MANITOBA PUBLIC INSURANCE ANNUAL BUSINESS PLAN

2018-2019

February 2018

Manitoba
Public Insurance

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1.0 Mandate & Strategic Direction

The Roles and Responsibilities Record for the Manitoba Public Insurance Corporation sets out the Corporation's mandate and responsibilities.

1.1 Corporation's Mandate, Objects or Purposes as set out in *The Manitoba Public Insurance Corporation Act*

It is the function of the Corporation to engage in and carry out the activity of all classes of automobile insurance, to administer the universal, compulsory automobile insurance as well as Extension insurance as prescribed by regulation. It may also carry out, both within and outside of Manitoba the business of insurance and re-insurance in all classes. In carrying out these responsibilities the Corporation may also repair, salvage and dispose of any property insured by it. The Corporation also has the responsibility to administer *The Drivers and Vehicle Act*.

1.2 Key Priorities (subject to adjustment based on Ministerial Mandate Letter)

- The Corporation will continue to demonstrate fiscal prudence and sound financial management practices while driving cost-containment, streamlining of operations and elimination of unnecessary operational expenses.
- The Basic compulsory insurance program must be operated on a self-sustaining basis with a sufficient capital reserve to absorb unforeseen variations in revenues, claims costs and investment revenues, and with insurance rates that are actuarially supported and established in accordance with Accepted Actuarial Principles.
- The Basic compulsory insurance rates will be kept as stable, predictable and affordable as possible.
- Capital projects and major technological initiatives will focus on supporting and optimizing core business functions, including ensuring the Corporation's ability to adapt appropriately to changes in the auto insurance and registration environment.
- Suitable operational and financial performance measures will be established and will be benchmarked against best practices in the auto insurance industry to demonstrate operational effectiveness and strong financial and investment management practices.
- Products and services will continue to evolve to address the evolving needs of Manitobans, including services to Manitobans in rural, northern and remote communities.
- The Corporation will continue to be proactive in preparing for structural changes in the automobile industry and collaborating with Manitoba's vehicle collision repair industry to ensure that vehicles damaged in motor vehicle collisions are properly repaired to original manufacturer specifications. The Corporation is also expected to evolve its business model to prepare for the anticipated introduction

of both partially-automated and fully-automated vehicles into the Manitoba market.
- The Corporation will continue to invest in Manitoba where prudent, recognizing that doing so provides jobs to Manitobans and results in broader contributions to the provincial economy through the Corporation's relationships with strategic partners.
- The Corporation will continue to hire and train employees predominantly in Manitoba with a commitment to excellent service.
- The financial affairs of the Corporation will be managed in a manner that will not impair the consolidated financial statements of the Province of Manitoba.

1.3 New Corporate Mission

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

1.4 Vision and Values

A new MPI vision statement and values will be developed to support the new corporate mission and direction of the company. These will be completed during 2018/19.

2.0 Operating Environment

The Corporation is constantly evolving to meet the diverse needs and service expectations of our customers, while providing guaranteed access to automobile insurance at cost effective rates. The Corporation takes a long-term view of providing sustainable and predictable Basic insurance to Manitobans at affordable rates, without compromising coverage or service. Given the growth and increasing diversity of Manitoba's population, the continuous advances in technology and the changing automobile industry, the Corporation continues to refine and adapt our products and services with our customers and business partners in mind.

2.1 Internal Environment

The Corporation's internal operating environment is extremely dynamic. The 2018-19 year will see an emphasis on building a culture of excellence, customer service and product assessment, with an ongoing focus on core business and building value.

2.1.1 Products and Services

Our product roadmap will review opportunities in a number of product or service areas. The Corporation will work with the Public Utilities Board on various technical conferences regarding MPI product evolution, including principal driver underwriting. Other product and service efforts in 2018-19:

- Basic deductibles will be reviewed and assessed to determine if they have kept pace with cost of repair and industry best practices.
- Extension products will be assessed to determine appropriate profit margins, and to determine impact of any potential change to Basic deductibles.
- Special Risk Extension products will be reviewed for potential growth opportunities.
- The Corporation is examining areas of opportunity related to PIPP coverage and claims.
- A redevelopment of the High School Driver Education Program continues, with the implementation of a curriculum redesign.

2.1.2 Customer Experience Framework

The Corporation's current customer satisfaction system was developed in 1998. A new Customer Experience Framework is required to evolve the Corporation's customer-centric focus. Elements of the framework include new channel choice and service delivery options (including enhanced self-service options), new and evolved customer experience metrics, and point-of-service data capture to collect customer feedback in real-time.

2.1.3 Online and Systems Technology

The Corporation is moving towards greater online service for customers, partners and staff. Online service enhancements include:

- a new corporate learning management system to provide a central location for all training and development
- introduction and expansion of customer and partner internet self-serve options such as booking appointments

A review of the Corporation's over 20 year old legacy systems is required. A multi-year legacy systems modernization project will be initiated, with a first year objective of assessing the current systems and establishing a strategy and roadmap.

2.1.4 Creating a Culture of Excellence

Manitoba Public Insurance is striving to create and renew a culture of excellence in an effort to attract, retain and motivate top talent. The company is focused on promoting, recognizing, managing performance and adopting industry best practices in linking performance to pay and rewards. This will be further enabled by building organizational capacity in developing leaders to set clear expectations, measuring performance and a reward mechanism that recognizes an individual's contribution while managing corporate fiscal responsibility.

2.1.5 Other Efforts

There are additional initiatives for 2018/19 such as:

- Accessibility Action Plan
- French Language Services Action Plan
- Compliance to New West Partnership Trade Agreement (procurement)

2.2 External Environment

Manitoba Public Insurance operates in a challenging and fast-changing external environment. Key relationships in this environment include the public and customers, government, the Public Utilities Board and our delivery partners (e.g. healthcare providers, brokers, repair shops and others).

2.2.1 New Light Vehicle Accreditation Agreement for March 2019

The Corporation will be negotiating a new agreement with Manitoba's collision repair industry, with the current agreement set to expire February 28, 2019. At over $300 million in claims per year, vehicle repair is a significant cost driver for MPI customers.

Major recent developments in physical damage claims include:

- Major changes to estimating under the Direct Repair program will continue in 2018, with a larger percentage of repair estimates to be conducted in repair shops in future.
- An administrative premium of $81 per job payable to qualifying Direct Repair shops will be in place from March 1, 2018 to February 28, 2019. Also in 2018, repair shops must have attained, or be substantially in process of attaining, their I-CAR Gold Class Professionals designation.
- Continuation of Paintless Dent Repair, an industry-standard method of removing dents from vehicle body panels. This cost-effective repair is particularly suited to damage seen in hail claims, and will continue in future.
- The Corporation's rodent strategy is proving successful and the reduction in rodent claims costs will continue.

2.2.2 Changing Vehicle Industry

The manufacture of automobiles is undergoing a dramatic shift, resulting in major changes to the repair industry. Lighter materials, such as aluminum, advanced high-strength steels, magnesium and carbon fibre, are increasingly being used in vehicle construction to reduce vehicle weight and improve fuel efficiency.

Vehicles routinely incorporate collision-avoidance and vehicle-control technologies to meet growing customer demand. Partially-autonomous driver-assistance technology is currently available in some vehicles on the market, and research and testing into fully autonomous vehicles continues to ramp up at several vehicle and technology companies.

The rapid pace of change will continue to evolve as more and more vehicles with complex materials and advanced electronic systems enter the market. We will continue to work with our collision repair industry partners in the best interests of Manitobans to ensure these vehicles are repaired properly and the anticipated cost increases are kept at industry averages.

2.2.3 New Broker Accord for March 2019

Negotiations for a new agreement to take effect in 2019 with Manitoba insurance brokers will present another key impact on the Corporation's operating environment. Known items to discuss include commission rates and increased online services from MPI.

2.2.4 Traffic Safety Culture

The Province's *Manitoba Road Safety Plan 2017-2020: Road to Zero* envisions Manitoba having the safest roads in Canada, and commits to one day achieving zero traffic fatalities on our roadways. The Corporation fully supports the Road Safety Plan and its goals, and commits to working to change the traffic safety culture of Manitobans. We co-chair this plan with Manitoba Infrastructure and will design and deliver road safety education initiatives to complement the goals and objectives of the provincial plan.

2.2.5 Other Efforts

There are additional initiatives for 2018/19 such as:

- Development and continued refinement of an insurance rating framework for Transportation Network Companies and other authorized ride-share services
- Service and accessibility enhancements to northern and remote communities
- Prepare for legalization of recreational use of cannabis through proactive education and awareness campaigns to mitigate the potential impact to impaired driving-related collision, fatalities and injuries

2.3 Risks

2.3.1 Financial Losses from Weather or Investments

A key risk is the potential for financial loss, generally arising from weather-driven increases in claims from hail or winter accidents. An additional related risk is the depletion of financial reserves, which is possible from two years of bad losses in the investment portfolio or increases in claims as described above. To mitigate volatility, MPI will continue to incorporate reinsurance where appropriate and ensure reserves are adequate at the corporate level and the basic insurance product level. In regards to this risk, MPI is pleased with the recent PUB order regarding an upper and lower limit for MPI reserves.

2.3.2 Public Support

Another risk is a loss of public support. Causes could include increased rates as outlined above, and a lack of customer-centricity in MPI products or services (including a perceived lack of appeal options for unsatisfied customers). Mitigation includes renewing customer satisfaction measures within the Customer Experience Framework, settling claims in a fair and reasonable way, and ensuring appeal options are fair and are available within a reasonable timeframe.

2.3.3 Insurance Business Risk

The Corporation keeps watch on insurance technology developments and auto maker self-insurance models to mitigate potential risks from these areas.

2.3.4 Cyber Security

The risk of cyber-attack is also present, and the Corporation mitigates this risk by continuing IT security plans to defend from attack, including agreement on a new information security maturity level.

3.0 Performance Measures & Targets

These performance metrics have been newly established for MPI and will be evolving over 2018/19 as we change from the previous dials used for various public financial reporting.

MPI Performance Metrics					
Category	**Measure**	**Description**	**Actual 2016/17**	**Forecast 2017/18**	**Target 2018/19**
Customer	Customer Satisfaction Index	Track customer satisfaction over time	89%	89%	89%[1]
Financial	Net Premiums Earned	Net premiums earned	$1,130M	$1,194M	$1,276M
	Claims Incurred	Net claims incurred	$981M	$926M	$959M
	Corporate Claims Costs Ratio	Tracks claims costs from all lines of business as % of NPE	100.3%	91.4%	88.5%
	Investment Management	Net investment yield	6.9%	7.4%	5.0%
Operational Excellence	Expenses Excluding Claims Costs	Tracks operating expenses as % of NPE	10.8%	10.1%	9.7%
	Total FTE	Tracks all non-consultant FTE in MPI	1,923	1,917	1,903
Organization Health	Employee Engagement	Engagement score	73%	73%	75%
	Capital Adequacy	Minimum Capital Test: - Basic - Extension - Special Risk Extension	 30% 311% 349%	 30% 498% 366%	 75-100%[2] 200%[3] 300%[3]

Notes:

[1]MPI will conduct a review of our customer satisfaction metrics during the 2018/19 year.

[2]Target range of 75-100% is not anticipated to be reached by 2018/19; however, 100% is the appropriate target for MPI in a reasonable time.

[3]Minimum capital test for Extension and Special Risk Extension insurance lines are currently in excess of the minimum but within an acceptable range given overall MPI reserves and risks at this time. Therefore, MPI will not simply deploy this capital during 2018/19 to meet these minimum targets.

4.0 Financial Budgets & Forecasts

4.1 Statement of Operations

In thousands of Canadian dollars ($000's)	Actual for the year ended February 28, 2017	Budget for the year ending February 28, 2018	Forecast for the year ending February 28, 2018	Budget for the year ending February 28, 2019
Earned Revenues				
Gross premiums written	1,169,044	1,252,170	1,245,167	1,338,041
Premiums ceded to reinsurers	(15,624)	(15,153)	(15,239)	(16,013)
Net premiums written	1,153,420	1,237,017	1,229,928	1,322,028
Net premiums earned	1,130,016	1,199,434	1,193,536	1,276,477
Service fees & other revenue	31,547	33,874	34,067	35,764
The Drivers and Vehicles Act operations recovery	29,272	30,179	30,179	30,860
Total Earned Revenues	**1,190,835**	**1,263,487**	**1,257,782**	**1,343,101**
Claims Costs				
Net claims incurred	981,298	968,250	926,324	958,951
Claims expense	137,102	152,116	149,401	155,115
Loss prevention/Road safety	14,801	15,688	14,678	15,836
Total Claims Costs	**1,133,201**	**1,136,054**	**1,090,403**	**1,129,902**
Expenses				
Operating	122,313	121,577	120,497	123,865
Commissions	77,880	80,317	80,249	84,492
Premium taxes	34,369	36,438	36,263	38,775
Regulatory/Appeal	4,911	4,083	4,103	4,687
Total Expenses	**239,473**	**242,415**	**241,112**	**251,819**
Underwriting income (loss)	(181,839)	(114,982)	(73,733)	(38,620)
Investment income (loss)	96,635	120,600	149,627	97,605
Net income (loss) from operations	**(85,204)**	**5,618**	**75,894**	**58,985**

Note: for additional information on the financials of MPI, please refer to the 2016/17 Annual Report, found at www.mpi.mb.ca/en/PDFs/2016-Annual-Report.pdf

4.2 Key Planning Assumptions

Key assumptions include:

- Forecasts based upon data up to and including October 2017 month end
- The 2018/19 PUB Order
- The results of the October 31 Valuation of Policy Liabilities

- Flat interest rates over the entire forecast period based on October 2017 actuals
- MPI's current investment portfolio with one assumption change which is an increased allocation to corporate bonds from 4% to 18% in the final three quarters of 2018/19
- No significant changes to operations that would impact long term fleet growth, vehicle upgrade, or claims trends over the outlook period.

4.3 Sensitivity Analysis

Due to the nature of its business, MPI's primary risks relate to trends in claiming experience on its insured book of business and impacts on investment income stemming from fluctuations in the marketplace.

The following table depicts MPI's sensitivity to various scenarios stated on the basis of impact to net income.

Scenario Analysis - 2018/19 Budget Base to Scenario
Summary - CORPORATE
($000's)

Scenario	2018/19 Net Income	$ Change from Base Scenario	% Change from Base Scenario
1. 2018-19 Budget Base	58,985	0	0%
2. Collision Frequency +1%	54,443	-4,542	-8%
3. Collision Severity +1%	54,662	-4,323	-7%
4. Interest Rates +50 bps	54,050	-4,935	-8%
5. Interest Rates -50 bps	64,887	5,902	10%
6. 1-in-40 Adverse Winter Collision Frequency	18,527	-40,458	-69%
7. 1-in-40 Favourable Winter Collision Frequency	138,103	79,118	134%
8. 1-in-40 Adverse Hail [1]	30,551	-28,434	-48%
9. 1-in-40 Favourable Hail	75,392	16,407	28%
10. 1-in-40 Adverse Loss Ratio	-12,211	-71,196	-121%
11. 1-in-40 Favourable Loss Ratio	151,218	92,233	156%
12. 1-in-40 Decreasing Interest Rates [2]	54,546	-4,439	-8%
13. 1-in-40 Increasing Interest Rates [2]	65,273	6,288	11%
14. 1-in-40 Adverse Equities [3]	38,862	-20,123	-34%
15. 1-in-40 Favourable Equities [3]	85,119	26,134	44%

1. Hail: Assumed $15M retention and fully placed reinsurance coverage up to $267M based on current structure. Probable maximum loss (PML) as per Aon Benfield's use of RMS RiskLink 2017 modelling is $184M at a 1-in-50 year interval and $300M at a 1-in-100 year interval.

2. Interest Rates: +147 bps increase and -94 bps decrease to GOC 10 Year Bond. Assumed interest rate floor of 1.00%.

3. Equities: The results only include realized gains/losses. Adverse Scenario: -24.6% return and $131M in unrealized losses, Favourable Scenario: 45.5% return and $160M in unrealized gains.

5.0 Human Resources

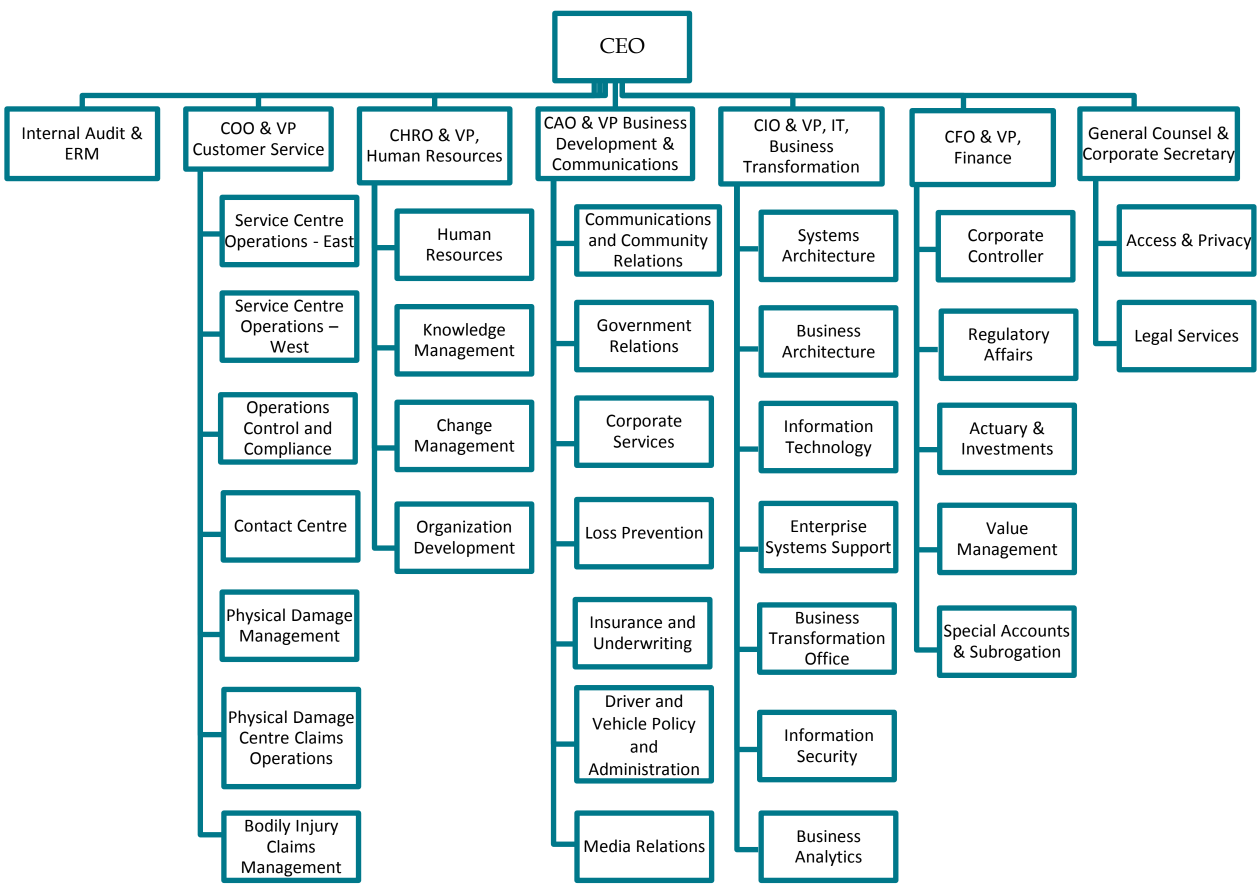
5.1 Full-Time Employees

	Actuals as at February 28, 2017	Revised Budget	Budget
	2016/17	2017/18	2018/19
Senior Management (1)	40.0	34.0	32.0
Management (2)	125.0	101.0	100.0
Employees (3)	1,757.9	1,781.9	1,770.5
Total	1,922.9	1,916.9	1,902.5

1. Senior Management - Executives & Directors
2. Management - Managers & Assistant Managers
3. Employees - Remaining employees not included in above

- 1,902 includes 1,874 from normal operations and 28 from improvement initiative and specialty programs

5.2 Organization Chart (as at February 2018)



5.3 Factors That May Affect Compensation and Staffing

The proposed 2018/19 plan includes 1,902 full-time employees (FTEs) with a total compensation budget of $173.9 million. The budget includes management reductions of 15 per cent from 2016/17 and staff reduction through improvement initiative efficiencies. Management continues to manage its FTE counts with a focus on operational efficiencies and vacancy management to ensure proper workforce composition to meet operational demands. This year's plan also includes a contractual obligation of 1.5 per cent general wage increase for the workforce.

6.0 Capital Plans

2018/2019 Capital Projects

(spend beyond 2018/19 is currently under review by MPI)

($000's)

	LTD Spend to February 28 2018	Budget 2018/19	Remaining Spend for Future Years	Total Forecast at Completion
Technology Risk Management	4,082	4,500	18,000	26,582

The goal of the Technology Risk Management is to implement projects that will keep existing technology in a stable and supported state and address other technology risk through process and technology improvements. Return on investment will be realized through risk reduction.

Finance Re-Engineering	343	500	13,117	13,960

The strategic objectives of the Finance Re-Engineering Project are:

- Provide timely access to accurate financial information
- Increase efficiency and effectiveness of financial processes and system integration
- Provide appropriate support to other Divisions within the Corporation to guide decision making

Customer Claims Reporting System (PDR Spinoff)	15,269	7,200	750	23,219

This project will introduce a new online claims first notice of loss (FNOL) customer self-service tool that is highly intuitive and user friendly. To ensure that a customer has a consistent customer service experience, the MPI contact centre process will also be modified to align to the customer self-service experience. These processes will be complemented by automated claims adjudication processing for common claim situations as well as eligible repair shop determination and shop appointment scheduling.

Legacy Systems Modernization Project	-	2,000	TBD	TBD

The first year objective of this project is to complete a multi-faceted assessment of our current legacy systems to determine if these systems can meet our future business objectives, capabilities and operational needs. The FY 18/19 assessment will then be utilized to establish a strategy, business case, financial analysis, and implementation roadmap and plan for Board of Directors review and approval in December 2018 prior to initiating the Legacy System Modernization program implementation.

Aggregate of all other IT Projects	9,206	7,957	13,199	30,362
Sub-Total IT Projects	28,901	22,157	TBD	TBD
Administrative Capital	20,746	6,595	26,036	53,377
Investment Capital	10,424	1,532	4,814	16,770
Grand Total	60,072	30,283	NA	NA