road to Zero: Manitoba Road Safety Plan 2017–2020*, which resolves to eliminate traffic fatalities on our roadways.

While often considered a victimless crime, fraudulent claims are ultimately paid for by all our customers. As part of our loss prevention efforts, we continue to address and raise awareness of insurance fraud in an effort to achieve savings for all ratepayers.

Throughout all of this, our leadership team is engaging our staff to continuously improve operational excellence by challenging the status quo and striving for excellence.

I want to extend my sincere appreciation to the Board of Directors for the opportunity to lead MPI through this evolutionary change in products, services and technology, and our renewed focus on our core business. I look forward to the Board's guidance and collaboration throughout this process. In closing, I want to recognize our leadership team and all our employees for working hard to fulfil our mission, achieve our vision, and continue to provide significant value to Manitobans.

Benjamin Graham
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Executive Team

Benjamin Graham
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Brad Bunko
VICE-PRESIDENT, INFORMATION TECHNOLOGY & BUSINESS TRANSFORMATION AND CHIEF INFORMATION OFFICER

Mark Giesbrecht
VICE-PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Satvir Jatana
VICE-PRESIDENT, HUMAN RESOURCES & CORPORATE SERVICES AND CHRO

Luke Johnston
CHIEF ACTUARY AND VICE-PRESIDENT, PRODUCT AND RISK MANAGEMENT

Mike Triggs
GENERAL COUNSEL AND CORPORATE SECRETARY

Curtis Wennberg
VICE-PRESIDENT, CUSTOMER SERVICE AND CHIEF OPERATING OFFICER

Report on Performance

Manitoba Public Insurance is an organization made up of people with a clear focus — to provide exceptional coverage and service, affordable rates and safer roads.

We care about our customers because we've been there. We operate from a place of empathy and camaraderie. Year after year, the expertise of our people and their commitment to our mission continues to provide value to Manitobans. The 2018/19 insurance year was no exception. For example, we still managed to realize almost $10 million in cost savings through our Paintless Dent Repair Program, while still offering exceptional service in handling claims from significant weather events, such as large hail storms in southern Manitoba.

It was a transitional year, in many respects. We took an important step forward in putting our customers first by developing a product roadmap and customer experience framework. We understood that we needed to listen to our customers to make informed decisions for their benefit. So we developed our Voice of the Customer ePanel to augment and enhance our traditional customer research efforts. As a key element in understanding our customers and improving their experience with us, participants in our ePanel are helping to shape future products and services offered at MPI.

Our strong customer-centric commitment has also compelled us to revolutionize the way we operate. We put concentrated effort into researching, planning and laying the groundwork for the future evolution of our computer systems and related workflows and processes. The same can be said of our road safety and driver education mandate. We're leaving no stone unturned. We also took steps to strengthen our ongoing rate stability, and to enhance our product and service offerings — including online services. We're building a better foundation to ensure we can continue to provide Manitobans with superior value, now and into the future.

This last year introduced significant new laws, regulations and amendments that aimed to increase road safety and reduce red tape. These include new laws — and driver penalties — for alcohol- and drug-impaired driving and distracted driving, as well as significant changes in commercial vehicle registrations enacted under the *Traffic and Transportation Modernization Act*. As a result, we made a number of system and procedural changes and enhancements to keep pace with these legislative changes.

Last year also saw the introduction of legal cannabis sales in Canada, and MPI responded by raising awareness of drug-impaired driving as a major road safety issue to both novice and experienced drivers.

Throughout the year, we worked closely with external partners and stakeholders to address key priorities outlined in *Road to Zero: Manitoba Road Safety Plan 2017–2020*. Aligned with this work was an innovative new public awareness campaign, Save the 100, which sets a vision for a new traffic safety culture on Manitoba roads. The 100 Manitobans referenced in the campaign represent the number of fatalities on our roadways in an average year. The campaign inspires all drivers to recognize that every life matters, and that they play a role in reducing the number of fatalities to zero.

In another first, we launched our initial large-scale awareness campaign to address insurance fraud. Fraud is far from a victimless crime — as the campaign states: Fraud adds an extra $50 to your auto insurance, which means we all pay. This campaign reflects our heightened ongoing internal emphasis on loss prevention of which fraud avoidance, detection and prosecution are key pillars. We also addressed the issue of vehicle thefts with keys by providing important messaging to the public and by working with law enforcement.

The Corporation continued to make inroads in a number of other areas throughout the year as we strived for excellence.

We enhanced our financial stability by implementing a strategy to reduce risk in our corporate investment portfolio. With appropriate capital target reserve levels, we are able to better protect customers against adverse changes due to market downturns or severe weather events. In turn, by de-risking our overall portfolio, MPI can reasonably provide low and stable rates for all customers.

Internally, our continued focus was to invest in people and nurture a culture of excellence through the implementation of practical approaches, practices and performance management tools that recognize and reward business results.

We also put tremendous emphasis on our major business partnerships by concluding negotiations with a number of industry associations. Thank you to our partners for applying a value-for-money and value-for-service approach. Prudence rewards all Manitobans. Our priority is to continue to foster and grow these impactful relationships. MPI has demonstrated this commitment by working together with specialized service providers to keep offering customers the best options possible to meet their needs.

Our passion to do what's right also guided our work in the area of vehicle repair. The pace of change in vehicle design and manufacturing has progressed as more vehicles with complex materials and advanced computer electronic systems regularly travel on our roads. Our ongoing collaboration with collision repair partners ensures that all vehicles are properly repaired and cost increases are managed in order to keep premiums affordable. For example, severity costs have been managed well, despite a $31.5 million increase over last year relative to many other jurisdictions with similar increases.

Throughout the year, we remained focused on our core business and steadfast in our commitment to Manitobans. We demonstrated fiscal prudence and upheld the principles and practices of sound and transparent financial management to ensure rates remained stable, predictable and affordable. We look back on a successful year with humility, based on a belief that insurance and driver services is a societal necessity and that we have a responsibility to compensate fairly all those who suffer losses as a result of a collision.

Strategic Direction

In everything we do and every decision we make, Manitoba Public Insurance strives to be the trusted auto insurance and driver services provider for every Manitoban.

We understand that this means acting from a place of integrity and accountability, being open and transparent.

In the coming year, we are committed more than ever to strengthening our core business activities to ensure that we provide exceptional coverage and service, affordable rates and safer roads for all Manitobans.

Our way forward is to make customer experience a central focus. We know how important it is to meet the evolving needs and expectations of our customers while still providing guaranteed access to auto insurance at cost-effective rates over the long term. We are devoted to enhancing Manitobans' interactions with MPI and to making sure we truly understand what our customers need and want.

With this goal in mind, we will continue to embrace collaborative relationships with key partners and challenge assumptions to achieve greater operational excellence. This will also ensure our strategic focus is centered on the evolution of products and services, along with the enhancement of financial prudence and reduced financial volatility that will serve all Manitobans for many years to come.

Supporting these enhancements will be the modernization of our legacy computer systems to give us increased stability, security and agility to meet the expectations of Manitobans.

In tandem with this focus on technology, we will also be implementing a new Capital Management Plan, with the goal of improved rate stability and appropriate capitalization across all lines of business. This represents a major step forward in reducing financial uncertainty. Under our asset liability management efforts, the reorganization of our portfolio and the subsequent target asset allocations will also contribute to these efforts to manage volatility. In addition, a more effective utilization of reinsurance will further limit volatility from major weather events, such as hail. All of these financial measures will combine to ensure we are able to continue to provide affordable rates to Manitobans.

Our commitment to road safety will remain a priority, as will the evolution of a new traffic safety culture through education and awareness. Our goal is to reduce public tolerance for injuries and fatalities in our province, by asking Manitobans to look beyond the statistics and focus on the real people and real lives lost.

To that end, we have redesigned and greatly enhanced our driver education program, which serves 10,000 new teenage drivers each year. MPI's new Driver Z Program launches in 2019–20. This cutting-edge program will feature online learning, enhanced and expanded guided co-pilot practice.

Also this year, the Government of Manitoba is launching a new mandatory driver training program for Class 1 licences. Mandatory Entry-Level Training (MELT) will help increase road safety for professional drivers and all who share the road with them.

Together, these activities will drive value for Manitobans through low and stable rates, exceptional injury and damage coverage, straightforward access to benefits, quality and informed service, improved driver training, and the continued convenience of one-stop shopping for licensing, insurance and registration.

Management Discussion & Analysis

Corporate Profile

Corporate Mission

Exceptional coverage and service, affordable rates and safer roads through public auto insurance.

Corporate Vision

The trusted auto insurance and driver services provider for every Manitoban.

Corporate Values

As a public auto insurer, we hold ourselves accountable to all Manitobans to deliver value by fostering a culture of excellence. We achieve this through our four core values:

Striving for Excellence

We provide exceptional coverage and service. We adapt to meet evolving customer and industry needs, focusing on continuous improvement.

Providing Value to Manitobans

We maintain affordable rates and ensure accessible coverage. As a public auto insurer, fiscal responsibility is at the forefront of everything we do.

Doing What's Right

We act with integrity and accountability. We strive to be open and transparent.

Investing in People

We empower our employees to provide excellent service. We work together with business, community and road safety partners to fulfil our mission.

Corporate Governance

Responsibilities of the Board

Manitoba Public Insurance was created by an act of the Legislature to achieve the Corporation's founding principles. The Corporation's Board of Directors, appointed by the Government of Manitoba, ensures that corporate policies are consistent with its mandate and the laws of the Province of Manitoba. The Board is also responsible for policy development and approval, and provides oversight and monitoring. Currently, the Board has 10 members, including the president and chief executive officer as an ex-officio, non-voting member of the Board and the Board Committees. Further duties, obligations and responsibilities of the Board of Directors are prescribed by *The Crown Corporations Governance and Accountability Act*.

The Corporation is responsible for preparing an annual business plan which must be approved by the Board and submitted to the Minister of Crown Services.

Under the provisions of *The Manitoba Public Insurance Corporation Act*, the Board chairperson is required to provide the Minister of Crown Services with an annual report, which is subsequently reviewed by the Standing Committee of the Legislature. With the approval of the Lieutenant Governor in Council, the Minister of Crown Services has the legislative authority to issue a mandate letter, and directives related to matters of policy, accounting, advertising standards and organizational reviews. The Public Utilities Board approves changes to Basic Autopac insurance rates.

Whistleblower Report

The Corporation has an established Whistleblower Hotline, which is an anonymous and confidential system for the receipt, retention and treatment of complaints about activities that are potentially unlawful or injurious to the public interest, including suspected fraud or financial mismanagement by employees. *The Public Interest Disclosure (Whistleblower Protection) Act* was amended in December 2018, and the Corporation is working collaboratively with the Office of the Ombudsman to ensure the Corporation's policies and procedures are fully compliant with the Act.

As these matters are of paramount concern to the Board of Directors and senior management, the Corporation has retained the services of an independent third party to administer the Whistleblower Hotline, receive complaints and provide reports directly to the chair of the Audit, Finance & Risk Committee and the corporate General Counsel – recognizing that employees will be more likely to submit reports if they have a direct channel open to them with which they are comfortable.

Furthermore, it is the policy of the Corporation to ensure there are no reprisals against any employee for accessing the Whistleblower Hotline and making a report, should the identity of the reporting employee become known despite stringent provisions for confidentiality. The purpose of the policy is to discipline those responsible, not to discipline those who report abuses.

During the fiscal period March 1, 2018, to February 28, 2019, the Whistleblower Hotline received three inquiries.

Fair Practices Office

Our public auto insurance system strives for continuous improvement in all aspects of its operation, particularly those aimed at ensuring fair and appropriate service to customers.

The Fair Practices Office (FPO) was created in 1999 to meet this goal. The FPO is an avenue for customers and other interested parties to bring issues and concerns of a systemic nature to the attention of the Corporation.

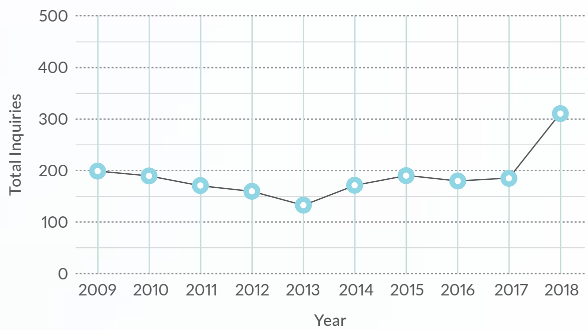
The FPO generally deals with concerns related to corporate policy, or issues involving complex or unusual situations where the correct interpretation of policy may seem unclear. The FPO may initiate its own investigations or respond to inquiries referred by others. It is free to scrutinize the Corporation's policies and procedures in an objective and constructive manner. As required, it can make recommendations about an operational decision on a specific case and alert senior management of any systemic concerns or policies that should be addressed.

Many of these matters are referred to the FPO by the provincial ombudsman, however, some also come from staff and directly from customers. Inquiries of a systemic or policy-centric nature may also be referred by the Corporation's Customer Relations unit, which deals primarily with individual customers and their concerns.

2018 Fair Practices Office Results

In the 2018/19 fiscal year, the FPO received 305 documented inquiries from the following referral sources:

Customer 66
Formal Ombudsman inquiries 1
Informal Ombudsman inquiries 146
Internal referrals 7
Executive referrals 17
Ministerial inquiries 68



Over the same period, the FPO completed a total of 314 inquiries. Of the inquiries investigated, the FPO recommended the Corporation revise its initial decision or policy interpretation in 31 situations, or in about 10 per cent of the cases reviewed.

Corporate Performance Measures and Targets

Rate Comparison Chart

2019 rates based on: 2016 Ford F150 XLT SuperCrew, $500 all-perils deductible, $2 million third-party liability	21-Year-Old Male Claims and conviction free	35-Year-Old Couple Both claims and conviction free	40-Year-Old Couple Both claims and conviction free 16-Year-Old Son Claims and conviction free
Winnipeg, MB	**$1,718**	**$1,361**	**$1,406**
Calgary, AB	$7,297	$2,119	$4,182
Toronto, ON	$7,505	$2,814	$5,505

Notes: 1. The 2016 Ford F150 XLT SuperCrew is the most common passenger vehicle registered in Manitoba.
2. Manitobans will pay less for their automobile insurance in 2019 than most residents of major Canadian cities.

Financial Performance

Net Premiums Earned

In millions

$1,276.2	$1,276.5	$1,191.8
ACTUAL 2018/19	ANNUAL TARGET	PAST 2017/18

Net Claims Incurred

In millions

$1,015.9	$959.0	$883.8
ACTUAL 2018/19	ANNUAL TARGET	PAST 2017/18

Loss Ratio

(Net Claims Incurred / Net Premiums Earned)

79.6%	75.1%	74.2%
ACTUAL 2018/19	ANNUAL TARGET	PAST 2017/18

Loss Ratio excluding Catastrophic Claims

78.3%	74.2%
ACTUAL 2018/19	PAST 2017/18

Total Return — Investments

4.88%	4.51%	6.07%	5.06%
ACTUAL 2018/19	ANNUAL TARGET	BENCHMARK 2018/19	PAST 2017/18

Operational Excellence

Total Full-Time Equivalent (Average)

1,770	**1,884**	**1,861**
ACTUAL 2018/19	ANNUAL TARGET	PAST 2017/18

Combined Expense Ratio

((Claims Expenses + Operating Expenses) / Net Premiums Earned)

22.6%	**23.5%**	**25.1%**
ACTUAL 2018/19	ANNUAL TARGET	PAST 2017/18

Customer Service

Customer Experience (CX) Index™ Score

78.3

ACTUAL 2018

Note: The overall CX Index™ score ranges from zero to 100.

Sourcing: A commissioned study conducted by Forrester Analytics leveraging the CX Index™ framework, November 2018.

MPI has adopted an industry standard method of measuring our customer experience, and this is the first year of this new measure. Our results are generally positive, however, we will strive for improvement through our legacy systems update and continuous improvement projects.

Disclaimer: Forrester does not endorse any company included in any CX Index™ research and does not advise any person to select the products or services of any particular company based on their CX Index™ ratings.

Organizational Health

Employee Engagement

71%	**75%**	**73%**
ACTUAL 2018	TARGET 2018	ACTUAL 2016

Capital Adequacy (Minimum Capital Test)

Basic

52%	**100%**
ACTUAL 2018/19	TARGET

Special Risk Extension

368%	**300%**
ACTUAL 2018/19	TARGET

Extension

317%	**200%**
ACTUAL 2018/19	TARGET

Results of Operations

Corporate

During the reporting period, for every dollar of revenue earned, the Corporation provided Manitobans with 76 cents in claims benefits. Claims expenses and operating expenses, including regulatory and appeal expenses, accounted for 21 cents of every dollar of revenue earned while broker commissions and premium taxes cost 9 cents. This resulted in an underwriting loss of 6 cents.

Investment income added 18 cents for every dollar of revenue earned, resulting in the Corporation's net income being 12 cents for every dollar of revenue earned during the year.

Current Year and Last Year

In 2018/19, the Corporation had net income of $159.1 million, $68.0 million better than the previous year. The underwriting results were worse than 2017/18 due primarily to an increase in total claims costs of $112.2 million and other expenses of $16.6 million offset by increased earned revenues which rose by $87.3 million compared to last year. Investment income was $107.8 million higher in 2018/19 than in the previous year and there was a gain on sale of property of $1.7 million in 2018/19.

Revenue

Total earned revenues in 2018/19 increased $87.3 million or 7.0 per cent to $1.3 billion. This is because of the Public Utilities Board-approved 2.6 per cent overall rate increase for vehicle premiums and a 1.8 per cent rate increase through driver premiums from demerit drivers on the Driver Safety Rating scale. As well, the growth in the number of vehicles on the road in Manitoba and the value of these vehicles also resulted in higher premiums. Total earned revenues include $30.3 million received from the Province of Manitoba as part of the agreement for providing services related to *The Drivers and Vehicles Act* operations.

Claims Costs

In 2018/19, the Corporation's overall claims costs increased by $112.2 million to $1.2 billion compared to 2017/18. The increase was mostly driven by claims incurred of $1.0 billion, which is $132.1 million higher than last year. Of this amount, injury claims incurred increased by $124.1 million while physical damage claims increased by $8.0 million. Adjusting for one-time assumption changes in reserves including interest rate movements, claims incurred decreased $8.5 million. The total number of claims filed decreased by 1,598 from 299,518 in 2017/18 to 297,920 in 2018/19.

Beginning in 2017 and continuing into 2018, a new centralized case reserving methodology was implemented for long-term Personal Injury Protection Plan (PIPP) claims files. A dedicated central team has been established to determine the necessary life-time reserves for PIPP claimants which has led to greater consistency and reliability of reserving adequacy.

The $124.1 million increase in injury claims incurred compared to last year is mainly due to the significant unfavourable actuarial adjustment of $50.9 million made in 2018/19 and unfavourable interest rate impact on unpaid claims of $40.9 million. The preparation of provisions for unpaid claims, and in particular provisions for unpaid bodily injury claims, requires management to make numerous estimates and judgments. Adjusting for one-time assumption changes in reserves including interest rate movements, injury claims decreased $17.5 million. The increase of $8.0 million in physical damage claims was attributed to an increase in comprehensive claims incurred of $34.4 million, primarily due to an increase in net hail claims of $19.4 million offset by lower collision claims costs of $22.0 million. Collision claims decreased by 4,727 claims or 2.9 per cent from 161,591 claims last year to 156,864. Total severity of physical damage claims increased $31.5 million in 2018/19.

Where Your Premium Dollar Has Gone

Net Claims Incurred	$	0.76
Claims & Operating Expense	$	0.21
Broker Commissions	$	0.06
Premium Taxes	$	0.03

Total earned revenues	**$**	**1.00**
– Total claims and expenses	**$**	**1.06**
= Underwriting loss	$	(0.06)
+ Investment income	$	0.18
= Net income	$	0.12

Managing Volatility

In Manitoba, one of the single most significant risks facing auto insurance claims experience is that of hail. Hail represents a large exposure from any one particular storm. Modelling of probable maximum losses on a 1-in-50 year interval predict potential losses of $190 million. When modelling for 1-in-100 type events this maximum exposure increases to $310 million. To manage this risk, the Corporation employs a reinsurance strategy to mitigate the maximum exposure. For the 2018/19 year, reinsurance was placed to cap losses at $15 million for any one event.

From 1971 to 1996, the Corporation did not experience any significant claims costs related to hail damage requiring reinsurance recovery. However, since 1996, the once stable and consistent weather pattern has changed, resulting in the Corporation making five reinsurance claims following severe hailstorms.

In 2018/19, there were a few large hail events with the largest affecting the Morden, Winkler, Ninette and Manitou areas in June. Overall, hailstorms contributed $27.7 million to the Corporation's overall claims costs, after factoring in reinsurance recoveries.

The impact to the Corporation's overall claims costs resulting from hailstorms for the last five years is:

Fiscal Year	Gross	Net
2018/19	$42.4 million	$27.7 million
2017/18	$8.3 million	$8.3 million
2016/17	$45.1 million	$45.1 million
2015/16	$52.6 million	$52.6 million
2014/15	$13.8 million	$13.8 million

We will continue to monitor risks posed by hail and other severe weather patterns and work within the reinsurance marketplace to source adequate coverage, limiting the amount of losses from catastrophic events.

Expenses

Total corporate expenses of $255.7 million are $16.6 million higher than last year which was due primarily to increases in operating expenses, broker commissions and premium taxes. Broker commissions and premium taxes are reflective of the increase in premiums.

Operating costs are allocated to Basic, Extension, Special Risk Extension and *The Drivers and Vehicles Act* operations (lines of business) representing their share of common costs such as compensation of common departments (Human Resources, Finance, Enterprise Systems Support and IT Support) that support the four lines of business. Costs are allocated through a formal and structured allocation policy developed in 2011. The external auditors have accepted the policy and, for Basic Autopac rate-setting purposes, the Public Utilities Board has approved its use. Effectively, the Corporation's integrated service delivery model ensures that the cost of providing these services is lower than if each were operated on a stand-alone basis.

Investment Income

Total investment income net of investment management fees, increased to $242.6 million compared to $134.8 million last year, an increase of $107.8 million. The $107.8 million increase is primarily due to higher gains on the sale of equities of $92.9 million. These gains on the sale of equities were one-time gains as the Corporation prepared its portfolio to transition to a new asset allocation strategy for 2019/20. There was no impairment to the equity portfolio compared to an impairment of $1.1 million last year. Please refer to Note 6 of the Condensed Financial Statements for a breakdown of investment income.

The Minister of Finance is responsible for investing the money that Manitoba Public Insurance sets aside for future claims payments and other liabilities. The total fair value of the Corporation's investment portfolio was $3.1 billion at February 28, 2019, an increase of $291.2 million or 10.4 per cent from the previous year. The bond portfolio, which accounts for 64.2 per cent of the investment portfolio, is primarily invested in two types of bonds:

- Marketable bonds, mainly issued by the governments of Manitoba and other provinces, including floating rate notes (45.7 per cent of the total portfolio market value).
- Non-marketable bonds, issued by Manitoba municipalities, hospitals and school divisions, purchased through the Manitoba Department of Finance (18.5 per cent of the total portfolio).

The Minister of Finance has selected three external investment managers to administer Manitoba Public Insurance's Canadian equity portfolio, which represents 10.4 per cent of the total investment portfolio. The Corporation also has 5.2 per cent of its portfolio in United States equities with exposure to the U.S. equity market through one exchange traded fund. Cash and cash equivalents account for 1.5 per cent of the investment fund; investment in five infrastructure holdings accounts for 3.8 per cent of investments and pooled real estate funds account for 9.5 per cent while directly held real estate investments account for 2.3 per cent of the investment portfolio.

The total portfolio, on a market value basis, had a positive 4.9 per cent return during the fiscal year. The portfolio return is reported on a market value basis for all the assets other than the non-marketable bonds that are reported on a book value basis. Marketable bonds returned positive 4.2 per cent while non-marketable bonds returned 4.6 per cent. The total Canadian equity portfolio earned positive 1.3 per cent, while large cap Canadian equities returned positive 1.6 per cent and small cap Canadian equities returned negative 0.3 per cent. U.S. equities returned positive 6.7 per cent in Canadian dollars. The real estate portfolio returned 8.3 per cent while the infrastructure portfolio grew by 11.8 per cent in fiscal 2018. Over a four-year period, the investment portfolio has achieved an annualized return of 4.1 per cent.

Basic

Years Ended February 28/29

Basic Autopac — Five-Year Statistics ($000)	**2019**	2018	2017	2016	2015
Premiums written	**1,058,026**	994,593	923,789	888,365	824,865
Claims incurred	**892,258**	767,239	860,035	666,404	745,837
Claims expense	**126,871**	143,337	120,972	118,614	116,578
Other expenses	**163,393**	154,310	152,853	148,410	146,953
Net income (loss)	**78,837**	34,424	(123,070)	(56,050)	2,440

Current Year and Last Year

In 2018/19, Basic insurance had net income from annual operations of $78.8 million compared to $34.4 million last year, an increase of $44.4 million. Underwriting results decreased by $49.1 million offset by an increase in Basic's share of investment income and a gain on the sale of property of $93.5 million. The $49.1 million decrease in underwriting results was primarily resulting from an increase of $106.9 million in total claims costs due to the change in interest rates which negatively affected the claims reserves, as well as the actuarial adjustment and an increase in expenses of $10.7 million. These increases in expenditures were offset by an increase in earned revenues of $68.5 million. Basic's share of investment income and gain on the sale of property were $92.2 million and $1.3 million higher than last year respectively.

Revenue

The number of policies in force at year end increased to 1,136,884 from 1,124,731. Total earned revenues increased to $1.1 billion from $983.0 million last year, an increase of $68.5 million.

Claims Costs

Total claims costs comprised of net claims incurred, claims expenses, loss prevention and road safety, increased to $1.0 billion, $106.9 million higher than last year. The change in claims costs is comprised of a $120.2 million increase in injury claims incurred and a $4.8 million increase in physical damage claims incurred offset by an $18.1 million decrease in claims expense. The decrease in claims expense was mainly due to the prior year's one-time write-off of $16.5 million due predominately to the discontinuation of the development of an automated claims adjudication platform.

Injury claims incurred increased by $120.2 million due to the year-over-year change in the actuarial adjustment which negatively impacted the injury claims liabilities in relation to PIPP by $98.6 million, and changes in interest rates which negatively impacted claims by $56.7 million. This was offset by a decrease in PIPP direct claims incurred of $36.9 million. Adjusting for one-time assumption changes in reserves including interest rate movements, Basic injury claims decreased $18.1 million. The number of injury claims decreased by 7.3 per cent from 16,446 to 17,734.

Physical damage claims incurred were higher compared to last year, increasing by $4.8 million. Hail increased comprehensive claims incurred by $19.4 million compared to last year. Total severity for Basic physical damage claims increased by $25.9 million in 2017/18.

Injury Claims

Years Ended February 28/29

Type of Claim	**2019**	2018	2017	2016	2015
Fatal*	**95**	106	142	116	92
Brain Injury	**20**	26	35	48	55
Concussion	**121**	122	104	94	116
Quadriplegic	**1**	—	—	—	4
Paraplegic	—	1	2	3	4
Broken Bones	**760**	848	821	876	686
Sprains and Strains	**7,878**	8,396	7,858	7,749	7,177
Whiplash	**6,206**	6,808	6,655	6,237	6,170
Bruising/Lacerations	**865**	907	980	958	1,161
Other	**500**	520	676	715	728
Total	**16,446**	17,734	17,273	16,796	16,193

**Fatal includes PIPP, non-PIPP and those still under investigation as at February 28/29.*

Expenses

Basic expenses increased from $141.2 million last year to $151.9 million. The increase was due to higher operating expenses of $5.9 million as well as higher broker commissions and premium taxes of $2.8 million and $2.0 million respectively—related to the increase in premiums.

Investment Income

Basic's share of corporate investment income was $208.5 million, net of investment management fees. This was an increase of $92.2 million, attributable mainly to realized gains on equities. These gains on the sale of equities were one-time gains as the Corporation prepared its portfolio to transition to a new asset allocation strategy for 2019/20.

Total Equity

Net income for the Basic line of business for 2018/19 increased retained earnings from $171.0 million to $249.8 million. Combined with Accumulated Other Comprehensive Loss, the Basic total equity was $189.7 million. The Corporation transferred $60.0 million ($37.3 million in 2017/18) to Basic retained earnings from the Extension line of business. This transfer results in an ending retained earnings of $309.8 million and total equity of $249.7 million to support rate stabilization.

Extension

Years Ended February 28/29

Extension—Five Year Statistics ($000)	**2019**	2018	2017	2016	2015
Premiums written	**161,294**	156,947	151,303	144,299	138,667
Claims incurred	**65,685**	66,144	67,195	65,967	56,443
Claims expense	**10,490**	11,852	10,236	9,757	11,749
Other expenses	**50,426**	48,404	48,063	49,248	51,363
Net income	**56,725**	44,921	37,988	26,644	43,134

Current Year and Last Year

Extension insurance reported net income of $56.7 million compared to $44.9 million the previous year. The $11.8 million increase in net income was due to a $5.9 million increase in underwriting results and a $5.8 million increase in Extension's share of investment income. Additionally, Extension's share of the gain on sale of property was $0.1 million.

Revenue

Earned revenues from the sale of Extension products increased by $6.1 million to $171.0 million compared to last year. All products, including the sale of coverage for deductible buy down and third party liability, contributed to the increase.

Claims Costs

Total claims costs — including claims benefits, claims handling, loss prevention and road safety expenses — decreased $1.9 million to $77.1 million. Physical damage claims incurred were on par with last year and injury claims incurred were $0.5 million better. Claims expenses were lower than last year by $1.4 million.

Expenses

Expenses related to the sale of Extension products was $49.5 million, an increase of $2.1 million from the previous year. This increase was due to higher broker commissions of $1.1 million, operating expenses of $0.8 million and premium taxes of $0.2 million.

Investment Income

Extension's share of corporate investment income of $12.2 million, including investment management fees, was $5.9 million higher than last year.

Retained Earnings

Extension's total retained earnings are comprised of retained earnings from the sale of Extension products. As at February 28, 2019, Extension retained earnings totaled $99.2 million compared to $102.5 million the previous year. Extension retained earnings were decreased by $60.0 million as a result of the transfer to Basic retained earnings. Extension's current capital target level is 200 per cent MCT.

Special Risk Extension

Years Ended February 28/29

SRE — Five Year Statistics ($000)	**2019**	2018	2017	2016	2015
Premiums written	**96,292**	80,810	78,328	70,521	63,022
Claims incurred	**57,979**	50,460	54,068	38,253	42,596
Claims expense	**6,471**	6,393	5,895	6,140	5,920
Other expenses	**20,056**	18,679	17,961	17,692	16,645
Net income	**22,209**	10,886	3,193	4,650	10,768

Current Year and Last Year

Special Risk Extension (SRE) insurance reported a net income of $22.2 million, an increase of $11.3 million from the previous year. SRE's underwriting results increased by $3.7 million and their share of investment income increased by $7.5 million. Additionally, SRE's share of the gain on the sale of property was $0.1 million.

Revenue

Total earned revenues in 2018/19 were $89.7 million compared to $77.0 million the previous year. The sale of SRE products, which include large trucking companies' liability, cargo and physical damage coverage, showed continued growth compared to last year.

Claims Costs

Total claims costs of $65.2 million increased from $58.1 million in 2017/18. Injury claims and physical damage claims incurred increased $4.3 million and $3.2 million respectively from the previous year. Claims expense, including loss prevention and road safety costs decreased by $0.4 million from the previous year.

Expenses

SRE's expenses increased to $19.4 million from $17.4 million, primarily due to an increase in broker commissions of $0.8 million, operating expenses of $0.7 million and premium taxes of $0.4 million.

Investment Income

SRE's share of corporate investment income, including investment management fees, was $16.9 million, an increase of $7.5 million compared to last year.

Retained Earnings

SRE's retained earnings are derived from the annual operations of the SRE line of business. SRE's retained earnings were $103.9 million as at February 28, 2019, compared to $81.7 million last year. SRE's current capital target level is 300 per cent MCT.

The Drivers and Vehicles Act Operations

Current Year and Last Year

The Drivers and Vehicles Act (DVA) operations experienced net income of $1.4 million in 2018/19 compared to a $0.9 million last year.

Revenue

The government provides funding to the Corporation that covers the cost of the DVA administrative operation. In 2018/19, the Corporation received $30.2 million from the Province of Manitoba and reported $1.0 million in service fees and other revenue, resulting in overall revenue being on par with the previous year.

Expenses

DVA operations' expenses of $35.0 million were up $2.0 million from last year's expenses of $33.0 million primarily due to increased operating expenses of $1.8 million and broker commissions of $0.2 million. The increased operating expenses are primarily due to additional improvement initiatives required as a result of legislative changes.

Investment Income

DVA operations' portion of corporate investment income, including investment management fees, increased to $5.0 million, $2.3 million higher compared to last year.

Retained Earnings

DVA operations' retained earnings are derived from the annual operations of the DVA operations line of business. DVA operations' retained earnings were ($1.2 million), compared to ($2.6 million) the previous year.

Risk Management

Like any enterprise, Manitoba Public Insurance assumes risks in its operations that must be handled effectively in order to achieve its goals.

The Audit, Finance & Risk Committee of the Board of Directors ensures that enterprise-wide risk assessment processes and controls are in place to identify and mitigate these risks. The Audit, Finance & Risk Committee also monitors the Corporation's risks on an ongoing basis.

Management is responsible for developing, updating and enforcing the Corporation's Risk Management Framework (the Framework), which includes:

- Risk identification and assessment of impact if there were no risk mitigation actions in place.
- Risk monitoring procedures.
- Processes and controls to manage and mitigate risks.
- The residual risk after consideration of management action.

The Framework ensures a consistent approach for addressing risks and a common understanding of risk and its mitigation throughout the Corporation.

The key risk mitigation areas are:

- Maintaining adequate unpaid claims reserve.
- Maintaining an adequate Rate Stabilization Reserve.
- Governance of investments.
- Claims control strategies.
- Information technology processes.
- Loss prevention strategies.

Unpaid Claims

Manitoba Public Insurance maintains provisions for unpaid claims on a discounted basis to cover its future claims commitments. The Corporation makes provisions for future development on claims that have been made, and an estimate for those that may have occurred but have not yet been reported. In the case of major injuries, only a small portion of the total benefit is paid in the first year. As time passes and more information is available, the estimates are revised to reflect the most current forecast of claims costs.

Because the total amount paid on any single claim may be different from its initial reserve, Manitoba Public Insurance reviews the adequacy of these reserves quarterly. Adjustments, if needed, are calculated by the Corporation's Chief Actuary. An independent assessment of the reserves is also conducted twice a year by the Corporation's external Appointed Actuary. The external auditor performs procedures to assess the reasonability of the reserves as part of its annual audit of the Corporation's financial statements. This process serves to mitigate risk of misstatement of unpaid claims reserves.

For Manitoba Public Insurance, long-lasting injury claims are the largest source of year-to-year variability in the estimate of ultimate costs. This variability and volatility is related to future events that arise from the date of loss to the ultimate settlement of the claims. Accordingly, short-tail claims, such as physical damage claims, tend to be more reasonably predictable than long-tail claims such as Personal Injury Protection Plan (PIPP) and public liability claims. For Manitoba Public Insurance, factors such as the effects of inflationary trends and changing interest rates contribute to this variability. Investment portfolio management techniques help to reduce this potential volatility.

The determination of the provision for unpaid claims, including adjustment expenses, relies on analysis of historical claim trends, investment rates of return, expectation on the future development of claims and judgement. The process of establishing this provision necessarily involves risks which could cause the actual results to deviate, perhaps substantially, from the best determinable estimate.

Capital Management

The Corporation's objectives for managing capital are to ensure the Corporation is capitalized in a manner which provides a strong financial position, to protect its ability to meet policyholder obligations, and to maintain stable rates.

The capital structure of the Corporation is comprised of retained earnings and Accumulated Other Comprehensive Income. Retained earnings are comprised of the accumulation of net income or losses for the Basic and non-Basic lines of business. Non-Basic lines of business consist of Extension and Special Risk Extension (SRE) lines of business and *The Drivers and Vehicles Act* operations.

The Corporation's Board of Directors has approved risk-based capital adequacy target levels by line of business. Targets are based upon the capital management framework of the Office of the Superintendent of Financial Institutions Canada and the Minimum Capital Test (MCT). The MCT is a ratio of capital available to capital required and utilizes a risk-based formula to assess the capital adequacy of an insurance company. The Corporation's capital targets are determined based on the underlying risks and the competitive nature of each line of business.

The Corporation's Board of Directors' current capital target for Basic Insurance is 100 per cent MCT. This target was selected to align with industry best practice on capital targets and appropriately reflect the lower risk level of the Basic monopoly insurance program, while also aligning with industry best practice on capital targets. The purpose of the Basic capital reserve is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors.

The Corporation's Board of Directors' current target for Extension is 200 per cent MCT. This target was selected to reflect the higher relative risk level of operating in a competitive environment, while also aligning with private sector industry average MCT ratios.

The Corporation's Board of Directors' current target for Special Risk Extension is 300 per cent MCT. This target was selected to reflect the higher risk exposure of commercial trucking fleets operating out-of-province.

The Corporation's Chief Actuary has prepared a Dynamic Capital Adequacy Test report for each insurance line of business to assess capital adequacy under adverse financial conditions. Basic, Extension and Special Risk Extension were all determined to have satisfactory future financial conditions as at February 28, 2019 based on the assessment of the Chief Actuary.

Investments

In accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*, the Minister of Finance is responsible for the investments of the Corporation. The Minister has charged the Department of Finance with the operational management of the fund. The Corporation, through the Investment Committee of the Board, works collaboratively with the Department of Finance and makes recommendations to the Minister regarding appropriate policies and strategies to maximize return, minimize volatility and mitigate risk. The Investment Committee has completed asset liability management studies to ensure that the asset mix chosen is compatible with the Corporation's liability profile. A complete description of these risks and risk mitigation strategies is outlined in Note 29 of the audited financial statements located on the Corporation's website, mpi.mb.ca.

Claims Control Strategies

Manitoba Public Insurance works diligently to ensure that the premiums entrusted to the Corporation by ratepayers are used efficiently and judiciously, while providing the best customer service possible when paying out on claims. This includes ongoing and active monitoring of claims costs. Our cost-control measures with respect to claims management include:

- Management of an accreditation program for the collision repair industry to ensure cost effective, proper, quality, and safe repairs. The program requires repair shops and their technicians to meet high standards for facilities, equipment, and annual technician training.
- Use of estimatics software, along with Manitoba Public Insurance estimating standards consistent with industry best practices to ensure all repair estimates are prepared accurately and consistently, and in a cost effective manner, ensuring that only required repairs are performed.
- Use of repair shop performance measures to measure severity, reduce administrative efforts, confirm cost effective repairs while also improving the customer experience.
- Use of post repair audits and the execution of recoveries to address discrepancies and deviation from estimating standards and policies to ensure conformance by collision repair business partners.
- Use of industry-recognized valuation tools to determine accurate actual cash value (ACV) of vehicles when settling total loss claims.

- Use of aftermarket, re-manufactured and recycled parts in vehicle repairs when appropriate.
- Obtaining discounted pricing from vendors on glass parts used in vehicle repairs.
- Maximizing the recovery of claims costs from other insurers and at-fault parties (subrogation).
- Identifying and combatting fraudulent claims.
- Sale of autos through salvage and tenders.
- A goal oriented and team-based approach to managing PIPP claims that helps individuals realize their full recovery potential, while ensuring the judicious and efficient use of corporate resources.
- Use of case management productivity metrics with real-time data to understand and manage the work flow effectively, thereby improving efficiency and effectiveness.
- Use of centralized and standardized PIPP claims reserving to improve predictability around premium requirements, and the forecasting of injury claims.

Each year, these initiatives contribute significantly to efficiencies in operations to help contain costs or generate revenue, as the case may be. Together, they contribute to keeping insurance premiums as low as possible for customers.

Information Technology Processes

Legacy Systems Modernization

Legacy Systems Modernization (LSM) is a corporate initiative to modernize the Corporation's existing core computer systems to deliver products and services to personal and commercial customers with greater business agility, and improved customer experience while reducing the Corporation's technology risk and costs.

The initiative's overall objective is to modernize our current in-house applications and technology footprint used today to deliver services for:

- Personal and commercial automobile insurance.
- Driver licensing, vehicle registration, and associated registries.
- Physical damage claims.

The LSM program is the result of assessments performed for MPI by two independent consulting firms who produced recommendations for a "Case for Change" to modernize our core legacy systems addressing the following key areas:

- Technology risk — Manage technology risks via upgrading core technology platforms to modern commercial off-the-shelf (COTS) solutions.
- Online supported services — Enhance the customer experience by introducing services to customers via an online support service channel.
- Information security — Secure customer information through enhanced confidentiality, integrity and availability controls.
- Future business agility — Allow Manitoba Public Insurance to become faster and more agile in offering services to customers via digital channels and to more quickly respond to legislative and regulatory changes.
- Cost savings and efficiency — Replace aging technology to reduce application life-cycle costs, support costs and operational efficiencies.

Business Continuity

Over a number of successive years now, the Corporation has built up robust business continuity capabilities. These have been developed as a "made-for-MPI" solution leveraging industry best practices, and are aligned to the needs of our staff, customers, and business partners. Our Business Continuity Management Program creates corporate plans and responses that ensure continued customer service in the event of a business disruption. It includes emergency response, crisis management, business recovery, IT service continuity, catastrophe, contingency, and pandemic responses, and the processes used to ensure ongoing readiness in all phases of our operations. The program is focused on creating and implementing corporate business continuity planning through a strong understanding of our products and services, our people, and our delivery processes and technology.

Business continuity includes planning, prevention, preparedness and a proactive program approach to crisis responses and business delivery. The practice of business continuity recognizes the need for continuity in contrast to recovery. This approach leverages the prevention and proactive aspects of business continuity that provide continuous service during business disruptions as opposed to suspension and recovery.

Outlook

The Corporation is committed to achieving its key priorities and corporate objectives. Actual results are monitored quarterly by the Board of Directors and may deviate from forecasts prepared in the previous year for rate setting purposes.

Basic Autopac Rates

Under *The Crown Corporations Governance and Accountability Act*, Manitoba Public Insurance is required to submit Basic Autopac rates to the Public Utilities Board for approval. The Corporation generally files its rate application in June of each year for the fiscal year beginning the following March.

On June 15, 2018, Manitoba Public Insurance filed its 2019/20 General Rate Application for Basic insurance with the Public Utilities Board. The application sought approval of a 2.2 per cent overall rate increase in its general rate application. As part of the rate application process, the Corporation later adjusted the request to 1.8 per cent.

All insurance companies hold funds to pay claims, as well as to maintain a buffer of capital to endure unexpected adverse circumstances. The Corporation's "buffer", to remain effective, must grow with the business.

On December 3, 2018, the Public Utilities Board released its ruling (Order 159/18) on the Corporation's rate application for the 2019/20 fiscal year. Effective March 1, 2019, overall average Basic insurance rates will increase by 1.8 per cent from the previous year. There will be no change to permit and certificate rates, vehicle premium discounts, service and transaction fees, or fleet rebates or surcharges.

Asset Allocation Strategy

In the first quarter of 2019/20 the Corporation will execute the implementation of its new asset allocation strategy. Based on work completed in a recent asset-liability study, a number of significant changes will be implemented which will align portfolio objectives with the underlying characteristics of the liabilities which the portfolios support. The current co-mingled portfolio will be segregated into five new portfolios to uniquely match the various lines of business and employee future benefits obligations. The result of the new portfolio construction and resulting target asset allocations is a tighter matching of assets to liabilities and a reduction in overall risk which will support the Corporation's objective of managing volatility and delivering rate stability.

Capital Management Plan

In 2018/19, the Corporation introduced capital targets based upon the industry standard MCT as opposed to a total equity target which was utilized in the past. This approach will ensure the target remains appropriate given changes to the Corporation's risk profile and balance sheet as compared to the static total equity target and will provide more comparability to industry peers. On April 10, 2019, Reserves Regulations under *The Manitoba Public Insurance Corporation Act* were enacted to create minimum MCT targets of 100 per cent, 200 per cent, and 300 per cent for the Basic, Extension, and SRE lines of business respectively. In 2019/20, the Corporation will evolve its capital management plan to reflect these new targets and set in place the framework in which to operate around the target capital positions including capital maintenance, build, and release provisions. Working with the Public Utilities Board and other stakeholders, the Corporation seeks to strengthen its capital position and provide transparency as to how Basic and Extension capital interact with each other, which will lead to better stability in rates.

Reinsurance Strategy

Reinsurance is utilized to mitigate risk and lower capital requirements. As it pertains to catastrophic events, historically the Corporation has retained the first $15 million and reinsured the excess for any one event. This meant that ratepayers were exposed to a number less severe events which in aggregate could surpass the $15 million threshold. For 2019/20, the reinsurance structure has been changed from a per event basis to an aggregate cover which will cap cumulative annual losses for severe weather storms such as hail and wind at $35 million. This change in structure will better utilize our reinsurance premium dollars to lock in predictably of ultimate catastrophic losses which will lead to better forecasts and consistency in rates.

Product Review

The Corporation continually assesses its product offering to ensure that Basic Autopac is meeting the needs of all Manitobans. Certain aspects of the Basic coverage and limits will be reviewed and updated as necessary to ensure the product is reflective of today's economics and continues to provide the best value to motorists.

Loss Prevention and Road Safety

Loss prevention programs and activities contribute to the overall goal of reduced claims and lower claims costs, which contribute to lower insurance premiums for ratepayers. Manitoba Public Insurance is uniquely positioned to deliver programs intended to teach, influence, and incent safe driving behaviour and choices but also influence behaviour when necessary to reduce risk.

Strategically selected, evidence-based, proven effective, and evaluated, MPI's work to influence behaviour demonstrates value to Manitobans where it matters — in their personal safety and in their wallet.

In 2018, the Corporation worked closely with external partners and stakeholders to identify strategic action items to address key priority areas of *Road to Zero: Manitoba Road Safety Plan 2017–2020*. These included distraction, speed, and impaired driving — the top three contributing factors in collisions and customer claims. This plan offers a vision and provides a road map for Manitoba to have the safest roads in Canada and commits to one day achieving zero traffic fatalities on our roadways.

In alignment with *Road to Zero*, Manitoba Public Insurance launched a new and innovative traffic safety culture initiative in 2018 tagged Save the 100, which represents the underlying motivation for all road safety programming in Manitoba, namely that all drivers and roadway users play a part in making our roads safer. This campaign was based on the fact that on average, about 100 Manitobans perish on our roadways every year; it gave Manitobans a new vision for road safety, including a shared call to action and responsibility to eliminate human injury and death on Manitoba roads.

Other significant public awareness campaigns this year tackled auto insurance fraud, including avoidance, detection and prosecution, as well as vehicle thefts with keys. Both initiatives provided key facts to Manitobans about how these issues impact them directly and what they can do to make a difference.

Safe vehicles are an important consideration within *Road to Zero* and advanced driver assistive technology is an opportunity to prevent collisions and save lives. Over the past year, Manitoba Public Insurance educated Manitobans on driver-assist safety features, currently available in many vehicle models, and how these safety features can reduce collision risk.

As a result of the legalization of non-medical cannabis in Canada, we recognized the need to educate novice and experienced drivers alike on the risks associated with cannabis use and driving. To this end, the Corporation expanded road safety awareness and education activities to include drug-impaired driving for the first time.

MPI has provided High School Driver Education for generations of Manitobans and has been engaged in a multi-year effort to update, refresh, and redesign the experience the program provides to over 10,000 new teen drivers each year. In 2019, The Corporation will launch a new curriculum, Driver Z, featuring online, facilitated and participative classroom learning experiences, enhanced and expanded guided co-pilot practice with a parent or guardian, engaging concept and procedure video resources, and progressive gamification to elevate student and co-pilot engagement.

Supporting the provincial commitment to introduce a mandatory entry level training requirement for class one driver licensing, the Corporation worked throughout the year to develop program and policy solutions to improve road safety outcomes in this area, and to ensure harmonization with other jurisdictions in Canada. Manitoba Public Insurance will continue to work with the Government of Manitoba to implement these requirements in 2019.

Responsibility for Financial Statements

The financial statements are the responsibility of management and are prepared in accordance with International Financial Reporting Standards. The financial information contained in the annual report is consistent with that in the financial statements. The financial statements necessarily include amounts that are based on management's best estimate and judgments which have been reached based on careful assessment of data available through Manitoba Public Insurance Corporation's (the "Corporation") information systems. In the opinion of management, the accounting practices utilized are appropriate in the circumstances and the financial statements fairly reflect the financial position and results of operations of the Corporation.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls designed to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis.

The financial statements were approved by the Board of Directors, which has overall responsibility for their contents. The Board of Directors is assisted with this responsibility by its Audit, Finance and Risk Committee (the "Committee"), which consists primarily of Directors not involved in the daily operations of the Corporation.

The general responsibilities of the Committee are categorized into the following: review of financial reporting, review of internal controls and processes, review of actuarial functions, monitoring of corporate integrity, compliance with authorities and review of performance reporting. The Committee's role is that of oversight in these areas in order to ensure management processes are in place and functioning so as to identify and minimize risks to the business operations.

In carrying out the above responsibilities, this Committee meets regularly with management, and with both the Corporation's external and internal auditors to approve the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee is readily accessible to the external and internal auditors.

The Committee is responsible for the review of the actuarial function. As well, the Committee recommends, for approval, the appointment of the external actuary and their fee arrangements to the Board of Directors. The Appointed Actuary is responsible for ensuring that the assumptions and methods used in the valuation of policy and claims liabilities are in accordance with accepted actuarial practice, applicable legislation and associated regulations or directives. In addition, the Appointed Actuary provides an opinion regarding the valuation of policy and claims liabilities at the balance sheet date to meet all policyholder obligations of the Corporation. Examination of supporting data for accuracy and completeness of assets and their ability to meet the policy and claims liabilities are important elements in forming the Appointed Actuary's opinion.

PricewaterhouseCoopers LLP, the Corporation's appointed external auditors, have audited the financial statements. Their Independent Auditors' Report is included herein. Their opinion is based upon an examination conducted in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary in order to obtain reasonable assurance that the financial statements are free of material misstatement and present fairly the financial position of the Corporation in accordance with International Financial Reporting Standards.

Benjamin Graham
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Mark Giesbrecht, CPA, CGA
VICE-PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Independent Auditors’ Report

Report of the Independent auditor on the condensed financial statements

To the Board of Directors of Manitoba Public Insurance Corporation

Our opinion

In our opinion, the accompanying condensed financial statements of Manitoba Public Insurance Corporation (the Corporation) are a fair summary of the audited financial statements, on the basis described in note 2 to the condensed financial statements.

The condensed financial statements

The Corporation’s condensed financial statements derived from the audited financial statements for the year ended February 28, 2019 comprise:

- the condensed statement of financial position as at February 28, 2019;
- the condensed statement of operations for the year then ended;
- the condensed statement of comprehensive income (loss) for the year then ended;
- the condensed statement of changes in equity for the year then ended;
- the condensed statement of cash flows for the year then ended; and
- the related notes to the condensed financial statements.

The condensed financial statements do not contain all the disclosures required by International Financial Reporting Standards (IFRS). Reading the condensed financial statements and the auditor’s reports theron, therefore, is not a substitute for reading the audited financial statements and the auditor’s report thereon. The audited financial statements, and the condensed financial statements, do not reflect the effect of events that occurred subsequent to the date of our report on the audited financial statements.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated May 16, 2019.

Management’s responsibilities for the summary financial statements

Management is responsible for the preparation of the summary financial statements on the basis described in note 2.

Auditor’s responsibilities

Our responsibilities is to express an opinion on whether the condensed financial statements are a fair summary of the audited financial statements based on our procedures, which were conducted in accordance with Canadian Auditing Standard (CAS) 810, *Engagements to Report on Summary Financial Statements*.

Charted Professional Accountants
Winnipeg, Manitoba
May 16, 2019

Actuary's Report

JSCP®
ACTUARIES *Who Care*®
J. S. CHENG & PARTNERS INC.

To the Board of Directors of Manitoba Public Insurance Corporation:

I have valued the policy liabilities and reinsurance recoverables of Manitoba Public Insurance Corporation for its statements of financial position at February 28, 2019 and their change in the statement of operations for the year then ended in accordance with accepted actuarial practice in Canada including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities net of reinsurance recoverables makes appropriate provision for all policy obligations and the financial statements fairly present the results of the valuation.

Joe S. Cheng
FELLOW, CANADIAN INSTITUTE OF ACTUARIES

Winnipeg, Manitoba
May 16, 2019

Condensed Financial Statements

These financial statements are condensed and should be read in conjunction with the annual audited financial statements. The February 28, 2019 audited financial statements are available at mpi.mb.ca or upon request.

Condensed Statement of Financial Position

As at February 28 (in thousands of Canadian dollars)	*Notes*	**2019**	2018
Assets			
Cash and cash equivalents	5	**193,108**	89,006
Investments	5	**2,839,530**	2,660,850
Investment property	5	**49,027**	40,646
Due from other insurance companies		**1,603**	3
Accounts receivable		**496,108**	477,908
Prepaid expenses		**1,603**	1,227
Deferred policy acquisition costs		**32,510**	24,727
Reinsurers' share of unearned premiums		**142**	133
Reinsurers' share of unpaid claims		**9,814**	2,452
Property and equipment		**114,936**	116,754
Deferred development costs		**57,562**	69,191
		3,795,943	3,482,897
Liabilities			
Due to other insurance companies		**2,369**	171
Accounts payable and accrued liabilities		**109,676**	69,217
Financing lease obligation		**3,988**	4,092
Unearned premiums and fees		**673,414**	628,837
Provision for employee current benefits		**22,840**	22,373
Provision for employee future benefits		**456,926**	446,458
Provision for unpaid claims	4	**2,084,632**	1,912,734
		3,353,845	3,083,882
Equity			
Retained Earnings		**511,753**	352,608
Accumulated Other Comprehensive Income (Loss)		**(69,655)**	46,407
		442,098	399,015
		3,795,943	3,482,897

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors:

Dr. Mike Sullivan
CHAIRPERSON OF THE BOARD

Domenic Grestoni, CPA, CGA, ICD.D
CHAIR, AUDIT, FINANCE & RISK COMMITTEE

Condensed Statement of Operations

For the years ended February 28 (in thousands of Canadian dollars)	*Notes*	2019	2018
Earned Revenues			
Gross premiums written		**1,332,345**	1,247,731
Premiums ceded to reinsurers		**(16,733)**	(15,381)
Net premiums written		**1,315,612**	1,232,350
Increase in gross unearned premiums		**(39,404)**	(40,608)
Increase in reinsurers' share of unearned premiums		**9**	16
Net premiums earned		**1,276,217**	1,191,758
Service fees & other revenue		**36,982**	34,187
The Drivers and Vehicles Act operations recovery		**30,250**	30,179
Total Earned Revenues		**1,343,449**	1,256,124
Claims Costs			
Direct claims incurred — gross		**1,031,851**	884,327
Claims recovered ceded to reinsurers		**(15,926)**	(514)
Net claims incurred		**1,015,925**	883,813
Claims expense		**143,832**	161,583
Loss prevention/Road safety		**13,146**	15,345
Total Claims Costs		**1,172,903**	1,060,741
Expenses			
Operating		**126,971**	117,778
Commissions		**85,638**	80,665
Premium taxes		**38,788**	36,214
Regulatory/Appeal		**4,329**	4,458
Total Expenses		**255,726**	239,115
Underwriting loss		**(85,180)**	(43,732)
Investment income	6	**242,586**	134,808
Gain on disposal of property and equipment		**1,739**	—
Net income from operations		**159,145**	91,076

Condensed Statement of Comprehensive Income (Loss)

For the years ended February 28 (in thousands of Canadian dollars)	*Notes*	2019	2018
Net income from operations		**159,145**	91,076
Other Comprehensive Income (Loss)			
Items that will not be reclassified to income			
Remeasurement of Employee Future Benefits		**3,918**	(28,560)
Items that will be reclassified to income			
Unrealized gains on Available for Sale assets		**1,976**	7,304
Reclassification of net realized gains related to Available for Sale assets		**(121,956)**	(27,974)
Net unrealized losses on Available for Sale assets		**(119,980)**	(20,670)
Other Comprehensive Loss for the year		**(116,062)**	(49,230)
Total Comprehensive Income		**43,083**	41,846

The accompanying notes are an integral part of these financial statements.

Condensed Statement of Changes in Equity

(in thousands of Canadian dollars)	**Retained Earnings**	**Accumulated Other Comprehensive Income**	**Equity**
Balance as at March 1, 2017	261,532	95,637	357,169
Net income from operations for the year	91,076	—	91,076
Other comprehensive loss for the year	—	(49,230)	(49,230)
Balance as at February 28, 2018	**352,608**	**46,407**	**399,015**
Net income from operations for the year	**159,145**	—	**159,145**
Other comprehensive loss for the year	—	**(116,062)**	**(116,062)**
Balance as at February 28, 2019	**511,753**	**(69,655)**	**442,098**

The accompanying notes are an integral part of these financial statements.

Condensed Statement of Cash Flows

For the years ended February 28 (in thousands of Canadian dollars)	Notes	2019	2018
Cash Flows from (to) Operating Activities			
Net income from operations		**159,145**	91,076
Non-cash items			
Depreciation of property and equipment		**4,832**	4,973
Amortization of deferred development costs		**24,298**	20,757
Amortization of bond discount and premium		**4,133**	3,557
Gain on sale of investments		**(130,167)**	(25,043)
Unrealized gain on Fair Value Through Profit or Loss bonds		**(10,144)**	(9,363)
Unrealized gain on pooled real estate fund		**(20,295)**	(29,040)
Unrealized gain on infrastructure investments		**(10,904)**	(6,195)
Gain on disposal of property and equipment		**(1,739)**	—
Impairment of Available for Sale investments		**—**	1,078
Impairment of deferred development cost		**3,026**	20,258
		22,185	72,058
Net change in non-cash balances			
Due from other insurance companies		**(1,600)**	26
Accounts receivable and prepaid expenses		**(18,576)**	(21,413)
Deferred policy acquisition costs		**(7,783)**	(572)
Reinsurers' share of unearned premiums and unpaid claims		**(7,371)**	(497)
Due to other insurance companies		**2,198**	(2)
Accounts payable and accrued liabilities		**40,459**	(3,834)
Unearned premiums and fees		**44,577**	42,211
Provision for employee current benefits		**467**	(377)
Provision for employee future benefits		**14,386**	12,840
Provision for unpaid claims		**171,898**	11,951
		238,655	40,333
		260,840	112,391
Cash Flows from (to) Investing Activities			
Purchase of investments		**(1,179,471)**	(824,124)
Proceeds from sale of investments		**1,039,807**	753,780
Acquisition of property and equipment net of proceeds from disposals		**(1,275)**	(5,668)
Financing lease obligation		**(104)**	(97)
Deferred development costs incurred		**(15,695)**	(20,710)
		(156,738)	(96,819)
Increase in Cash and Cash Equivalents		**104,102**	15,572
Cash and cash equivalents beginning of year		**89,006**	73,434
Cash and Cash Equivalents end of year	5	**193,108**	89,006
Supplemental cash flow information			
Interest received		**55,053**	52,300
Dividends received		**16,535**	14,579

The accompanying notes are an integral part of these financial statements.

Notes to Condensed Financial Statements

February 28, 2019

1. Status of Corporation

The Manitoba Public Insurance Corporation (the "Corporation") was incorporated as a Crown Corporation under *The Automobile Insurance Act* in 1970. The Corporation is owned by the Province of Manitoba and the financial results of the Corporation are included in the consolidated financial statements of the Province of Manitoba. In 1974, *The Automobile Insurance Act* was revised and became *The Manitoba Public Insurance Corporation Act* (Chapter A180 of the continuing consolidation of the Statutes of Manitoba). In 1988, the Act was re-enacted in both official languages as Chapter P215 of the Statutes of Manitoba. The address of the Corporation's registered office is 234 Donald Street, Winnipeg, Manitoba.

Under the provisions of its Act and regulations, the Corporation operates an automobile insurance division and a discontinued general insurance division. The lines of business for the automobile insurance division provide for Basic Universal Compulsory Automobile Insurance, Extension and Special Risk Extension coverages. For financial accounting purposes, the lines of business for the automobile insurance division and the discontinued general insurance division are regarded as separate operations and their revenues and expenses are allocated on a basis described in the summary of significant accounting policies. For financial reporting purposes, due to the immateriality of the financial results of the discontinued general insurance operations, the operations are reported as part of the Special Risk Extension line of business. The Basic Universal Compulsory Automobile Insurance line of business rates are approved by the Public Utilities Board of Manitoba.

Under *The Drivers and Vehicles Act* (DVA), the Corporation is responsible for DVA operations pertaining to driver safety, vehicle registration and driver licensing, including all related financial, administrative and data processing services.

2. Basis of Reporting

Statement of Compliance

The financial statements of the Corporation are in such form as prescribed by Section 43(1) of *The Manitoba Public Insurance Corporation Act* and are presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These condensed financial statements have been derived from the audited financial statements of Manitoba Public Insurance Corporation for the year ended February 28, 2019. The criteria developed by management for the preparation of the condensed financial statements is as follows: that the information included in the condensed financial statements is in agreement with the related information in the complete financial statements, and that the condensed financial statements contain the information necessary to avoid distorting or obscuring matters disclosed in the related complete financial statements, including the notes thereto, in all material respects.

A full set of the financial statements including significant accounting policies and other explanatory information is available from the Corporation or at www.mpi.mb.ca.

The financial statements were authorized for issue by the Board of Directors on May 16, 2019.

The external actuary is appointed by the Board of Directors of the Corporation. With respect to preparation of these financial statements, the Appointed Actuary is required to carry out a valuation of the insurance contract liabilities and to report thereon to the Corporation's Board of Directors. Insurance contract liabilities include unearned premiums and unpaid claims and adjustment expenses.

The Appointed Actuary also uses the work of the external auditors in their verification of the information prepared by the Corporation used in the valuation of the insurance contract liabilities.

The external auditors are appointed by the Lieutenant Governor in Council to conduct an independent and objective audit of the financial statements of the Corporation in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors also make use of the work of the Appointed Actuary and their report on the Corporation's insurance contract liabilities. The external auditors' report outlines the scope of their audit and their opinion.

Basis of Presentation

The Corporation presents its Statement of Financial Position broadly in order of liquidity.

The following balances are generally classified as current: cash and cash equivalents, investments, due to/from other insurance companies, accounts receivable, prepaid expenses, deferred policy acquisition costs, reinsurers' share of unearned premiums and unpaid claims, accounts payable and accrued liabilities, unearned premiums and fees and provision for employee current benefits.

The following balances are generally classified as non-current: investment property, property and equipment, deferred development costs, financing lease obligation, provision for employee future benefits and provision for unpaid claims.

These statements are presented in thousands of Canadian dollars, which is the Corporation's functional and presentational currency except as otherwise specified.

Seasonality

The automobile insurance business, which reflects the primary business of the Corporation, is seasonal in nature. While net premiums earned are generally stable from quarter to quarter, underwriting income is typically highest in the first and second quarter of each year and lowest in the fourth quarter of each year. This is driven mainly by weather conditions which may vary significantly between quarters.

Basis of Measurement

The Corporation prepares its financial statements as a going concern, using the historical cost basis, except for financial instruments and insurance contract liabilities and reinsurers' share of unpaid claims. Measurement of the financial instruments is detailed in Note 3. Insurance contract liabilities and reinsurers' share of unpaid claims are measured on a discounted basis in accordance with accepted actuarial practice (which in the absence of an active market provides a reasonable proxy for fair value) as explained in Note 3.

Estimates and Judgments

The preparation of financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from these estimates.

3. Summary of Significant Accounting Policies

For a complete listing of significant accounting policies, please refer to the February 28, 2019 audited financial statements available at mpi.mb.ca.

The following are excerpts from the summary of significant accounting policies contained in the audited financial statements and do not represent full disclosure of significant accounting policies.

Investments

Funds available for investments are managed by the Manitoba Department of Finance, on behalf of the Corporation, in accordance with Section 12(1) of *The Manitoba Public Insurance Corporation Act*.

The Corporation's directly held real estate investments are recorded at cost and are being depreciated over their estimated useful life.

The Corporation has classified or designated its financial assets and liabilities in the following categories:

- available for sale (AFS)
- held to maturity (HTM)
- financial assets and liabilities at fair value through profit or loss (FVTPL)
- loans and receivables
- other financial liabilities

The Corporation accounts for the purchase and sale of securities using settlement date accounting.

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Investments that are determined to be impaired are written down to their expected recoverable amount. For equity investments classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

Fair Value Determination

The fair values of financial instruments are obtained from external pricing services and are based on bid prices for financial assets. Cash equivalent investments comprise investments due to mature within 90 days from the date of purchase and are carried at fair value.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Replacement costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. All repairs and maintenance costs are recognized in net income (loss) during the period in which they occur.

Depreciation is provided on a straight-line basis which will depreciate the cost of each asset to its residual value over its estimated useful life:

Land & Buildings

• HVAC systems	20 years
• land improvements	25 years
• roofing systems	30 years
• elevators/escalators	30 years
• buildings	40 years

Furniture & Equipment

• computer equipment	3 years
• vehicles	5 years
• furniture and equipment	10 years
• demountable wall systems	10 years

Buildings held under a long-term lease arrangement are depreciated on a straight-line basis over 40 years. Leasehold improvements are carried at cost and are depreciated over the term of the lease plus the first renewal period. Depreciation of construction in progress will begin, in accordance with the above policy, when construction has been completed. Land is not subject to depreciation and is carried at cost.

Revenue

Premiums

Written premiums comprise the premiums on contracts commencing in the fiscal year. Earned premiums represent the portion of written premiums earned through the year on a pro rata basis by way of insurance coverage. Written and earned premiums are stated gross of broker commissions and premium taxes payable and are reported on a gross basis and net of amounts ceded to reinsurance companies.

Unearned Premiums

The liability for unearned premiums is the portion of premiums that relate to the unexpired term of each insurance contract.

Interest Revenue

Interest revenue is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Investment Income

Investment income is recorded as it accrues. Dividend income from investments is recognized when the Corporation's rights to receive payments is established. Dividend income on common and preferred shares is recorded on the ex-dividend date. Distributions on pooled funds are recorded on the income distribution date. Gains and losses are determined and recorded as at the trade date, and are calculated on the basis of average cost. The effective interest rate method is used to amortize premiums or discounts on the purchase of bonds.

Realized Gains and Losses

The realized gain or loss on disposal of an investment is the difference between the proceeds received, net of transaction costs, and its original cost or amortized cost as appropriate.

The realized gain or loss on disposal of property and equipment is the difference between the proceeds received, net of transaction costs, and its original cost or depreciated cost as appropriate.

Unrealized Gains and Losses

Unrealized gains or losses represent the difference between the carrying value at the year-end and the carrying value at the previous year-end or purchase value during the year, less the reversal of previously recognized unrealized gains or losses in respect of disposals during the year.

Provisions

Provisions are recognized when the Corporation has a present obligation (legal or constructive) as a result of a past event, it is probable that the Corporation will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provision for Employee Current Benefits

The provision for employee current benefits includes accruals for vacation pay and sick pay determined in accordance with the Collective Agreement and Corporate policy.

Provision for Employee Future Benefits

Included in the provision for employee future benefits are the pension benefit plan and other benefit plans.

i. Pension Benefit Plan

The employees of the Corporation are members of a defined benefit pension plan administered under *The Civil Service Superannuation Act*. Included in the accounts is a provision for the employer's future pension liability calculated on an indexed basis. The provision for pension is actuarially determined on an annual basis using the projected benefit method prorated on services. The actuarial present value of the accrued pension benefits is measured using the Corporation's best estimates based on assumptions relating to market interest rates at the measurement date based on high quality debt instruments, salary changes, withdrawals and mortality rates. Changes in experience gains and losses are recognized in the current period. Current service costs and interest costs are recognized in net income in the current period. Actuarial gains and losses are recognized in OCI in the current period.

The Corporation values its pension benefit plan annually, the most recent valuation is at December 31, 2018. Roll-forward procedures are performed to ensure that the December 31, 2018 valuation is a reliable estimate of the valuation at February 28, 2019.

ii. Other Benefit Plans

Other benefit plans consist of two post-retirement extended health plans and severance pay benefits.

The provision for post-retirement extended health benefits is actuarially determined on an annual basis using the projected benefit method prorated on services, which includes the Corporation's best estimates based on assumptions relating to retirement ages of employees and expected health costs. Changes in experience gains and losses are recognized in the current period. Current service costs and interest costs are recognized in net income in the current period. Actuarial gains and losses are recognized in OCI in the current period.

Employees of the Corporation are entitled to severance pay in accordance with the Collective Agreement and Corporate policy. The provision for severance pay is actuarially determined on an annual basis using the projected benefit method prorated on services, without salary projection, which includes the Corporation's best estimates based on assumptions relating to the proportion of employees that will ultimately retire.

Provision for Unpaid Claims

IFRS 4, *Insurance Contracts* permits the continued use of insurance liability valuation methods previously used under pre-IFRS Canadian Generally Accepted Accounting Principles (GAAP). The Corporation establishes reserves for payment of claims and adjustment expenses that arise from the Corporation's insurance products. The reserve balance represents the expected ultimate cost to settle claims occurring prior to, but still outstanding as of, the reporting date. There are two categories of loss reserves: (1) reserves for reported losses and (2) reserves for incurred but not yet reported (IBNR) losses. In addition, reserves are set up for internal loss adjustment expenses, which include estimated internal costs and other expenses that are expected to be incurred to finalize the settlement of the losses. The Corporation discounts its liabilities for unpaid claims and includes a provision for adverse deviations. Liabilities for unpaid claims are estimated using the input of assessment for individual cases reported to the Corporation and statistical analyses for the claims incurred but not reported. Claims and adjustment expenses are charged to income as incurred.

All of the Corporation's insurance policies meet the definition of an insurance contract and have been accounted for in accordance with IFRS 4.

Reinsurers' share of unpaid claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant reinsurance contracts.

Liability Adequacy Test

At each reporting period, insurance liability adequacy tests are performed to ensure the adequacy of the contract liabilities, net of related Deferred Policy Acquisition Costs (DPAC) and Reinsurers' Share of Unpaid Claims. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. A premium deficiency exists when estimated future claims and related expenses exceed unearned premiums. Any resulting deficiency is recognized first by writing down the DPAC with any remainder recognized as a premium deficiency in unpaid claims.

Allocation of Revenue, Claims Incurred and Expenses

Premiums written, premiums earned and claims incurred are allocated directly to the division writing the insurance risk.

Service fees and other revenue are allocated to the automobile insurance division lines of business and *The Drivers and Vehicles Act* operations on the following basis:

i. Identifiable direct service fees and other revenue are allocated to each line of business.

ii. Where direct allocation is not possible, service fees and other revenue are prorated to each line of business based mainly on factors such as premiums written ratios, expense allocation ratios and investment income allocation ratios. The formulas developed for the allocation of service fees and other revenue are approved by the Board of Directors.

Investment income is allocated to the automobile insurance division lines of business, *The Drivers and Vehicles Act* operations and the discontinued general insurance division based on a monthly averaging of the funds available within each division.

Expenses, including claims expense, are allocated to the automobile insurance division lines of business and *The Drivers and Vehicles Act* operations on the following basis:

i. Identifiable direct expenses are charged to each line of business.

ii. Where direct allocation is not possible, expenses are prorated to each line of business based mainly on factors such as space, number of employees, time usage, Contact Centre statistics, premiums written ratios and net claims incurred ratios. The basis for allocation of indirect shared expenses is approved by the Board of Directors.

iii. The allocation of improvement initiative costs is based on a review of each project to determine which line of business will benefit from the project. The allocation basis for each project is approved by the Board of Directors.

Reinsurance Ceded

Premiums, claims and expenses are reported gross and net of amounts due to and recoverable from reinsurers. Estimates of amounts recoverable from reinsurers on unpaid claims are recorded separately from estimated amounts payable to policyholders.

The reinsurers' share of unearned premiums is recognized as an asset in a manner which is consistent with the method used in determining the unearned premium liability.

4. Provision for Unpaid Claims

The provision for unpaid claims, including adjustment expenses, represents an estimate for the full amount of all costs and the projected final settlement of claims incurred.

The provision for unpaid claims, including adjustment expenses, is subject to variability. This variability is related to future events that arise from the date the loss was reported to the ultimate settlement of the claims. Accordingly, short-tail claims such as physical damage claims tend to be more reasonably predictable than long-tail claims such as Personal Injury Protection Plan (PIPP) and public liability claims. Factors such as the receipt of additional claims information during the claims settlement process, changes in severity and frequencies of claims from historical trends, and effects of inflationary trends contributes to this variability.

The determination of the provision for unpaid claims, including adjustment expenses, relies on judgment, analysis of historical claim trends, investment rates of return and expectation on the future development of claims. The process of establishing this provision necessarily involves risks which could cause the actual results to deviate, perhaps substantially, from the best determinable estimate.

5. Cash and Investments

Cash consists of cash net of cheques issued in excess of amounts on deposit.

Cash equivalent investments have a total principal amount of $184.3 million (February 28, 2018 — $83.2 million) comprised of provincial short-term deposits with effective interest rates of 1.60 per cent (February 28, 2018 — 1.10 per cent), with interest receivable at varying dates.

The Corporation has an unsecured operating line of credit with its principal banker in the amount of $5.0 million (February 28, 2018 — $5.0 million). The unsecured operating line of credit remained unutilized at February 28, 2019 (February 28, 2018 — nil).

Cash and Investments

As at February 28, 2019 (in thousands of Canadian dollars)	Financial Instruments Classified as AFS	Financial Instruments Classified as HTM	Financial Instruments Classified as FVTPL	Non-Financial Instruments	Total Carrying Value
Cash and cash equivalents	**193,108**	–	–	–	**193,108**
Bonds					
Federal	–	–	**29,402**	–	**29,402**
Manitoba:					
Provincial	–	–	**127,338**	–	**127,338**
Municipal	–	**24,707**	**32,396**	–	**57,103**
Schools	–	**546,309**	–	–	**546,309**
Other provinces:					
Provincial	–	–	**1,038,694**	–	**1,038,694**
Municipal	–	–	**64,975**	–	**64,975**
Corporations	–	–	**114,813**	–	**114,813**
	–	**571,016**	**1,407,618**	–	**1,978,634**
Other investments	**378**	–	–	–	**378**
Infrastructure	–	–	**111,996**	–	**111,996**
Equity investments	**465,206**	–	–	–	**465,206**
Pooled real estate fund	–	–	**283,316**	–	**283,316**
Investments	**465,584**	**571,016**	**1,802,930**	–	**2,839,530**
Investment property	–	–	–	**49,027**	**49,027**
Total	**658,692**	**571,016**	**1,802,930**	**49,027**	**3,081,665**

As at February 28, 2018 (in thousands of Canadian dollars)	Financial Instruments Classified as AFS	Financial Instruments Classified as HTM	Financial Instruments Classified as FVTPL	Non-Financial Instruments	Total Carrying Value
Cash and cash equivalents	89,006	–	–	–	89,006
Bonds					
Federal	–	–	28,133	–	28,133
Manitoba:					
Provincial	–	–	127,637	–	127,637
Municipal	–	27,375	32,455	–	59,830
Schools	–	590,193	–	–	590,193
Other provinces:					
Provincial	–	–	895,322	–	895,322
Municipal	–	–	70,075	–	70,075
Corporations	–	–	115,868	–	115,868
	–	617,568	1,269,490	–	1,887,058
Other investments	1,351	–	–	–	1,351
Infrastructure	–	–	100,085	–	100,085
Equity investments	409,334	–	–	–	409,334
Pooled real estate fund	–	–	263,022	–	263,022
Investments	410,685	617,568	1,632,597	–	2,660,850
Investment property	–	–	–	40,646	40,646
Total	499,691	617,568	1,632,597	40,646	2,790,502

6. Investment Income

(in thousands of Canadian dollars)	2019	2018
Interest income	**55,421**	52,584
Gain (loss) on sale of FVTPL bonds	**6,349**	(4,045)
Unrealized gain on FVTPL bonds	**10,144**	9,363
Unrealized gain on pooled real estate	**20,295**	29,040
Dividends on infrastructure investments	**2,514**	2,006
Realized gain on infrastructure investments	**1,878**	—
Unrealized gain on infrastructure investments	**10,904**	6,195
Foreign exchange gain on infrastructure investments	**24**	35
Dividend income	**13,699**	12,523
Gain on sale of equities and other investments	**121,956**	29,052
Loss on foreign exchange	**(40)**	(92)
Income from investment property	**3,604**	3,445
Impairment of AFS investments	—	(1,078)
Investment management fees	**(4,162)**	(4,220)
Total	**242,586**	134,808

7. Employee Future Benefits Expense

(in thousands of Canadian dollars)	2019	2018
Pension benefits	**28,766**	27,698
Other post-employment benefits	**5,438**	5,747
Total	**34,204**	33,445

8. Depreciation and Amortization

(in thousands of Canadian dollars)	2019	2018
Amortization — deferred development	**24,298**	20,757
Depreciation — property and equipment	**4,832**	4,973

Manitoba Public Insurance Locations

Customer Service

Winnipeg
T: 204–985–7000

Outside Winnipeg (Toll-Free)
T: 800–665–2410

Deaf Access TTY/TDD
T: 204–985–8832

Out-of-Province Claims
T: 800–661–6051

Administrative Offices

Winnipeg
234 Donald Street
Box 6300 R3C 4A4

Brandon
731 1st Street R7A 6C3

Service Locations

Winnipeg

Service Centres
15 Barnes Street
40 Lexington Park
1284 Main Street
930 St. Mary's Road
125 King Edward Street East

cityplace
234 Donald Street

Service Centre, Main Floor

ID Verification and Data Integrity

Rehabilitation Management Centre

Serious and Long-Term Case Management Centre

Bodily Injury Centre

Physical Damage Centre
1981 Plessis Road

Holding Compound/Receiving

Salvage

Commercial Claims

Outside Winnipeg

Arborg Service Centre
323 Sunset Boulevard

Beausejour Service Centre
848 Park Avenue

Brandon Service Centre
731 1st Street

Dauphin Service Centre
217 Industrial Road

Portage La Prairie Service Centre
2007 Saskatchewan Avenue West

Selkirk Service Centre
1008 Manitoba Avenue

Steinbach Service Centre
91 North Front Drive

Swan River Claim Centre
125 4th Avenue North

The Pas Claim Centre
424 Fischer Avenue

Thompson Service Centre
53 Commercial Place

Winkler Service Centre
355 Boundary Trail

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