Organizational review of Manitoba Public Insurance

Final report

January 25, 2024

Manitoba Public Insurance

EY

Building a better working world

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A few sentences have been redacted from the original report to preserve the anonymity of individuals and respect MPI confidences privilege with Government.

Driving positive change

This organizational review of Manitoba Public Insurance ('MPI') aims to provide a transparent assessment of the organization's performance, with a particular focus on identifying areas for improvement. While the emphasis may highlight opportunities of improvement, it is crucial to view this report as a catalyst for positive change within MPI.

Methodology and Approach: The review was conducted using a conscientious methodology that incorporated various data collection techniques, including interviews, surveys and analysis of internal documents. Industry practices were utilized to provide a meaningful comparison and evaluation of MPI's performance.

Review of Current Practices: This report examines existing practices within MPI, seeking to identify any gaps or shortcomings that may hinder the organization's ability to achieve its objectives effectively. By conducting a critical assessment of MPI's policies, procedures, and internal mechanisms, opportunities for refinement and improvements have been identified.

Identification of Areas for Improvement: Through a data-driven analysis, several areas requiring improvement within MPI were identified. The aim of highlighting these areas is to help assist MPI in its ongoing efforts to better serve Manitobans, enhance efficiency, responsiveness and overall organizational performance. We shed light on potential target states in slides identified by:

Development of Actionable Recommendations: Based on the findings and analysis, this report provides a series of actionable recommendations designed to support MPI in addressing the identified areas for improvement. These recommendations encompass operational changes, process enhancements, training and development initiatives, customer experience improvements, and measures to foster a culture of innovation and continuous improvement.

This review sincerely recognizes the dedication and accomplishments of MPI while objectively highlighting areas in need of improvement. By addressing these challenges, MPI has an opportunity to grow sustainability, enhance its services, and better respond to the evolving needs of its stakeholders. We believe that the actionable recommendations presented herein will guide MPI towards a future characterized by improved performance, increased customer satisfaction and continued success as a responsible crown corporation serving the people of Manitoba.

Executive summary

Executive summary (1/3)

- This executive summary is designed to highlight five of the most important high-level recommendations discussed throughout the report. Each recommendation encapsulates many key findings and topics that will be brought up in various sections. It is important to note that these five recommendations are not in the same order and format as the structure of the report, which has been done intentionally. Therefore, elements of these high-level recommendations may be found throughout multiple sections.

Fostering organizational stability and role clarification Numerous organizational changes have hindered MPI's ability to create, implement and monitor an effective long-term vision. While the changes were done with positive intentions, it has often brought about some unintended impacts, namely confusion amongst leadership. Clarifying roles and providing stability will help foster a culture of ownership and establish tighter alignment between levels and leaders.	Clearly define MPI's corporate strategy with a multi-year strategic plan
	Translate this strategy to clear goals with actionable initiatives aligned and supported by the entire leadership team
	Minimize changes to the organization structure, and if changes are necessary, ensure they are aligned to the corporate strategy to improve MPI's ability to achieve its long-term vision
	Clarify roles, responsibilities & accountabilities to increase collaboration, improve decision-making and help reduce frictions between divisions that are a result of mandate overlaps

Executive summary (2/3)

Aligning actionable priorities, resource allocation and performance measurement to a clear corporate strategy A clear alignment between the corporate strategy, initiatives, resources and budget is vital to MPI's success. This should be well measured to track progress and results.	Align MPI's corporate strategy to its financial planning and performance measurement to reduce the risk of discrepancy between its objectives and the expected results
	Explore the opportunity to optimize management accountability through wider spans of control and fewer managerial layers within the organization
	Define clear executive accountability for each stage of the insurance value chain, as well as driver and vehicle administration, for each line of business MPI delivers
	Implement a modelling framework such as driver-based approach to ensure that FP&A modelling is clearly aligned to MPI's corporate strategy and directly linked to performance monitoring
	Align the mechanism for allocating overhead expenses to MPI's guiding principles and refine the administrative expense ratio to provide a more accurate measure of performance
Designing an appropriate corporate data and controls strategy to enhance decision making A better data ecosystem will allow MPI to regain stakeholder confidence. It will also drive more efficient and informed decision-making.	Establish proper data model governance to reduce persistent errors and ensure consistency
	Implement embedded system controls to ensure that both inputs and outputs are consistent and accurate, ultimately minimizing any potential risks
	Centralize the storage of data, and consider alternative data management models to reduce the inefficiencies created by data management and storage being scattered across the organization
	Promote a data-driven culture and empower employees to make more informed decisions through better insights from data

Executive summary (3/3)

Empowering the finance function to support decision making and the shift from reporting to value creation Equipping the finance function with the right processes, systems and governance will elevate its position as an effective business partner. This will reap benefits for MPI as an organization.	Clarify accountabilities between the Finance and Actuarial, Investments & Risk (AIR) divisions
	Deploy the right tools, systems and financial data governance to drive a more efficient and accurate forecasting process
	Digitize and automate the finance function to reduce manual effort and increase its ability to respond to stakeholders in a reliable and timely manner, through levers such as a modern ERP system
	Implement a more robust methodology to address the challenge of allocating overhead expenses given the importance of its outcome in decision-making, including decisions on rates
Strengthening MPI's capabilities to deliver successful transformation programs Under any future strategy, MPI will still need to undergo substantial transformation efforts. Capabilities should be strengthened to successfully drive and embed transformation, for both technology and business.	Align transformation programs with a well-defined multi-year strategic and annual plan
	Elevate workforce planning by way of an enterprise level workforce approach to monitor demand and ensure resources are available to deliver transformation projects as planned
	Assign clear ownership to empower decision-making on transformation activities
	Leverage the portfolio management framework in conjunction with the integrated technology roadmap to craft a diversified transformation portfolio

The report is structured by four key themes to reflect the interrelationships between many findings

Given the interrelationship between a number of findings and topics in this report, many of them can be found across multiple themes. It is important to note each section has been built to be self-sufficient, meaning that it could stand alone if removed from the rest. Furthermore, some sections may only introduce a concept while detailing it in a following section and may present it in a different light depending on its relevance in the considered theme.

Strengthening MPI's foundations to support its purpose

The initial section of the report acknowledges MPI's distinctive characteristics and emphasizes the need for a more robust organizational culture that aligns with these role. This section is designed to introduce the reader to topics at a high level, in anticipation of a more detailed analysis in later sections. It suggests the development of a clear multi-year corporate strategy that is aligned with MPI's overarching mission. Looking at the current structure, it addresses the importance of establishing stability and clearly defining the responsibilities of senior leadership. Moreover, the section explains why it is necessary to strengthen MPI's finance steering capacity, establish a foundation for comparative analysis within the Financial Planning & Analysis ('FP&A') process, and implement the correct controls and data strategy to enhance decision-making capabilities and value creation.

Managing expectations of MPI's various stakeholders

The second section of the report emphasizes the need to clarify ownership, roles, and accountability to effectively address and fulfill the expectations of MPI's stakeholders. A key pillar to facilitate more efficient responses to stakeholders is finance. Finance must play an essential role in re-establishing credibility with stakeholders through the reporting of reliable and timely results. This section explores strategies for improving the FP&A process and resetting the annual cycle of activities to ensure a better alignment. More specifically, it recommends the implementation of shared tools, digitalization and automation as levers to do so.

Aligning MPI's organization and operational initiatives to its strategy

The content of the third section of this report is multifaceted and includes organizational design, transformation, as well as finance. This section aims to ensure that MPI's operational efforts are strategically aligned with its objectives. Some major themes include the importance of enhancing the staffing structure, improving divisional structures, strengthening MPI's transformation capabilities, and aligning MPI's corporate strategy to its financial planning and performance measurement.

Setting and measuring the efficiency of the organization to deliver stakeholder value

The fourth section of the report suggests the development of several new key performance indicators (KPIs), as well as the refinement of MPI's expense ratios and key definitions to more closely align with its strategic intent. Furthermore, it analyzes, in detail, MPI's current cost allocation and calls for a review of the expense allocation engine, given its importance to decision-making.

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Context, scope and limitations

Context for the review

Context

- On April 3, 2023, Justice Minister Kelvin Goertzen ordered an organizational review of MPI in response to concerns raised by both the Public Utilities Board ('PUB') and well as the concerns he rose. The external review is to be completed by December 31st, 2023.[1]
- The review's scope is to include the following:
  - 'A structural review of the Corporation's lines of business';
  - 'An examination of the allocation of resources across the Corporation's lines of business, including future growth of staffing complement to improve service delivery';
  - 'An assessment of the senior management complement, including management roles (spans of control) and how those roles contribute to the overall strategic direction of the organization';
  - 'An analysis of operational expenditures, including the allocation of costs across the Corporation's lines of business';
  - 'An evaluation of current expenditure management initiatives, and identification of opportunities'; and
  - 'Additional matters identified by the Minister responsible for the Corporation.'[2]
- In accordance with Manitoba's public auto insurance model, MPI must apply for rate changes with the PUB. Until the review has been completed, MPI has been instructed not to apply for any rate changes or 'materially change their operations.'[1]

EY official submission

- In July 2023, Ernst & Young LLP ('EY') was selected to lead this organizational review.[3]
- This report is the official submission containing the findings and recommendations of the organizational review of MPI, conducted by professional services organization, EY. The report fulfills the mandate issued by the Government of Manitoba, and more specifically, the then Justice Minister Kevin Goertzen, the minister responsible for MPI.
- The review's scope includes three work streams; Organizational Design, Expenditure Management, and Forecasting & Reporting. The report itself contains both findings on the current state of the three work streams, as well as recommendations on how to improve various functions within this scope. Although the review generated additional findings, only those relevant to the scope of the review were included in the report. A detailed explanation of the scope can be found on slide 12.

Scope of review

Once EY had been selected, MPI and EY agreed upon the following activities as in-scope

- Organizational Design
  - The scope of the organizational design work stream is to assess how the current organization's structure, size, roles and mandates (at the Executive and Senior Management level) have contributed to delivering on MPI's strategic priorities in the past two years.
- Expenditure Management
  - The scope of the expenditure management work stream is to analyze whether current operational expenditures, expenditure management policies, processes, reports and tools are aligned to MPI's strategic priorities, and follow industry standards and leading practices. It includes an analysis tagging the operating overhead expenses (excluding claims or capital) categories to admin expenses. Additionally, an assessment of MPI's expense allocation framework/methodology and a high-level comparison against (private) peers was included.
- Forecasting & Reporting
  - The scope of the forecasting & reporting work stream is to assess whether current forecasting and reporting policies, processes, reports, and tools are aligned to MPI's strategic priorities and follow any defined policies or industry-leading practices.

Furthermore, a set of activities were defined as out-of-scope by the two parties

- Organizational Design
  - The organizational design work stream does not assess any potential future states of the organizational structure (including design and implementation). Furthermore, it is not a detailed analysis of the current governance and its effectiveness.
- Expenditure Management
  - The expenditure management work stream is not a cost-benefit analysis of services delivered by MPI. It is not a review of the expense allocation system and its consistency with MPI's structure and operational end-to-end processes. Furthermore, it is not a reconciliation of expenditures with financial statements.
- Forecasting & Reporting
  - The forecasting & reporting work stream is not a review of MPI's operational end-to-end processes. Furthermore, it is not a detailed analysis of their performance management forecast engine.

Scope of review

Methodology employed to perform the organizational review

- The organizational review was conducted using two main sources of information:
  - Documentation provided by MPI, as directed by a formal data request from EY
  - Executives and senior leadership interviews
- The data request from the EY team was sent to MPI prior to interviews. Once received in its entirety, the EY team read through each document provided, identifying key findings, opportunities for analysis, as well as gaps in the information. The complete list of documentation provided can be found in the appendix.
  - In total, 265 items (both documents and messages) were provided by MPI for the purpose of the review. A detailed list of documentation is referenced on slides 86 to 95.
- In conjunction with this process, the EY team conducted interviews with executives and senior leadership. Formal interviews took place from October 3 until October 19, 2023, with informal interviews taking place thereafter. A full list of interviews can be found in the appendix.
  - Initially, 16 interviews (each 1.5 hours long) were conducted. Interviewees were provided a question guide, tailored to their role, prior to the interview. Additional questions were asked on a case-by-case basis, stemming from information brought up during the interview or during other interviews. A comprehensive list of these initial interviews can be found on slide 87.
  - Additionally, 16 additional interviews were conducted after to follow up on certain topics, ask for clarification, as well as to both present the preliminary list of key findings and gather feedback on it. A comprehensive list of these additional interviews can be found on slide 88.
- Once the key findings had been identified, the team created a report structure that was in line with the high-level themes observed in the key findings. Each finding was mapped to a subsection, therefore ensuring that each finding would be included within the report.
- The first draft of the report was submitted to MPI for review on November 27, 2023. MPI had four days to review and provide feedback including fact clarification. Once feedback was received, the EY team incorporated this feedback where appropriate into the final report. The final report was submitted to MPI on December 11, 2023.

Limitations

Assumptions

- The EY team conducting the organizational review of MPI has relied on the following assumptions to ensure that an accurate and thorough report has been presented:
  - Documentation
    - All information provided via documentation is accurate and up to date.
    - All relevant documentation requested was provided during the data gathering phase of the review.
    - No documentation relevant to the review was purposely withheld.
  - Interviews
    - The EY team assumes that all information provided during the course of interviews is accurate and up to date.

Limitations

- The EY team conducting the organizational review of MPI has operated within the following limitations in providing an accurate and thorough report:
  - Project Timeline
    - The review has been conducted within the 12-week timeline set out and agreed upon prior to the review beginning.
  - Defined Scope
    - The review has been conducted within the confines of the scope set out by the Government of Manitoba and MPI. Any topics breached during the review process that were out of scope were omitted from the report.
- The report is not the result of any audit or assurance work. EY has not conducted any audit or assurance work for the purposes of the report. The report is provided in the context of EY providing advisory services to MPI.
- The information provided in the report is not intended for third parties to rely on and any use that a third party makes of the report will be at such third party's sole risk.

Theme 1:
Strengthening MPI's foundations to support its purpose

The initial section of the report acknowledges MPI's distinctive characteristics and emphasizes the need for a more robust organizational culture that aligns with these role. This section is designed to introduce the reader to topics at a high level, in anticipation of a more detailed analysis in later sections. It suggests the development of a clear multi-year corporate strategy that is aligned with MPI's overarching mission. Looking at the current structure, it addresses the importance of establishing stability and clearly defining the responsibilities of senior leadership. Moreover, the section explains why it is necessary to strengthen MPI's finance steering capacity, establish a foundation for comparative analysis within the Financial Planning & Analysis ('FP&A') process, and implement the correct controls and data strategy to enhance decision-making capabilities and value creation.

MPI is a unique organization, with specific responsibilities

MPI is a crown corporation that has a monopoly from government to deliver basic automobile insurance and driver and vehicle licensing to Manitobans

- MPI is a non-profit crown corporation and is the exclusive provider of basic insurance coverage in the Province of Manitoba. Their purpose to provide auto insurance coverage, driver licensing services, and road safety initiatives to the residents of Manitoba, is well-understood by senior executives. It is very clear to them that MPI aims to ensure accessible and affordable auto insurance, promote safe driving practices, reduce accidents & injuries on the roads, and contribute to the overall well-being & safety of the community. As a public auto insurer, MPI is committed to fulfilling its mandate to serve and protect the interests of Manitobans. MPI not only offers insurance and registration services but is also dedicated to providing licensing services and road safety education to Manitoba's drivers, a mandate that extends beyond traditional private insurance activities.
- As a crown corporation, MPI needs to comply with government and regulation guidelines. First, MPI reports to the Government of Manitoba to align with directives in several areas including financial performance, as well as the expenditure & investment approval process. MPI also complies with the Treasury Board Secretariat (TBS) to deliver the annual budget and estimates. As a designated monopoly, MPI must follow the regulatory administration provided by the Manitoba Public Utilities Board (PUB). Every year, MPI must seek approval for rates for compulsory driver and vehicle insurance. Several senior executives stated that managing governmental and regulatory affairs requires a demanding workload, as it includes conducting exhaustive reporting activities and responding to ad hoc requests.[4] Another aspect of MPI's position is that it operates in a monopoly market for basic insurance but competes against the private sector for other auto insurance guarantees and products. Providing affordable rates is a key pillar of MPI's purpose, and any changes to pricing must go through a rigorous rate approval process.

Insights

- Managing governmental and regulatory affairs presents a demanding workload for MPI as it includes conducting exhaustive reporting activities and responding to ad hoc requests.
- The recent labour strike by staff has resulted in a large backlog of work that must be cleared in addition to normal responsibilities.

Key findings

- Being in a monopolistic position does not reduce the need to replace aging technology but does limit MPI's ability to justify new investment costs through the gain of market share or penetrating new markets.

Strong cultural foundations are key to success

Although there is a great sense of belonging within the organization, MPI needs to regain stakeholders' confidence and foster collaboration

- Employees at MPI have a strong sense of pride in their work through their dedication to serving the insurance needs of the people of Manitoba in a manner that combines excellence and affordability.[4] This pride and dedication provide strong cultural foundations to build on as MPI moves past the latest labour interruption and towards a new CEO and strategy.
- MPI operates in a very public and transparent environment, which contributes to a prudent approach and risk-averse behaviour amongst employees.[4] Those behaviours can slow decision-making, and limit innovation and ownership. Recent difficulties with presenting credible and stable financial information (including forecasts) to the PUB and the Government have negatively impacted trust in the organization, which needs to be rebuild as soon as possible.
- Risk management and financial competency should be further strengthened to maintain the trust of its key stakeholders and of the public. Providing fact-based and data-driven evidence will help make informed decisions and regain stakeholder confidence. This will be further analyzed later in the report.
- MPI's People and Culture division is actively focused on nurturing and evolving 'a culture of ownership and belonging' although interviews revealed opportunities to enhance it, as it is currently hindered by an unclear division of responsibilities.[35] At times, executives and teams adopt a siloed way of working with limited levels of collaboration between them. Communication and collaboration can be improved to help define common objectives through strategic alignment.

Insights

- MPI needs to define a clear aspirational culture with specific behaviours that are encouraged throughout the organization with periodic monitoring of the desired culture and behaviours through employee surveys and feedback to consistently drive the right cultural focus.

Key findings

- There is an overall risk-averse culture at MPI with an over-reliance on committees/collective decision-making and a lack of individual accountability.
- Silos between some executives and divisions can form due to limited collaboration on corporate-wide topics.

Designing a clear corporate strategy aligned to purpose is critical

The lack of a corporate strategy leads to overall uncertainty and misalignment

- The five-year ambition, called MPI 2.0, was defined under the previous CEO. It focused on achieving a digital-led transformation. The strategic plan was never fully implemented as MPI's official strategic plan due to the complexity of actioning initiatives. The perception amongst some executives is that MPI 2.0 was misaligned and overly ambitious relative to MPI's purpose.[4] Overall, employees within MPI were not aware of MPI 2.0, finding it challenging to translate it into priorities and actionable steps. In the absence of a permanent CEO, it has been difficult for MPI to have a clear direction, which impacted the definition of a new corporate strategy. As a result, senior executives appeared unsure of what the future direction of the organization should be. Until this is clarified, uncertainty will persist. For instance, it has been unclear if MPI should strive to be a highly competitive digital insurance company in the mould of a private sector insurer or focus on the basic activities which have been aligned to it while offering affordable rates.
- Without a clear corporate strategy in place, the eight divisions have operated in silos, prioritizing a bottom-up approach rather than collaborating towards common overarching objectives. Each division creates its own roadmap for the year ahead by adjusting last year's operational plan without being aligned to a global vision. This also impacts the success of corporate-wide transformation projects like Nova and makes it difficult to set priorities for capital investments.[4] Given this context, there is an opportunity to enhance MPI's effectiveness through the development of a corporate strategy with a multi-year view.

Insights

- Clearly defining MPI's corporate strategy with a multi-year view built and aligned to MPI's purpose is critical. Objectives and key results that cascade down to each division should be aligned with the corporate strategy and ensure division strategies are fully aligned with the corporate strategy.

Key findings

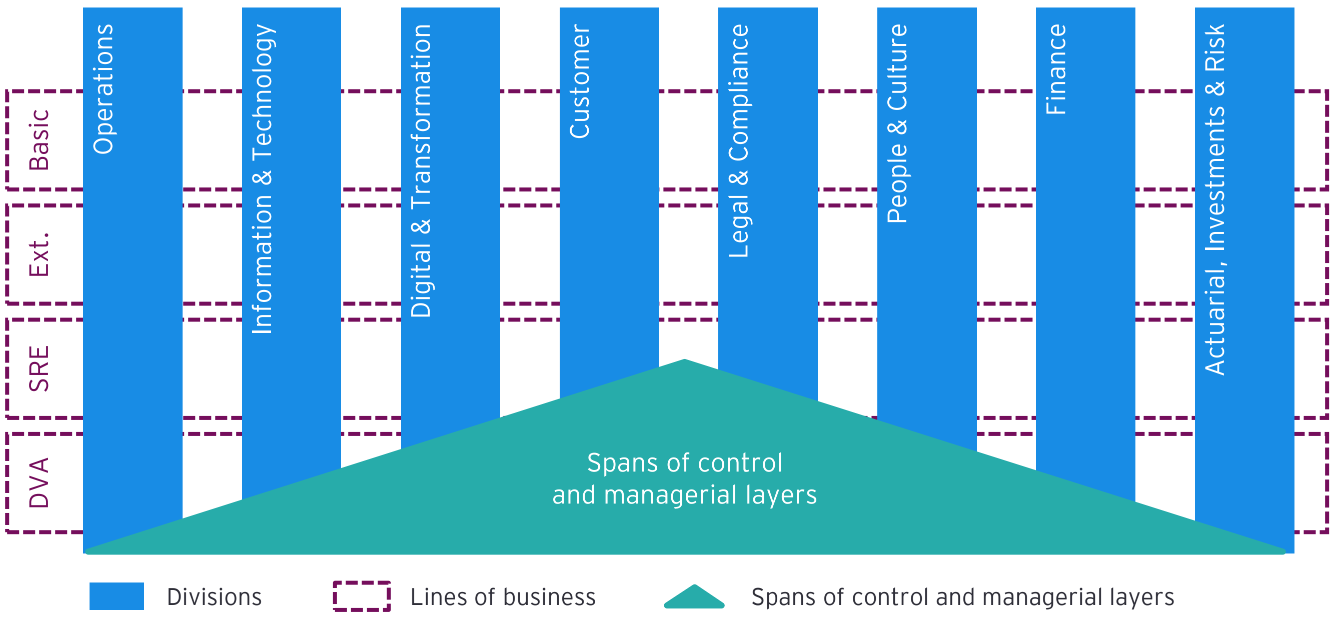
- MPI 2.0, the most recently documented strategic plan, was never fully implemented as MPI's official strategic plan.
- The absence of a corporate strategy with clear goals in place at the corporate level results in uncertainty and siloed ways of working.

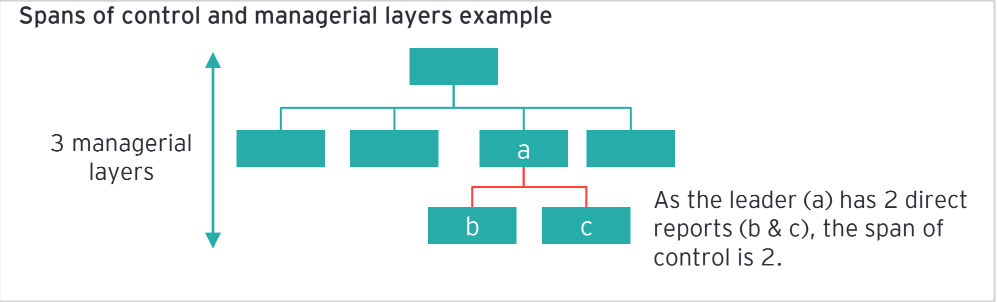
The organizational analysis presented in this report, covers various dimensions to support MPI organizational effectiveness

Key organizational dimensions were reviewed

- **Divisions** refer to departments within the organization to carry out a specific mandate. Division mandates help shape priorities aligned with the corporate purpose and objectives. See slide 20.
- **Lines of business (LoB)** refer to the product lines being sold/administered by the organization, i.e., Basic, Extension, Special Risk Extension (SRE) and Driver & Vehicle Administration (DVA). See slides 31 to 32.
- **Resource allocation** refers to the workforce volume assigned to perform a specific mandate or set of activities (e.g., roles supporting damage claims). See slide 47.
- **Strategic workforce planning** refers to the process of analyzing and forecasting demand trends (e.g., operational volumes) to plan future workforce needs. See slide 49.
- **Spans of control** refers to the average number of direct reports for every manager and can be segmented by division or level. See slides 50 to 54. **Managerial layers** refers to a number of hierarchical levels from the CEO of the most junior employee. See slides 50 to 54.

The diagram below is a graphic view of MPI's organization showing its divisions, lines of business, spans of control and managerial layers





MPI is organized along functional lines not business lines

Before exploring its effectiveness, it is worth providing a brief overview of the eight divisions at MPI and their roles[24–33]

Operations has a broad scope with six senior directorates and 13 directorates, divided DVA; Commercial Lines; Customer Service Delivery & Distribution; Injury Claims; Physical Damage Claims; and Performance, Data & Analytics.

Actuarial, Investments & Risk is structured around five directorates and includes pricing, valuation and capital management, business insights and analytics, enterprise risk management, and investment management.

Finance has had five directorates since the divisional reorganization in 2022: corporate controls (including subrogation activities), corporate policies related to premises and administrative service functions, finance transformation, FP&A, as well as regulatory affairs from a financial perspective.

People & Culture has been organized around three directorates since 2022: Talent Acquisition & Total Rewards; Talent Management and Learning & Development; and Human Resources (HR) Service Delivery.

With 10 directorates, **Information Technology (IT)** responsibilities include developing and maintaining the infrastructure architecture, and software. IT is also responsible for delivering core legacy systems modernization cybersecurity, digital workforce and service management, data and analytics, as well as sourcing and vendor management.

The **Digital & Transformation** division, which supports MPI in delivering value, was recently created with six directorates to focus on long-term transformation beyond Nova and strategic initiatives.

The **Customer** division includes four directorates: Communications, Brand & Marketing; Customer Experience; Customer Value Proposition as well as Government Relations.

With its two directorates, **Legal & Compliance** provides strategic guidance on corporate compliance, privacy, access, regulatory management, as well as legal services to the corporation.

Lines of business accountability is further detailed on slides 31 to 32.

Stabilizing MPI's organizational structure will help establish and deploy strategy

Frequent changes in the structure and leadership have been a source of instability, impacting the sustainability of ongoing initiatives

- Over the period from May 2021 to June 2023, MPI implemented approximately 20 high-level organizational changes.[23] A new executive structure was set up to support the delivery of the MPI 2.0 strategy, followed by a series of changes to roles and mandates of directorates, which were drip-fed over a period of time. These organizational changes weren't designed in a coordinated way across the organization and often lacked a clear rationale or alignment to vision.[4] Frequent organizational changes can be disruptive, and it is important to provide clear reasoning for these changes aligned to a strategy.
- Developing and maturing a long-term vision requires a stable CEO and senior executive team. MPI has had three CEOs in the span of six years. Currently, several key senior executives are serving in interim roles (including the Chief Operations Officer [COO] and Corporate Controller) and the average tenure of senior executives in their current role is low.
- Prolonged vacancies in key positions have caused instability and ambiguity in terms of roles and responsibilities. This is partly a result of hiring challenges that could be explained by various underlying causes, including a competitive insurance market, compensation limitations and challenges attracting experienced talent in the province. This situation highlights the need to prioritize succession planning and accelerate the time it takes to fill important positions. For instance, the position of FP&A Director has been vacant for several months, resulting in a lack of capacity and direction to lead essential FP&A activities.

Insights

- Organizational design and any associated changes should be aligned with the long-term strategy, with clear rationale for why changes have been made.
- Strengthening leadership succession planning is essential to better manage the impact of changes and minimize instability.

Key findings

- Instability has been sparked by numerous organizational changes (20 within the past two years) and significant leadership changes at the CEO and executive level, presenting challenges to achieving strategic alignment.

Further clarity is needed to define and document executive roles and responsibilities

The lack of clarity and documentation of roles and responsibilities limits the ability of senior executives to exercise ownership and be held accountable

- A position description exists for each Director, Senior Director and Executive; however, they are generally below the standard we would expect for the definition of executive accountability. For example:
  - There are no key objectives or measures of success for the role
  - The 'scope of independent action' is included for Directors and Senior Directors but not for executives. Documenting this for executives will help clarify their authority within the organization
  - There is a wide range in timing of when position descriptions were last updated (for instance, the Chief Finance Officer [CFO] and Chief Information & Technology Officer [CITO] positions were respectively updated in 2017 and in 2023), resulting in a lack of consistency. Even the most updated documentation does not include the executive's role and responsibilities for strategic programs such as Nova
- While most executives seem to understand their individual responsibilities, there is a mixed level of understanding of the roles of other executives in the organization, particularly when there is confusion as to which executive has the lead role for a particular responsibility. Various executives have their own divisional strategies and plans, which are not integrated with other divisions' plans or not integrated with an overall corporate strategy. One result is the prevalence of decision-making by committees to sort out issues which blurs accountability.

Insights

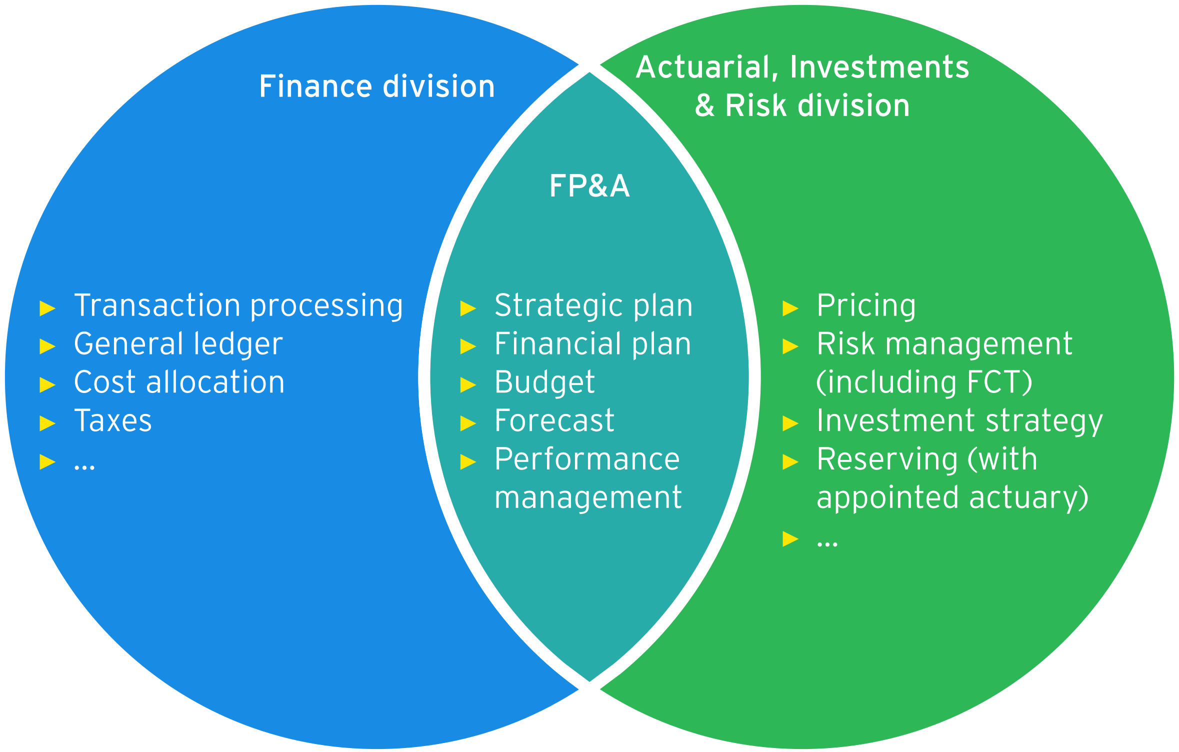
- Refreshing senior position descriptions, aligned to corporate strategy, priorities and structure is essential. This should include roles assignment for each strategic area, clear objectives, associated metrics to track success, and decision-making authority.
- Senior position descriptions need to be shared and understood by all executives, with key hand off points agreed. Documentation should be reviewed on a regular basis (e.g., annually) and when ad hoc major changes occur.

Key findings

- Senior executives understood their own roles, but ambiguity and uncertainty exists in understanding and defining boundaries with others' roles.
- Existing documentation is outdated and incomplete, resulting in a potential disconnection between a senior executives' perception and the organization's expectations.

Financial Planning and Analysis is an example of the lack of clarity of roles at MPI

FP&A activities are at the intersection of the Finance and Actuarial, Investment & Risk divisions



'FP&A' in our report relates to activities at the intersection between the two divisions.

Insights

- Currently, the 'Finance' and 'Actuarial, Investments & Risk' divisions within MPI operate without a strong integration on activities traditionally at their intersection.
- In terms of current market practices, the CFO has traditionally been ultimately responsible for business plan, budget, forecast and performance management with key contributions from the actuaries.
- Later in the report we go into more detail on FP&A activities.

Key findings

- Currently, there is not a strong integration between the Finance and Actuarial, Investments & Risk divisions to successfully deliver the FP&A process.

Making the link between corporate strategy, financial planning and performance measurement

Observations

- MPI has two major milestones to deliver each year:
  - Budget and financial plans for PUB as part of the General Rate Application (GRA) process to get approval for auto premium rates
  - Budget and financial plans for the TBS
- The delay in getting timely financial information, the absence of consistent definitions of data and the multiple submissions required as part of those processes leads to significant challenges in terms of reconciliation, reworking and consistent messaging.
- Furthermore, the absence of clear links between corporate strategy, financial planning, and performance measurement at MPI creates challenges. Without alignment, strategy is not reflected in financial planning, leading to potential resource misallocation and impaired performance.
- We did not see strong evidence of mature processes around:
  - Strategic planning
  - Forecasting and
  - Performance management

Implementing these steps helps in aligning the strategic plan with orchestrated, timely and purpose-driven processes

Process (EY terminology)	Frequency/Horizon	Objective	Key stakeholders
1 Strategic plan (Significant opportunity)	Set once for a 3/5-year horizon	• Establish/evaluate mid- and long-term objectives and targets.	• Top management • External stakeholders
2 Financial plan (Moderate opportunity)	Review each year alongside the strategic plan	• Implement targets and resources allocation	• Top management • Business and operations • External stakeholders
3 Budget (Limited opportunity)	Annually (budget of next year)	• Develop an Annual Financial Budget • Use for rate applications	• Top management • Business and operations
4 Forecast (Significant opportunity)	Quarterly (end-of-year estimate)	• Review progress and manage expectations	• CFO and CARO • Business and operations
5 Performance management (Significant opportunity)	Permanent	• Assess and manage performance against target • Identify trends and support decision-making	• CFO • Business and operations

MPI opportunity improvement possibility: Limited opportunity | Moderate opportunity | Significant opportunity

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Becoming responsive, insightful and efficient are key dimensions to consider for a Financial Planning & Analysis framework while providing alignment with the strategy (1/4)

Observations driving opportunities on budgeting

- Preparing the annual budget at MPI is an enormously burdensome process. It lasts almost nine months to complete and goes through numerous versions before it is finally submitted.
- In the last two years, MPI used two different approaches for the budget exercise. The 2022 budget followed a bottom-up approach (building up from inputs at the field level) , whereas the 2023 budget adopted a top-down approach to meet the 0% rate increase mandated by the PUB. A top-down approach runs the risk of missing key factors that can affect the soundness of the budget and alternately it could miss opportunities at the field level that could help it meet its goals more effectively.
- The fact that the budget is set in independent silos makes effective financial planning very difficult as there is little visibility into key assumptions that have been made.

Insights

- Progressive organizations approach budgeting in the following key ways:
  - They are proactive in understanding changes in the market or internally that can affect their performance
  - They consider 'driver-based' planning to provide transparency of assumptions and allow for analytical review of plan validity. The "driver-based" approach uses key operational elements or indicators to create dynamic financial models for accurate forecasting and informed decision-making. See slides 44 to 46 for more details
  - They use up-to-date software to help quickly see the effect of any changes to the budget model
  - They link the budget to the strategic business plan so that the goals of the overall plan are always kept in mind and adjustments made to the budget to reach the plan

Becoming responsive, insightful and efficient are key dimensions to consider for a Financial Planning & Analysis framework while providing alignment with the strategy (2/4)

Observations driving opportunities on forecasting

- As already stated, there is a lack of alignment between the strategic plan and forecasting. The organization does not set and effectively use KPIs to guide performance against plan.
- The prolonged period of budget preparation makes forecasting challenging as market conditions can change.
- There is an absence of clear guidelines (purpose, accountable people, timelines, documented processes and tools) for forecasting.
- There is a need to improve the timeliness and controls in place for forecasting to improve accuracy and reliability.
- Moreover, the forecasting tool being used is overly complex, and certain calculations can be improved to improve usability and efficiency in forecasting practices.

Insights

- Progressive organizations approach forecasting in the following key ways:
  - They analyze prior forecasts and apply lessons learned to improve accuracy of future forecasts
  - They use key performance indicators (KPIs) extensively as the foundational drivers of forecasts and performance against forecasts
  - They implement controls to detect errors or anomalies
- Forecasting is employed to regularly update the budget on a timely basis to incorporate changes, revised assumptions or altered business circumstances
- The lack of alignment between the strategic plan and forecasting undermines effective decision-making. This disconnect prevents the forecasting process from accurately reflecting the organization's objectives.
- With multiple stakeholders involved, the absence of dedicated owners (in Finance and Actuarial, Investments and Risk) for forecasting can create confusion and hinder accountability. It is essential to clarify ownership responsibilities and establish a clear structure for the forecasting process.
- The prolonged process causes delays in decision-making and reduces adaptability to changing market conditions. Streamlining the process can improve agility and help enable faster access to timely and accurate forecasts.

Becoming responsive, insightful and efficient are key dimensions to consider for a Financial Planning & Analysis framework while providing alignment with the strategy (3/4)

Observations driving opportunities for reporting and analytics

- MPI faces constant pressure for financial reporting and analysis due to its multi-stakeholder reporting responsibilities. Meeting these obligations presents a significant challenge and requires effective reporting and analytical capabilities.
- MPI currently has outdated finance IT systems which are a major problem in producing timely, reliable reporting and analytics. Obtaining required data from the systems is a time-consuming task, is sometimes just not available and frequently requires multiple passes to correct errors and arrive at a final version. Unfortunately, this sometimes leads to an erosion of trust in MPI’s numbers as corrections are needed.
- The absence of adequate controls and inefficient processes for financial reporting leads to multiple iterations for budgeting and forecasting and hampers the organization’s agility to respond promptly and effectively to ever-changing circumstances.

Insights

- Progressive organizations approach financial reporting and analytics in the following key ways:
  - They focus on prediction and prescriptions, rather than just taking last year’s numbers and incrementally updating them
  - They use up-to-date software tools which allows users to drill down to underlying assumptions and spot errors
  - They define key metrics that matter and measure and manage them through dashboards and other tools
  - They implement controls and give access to key staff to help them review key financial data on a timely basis
- MPI should prioritize effective communication of its financial performance to key stakeholders. This helps in providing timely and detailed updates on various financial metrics, such as revenue, expenses, profitability, and cash flow.
- The ability to drill down into the data helps enable a deeper analysis, facilitating a better understanding of historical trends, transactional details, and overall financial performance.

Becoming responsive, insightful and efficient are key dimensions to consider for a Financial Planning & Analysis framework while providing alignment with the strategy (4/4)

Observations driving opportunities for FP&A processes and tools

- There is currently a disconnect between the FP&A process, which is being run in silos, and its contributors, who have limited coordination amongst themselves. The inputs are not always consolidated in a meaningful way, due to the lack of controls leading to reruns to correct errors and creating unnecessary workloads for the teams.
- There is an inconsistency in data definitions across the organization, with a lack of uniformity or standardization in how data is classified, organized and labelled.
- Inputs and assumptions used for the forecast are not centralized in one software tool: MPI uses a forecasting model built in a spreadsheet that centralizes the inputs like claims forecasting, investment income and premiums. However, none of the underlying assumptions which drive the numbers are stored within the file.
- Lack of documentation and decentralized, siloed information inputs leads to dependency on key individuals who are the ones who have generated the figures.

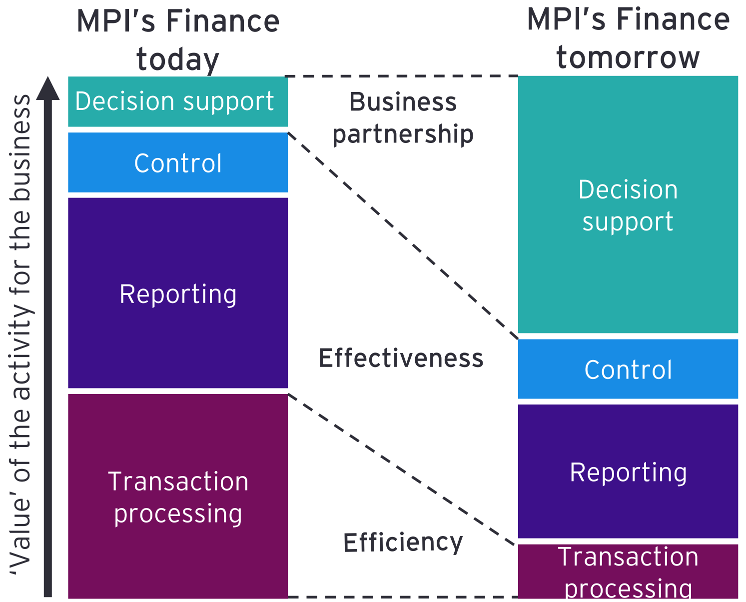
Insights

- Progressive organizations approach FP&A processes and tools in the following key ways:
  - They centralize the FP&A function to allow for improved coordination and communication
  - They facilitate the integration of the FP&A within the contributor's activities
  - They use FP&A as a key tool in decision-making
- If there is a lack of effective communication and information-sharing between the FP&A team and contributors, the analysis and planning may not fully capture the efforts or achievements of various individuals or departments.

Progressive organizations look to the Finance division to become the custodian of financial and non-financial data and a key support to strategic decision making

At MPI Finance is heavily involved in processing and lengthy reporting

- Today, MPI's Finance division is allocating most of its effort on lengthy processes and reporting activities that have multiple iterations, spending time controlling the integrity of the data.
- Finance at MPI should aim to become the custodian of financial and non-financial data used to support decision-making and induce a shift from reporting to value creation.



Insights

- MPI's Finance function should be the backbone to assist management in making informed and effective decisions.
- It is crucial that the function streamline routine tasks through automation and properly controlled processes and allow it to focus on true value add functions such as investigating and explaining deviations from budgets, helping identify and set Key Performance Indicators and acting as a resource and business partner to members of the executive committee.
- An essential focus for MPI should be improving the efficiency and accuracy of transaction processing, a function that is currently error prone, causing huge delays.

What MPI can consider when designing the future state of Finance

- Decision support: Enhance decision-making through insightful financial analysis, utilize real time forecasting, driver-based approach and scenario modelling.
- Control: Implement embedded system controls to improve the quality of its operations.
- Reporting: Implement dynamic financial and management reporting to provide up-to-date information for decision makers. Establish a Centre of Excellence for reporting, providing high standards and knowledge in generating valuable insights.
- Transaction processing with high automation: Streamline operations through integrated systems and processes. Centralize transaction processing to improve the efficiency and accuracy of financial information. This can be achieved by implementing a modern ERP system.

Theme 2:
Managing expectations of MPI’s various stakeholders

The second section of the report emphasizes the need to clarify ownership, roles, and accountability to effectively address and fulfill the expectations of MPI’s stakeholders. A key pillar to facilitate more efficient responses to stakeholders is finance. Finance must play an essential role in re-establishing credibility with stakeholders through the reporting of reliable and timely results. This section explores strategies for improving the FP&A process and resetting the annual cycle of activities to ensure a better alignment. More specifically, it recommends the implementation of shared tools, digitalization and automation as levers to do so.

EY

Clarifying ownership and driving accountability for each line of business is a key to success

Lines of business currently lack clear ownership and accountability

- Overall, MPI is organized in a 'functional model' rather than by lines of business. In the current state, the four lines of business (Basic Insurance, Commercial Extension, SRE and DVA) are all delivered by a single large operations division.
- In the unanimous opinion of senior executives, there is confusion around responsibilities from a line of business (LoB) performance ownership perspective.[4] It is unclear who is responsible for specific lines of business, including revenue and expense projections and performance for the main businesses of MPI, Basic, Extension and SRE. Premium rates are a feature of annual negotiation with stakeholder groups, rather than the price required to achieve long-term sustainable financial result.
- The DVA LoB is separately administered, within the Operations division by a dedicated directorate on behalf of the Government, who sets the pricing.
- Robust Key Performance Indicators (KPIs), the foundation of accountability, either do not exist, are not actively monitored or are not acted upon (e.g., earned premiums, loss ratio, expense ratio). With executives not held accountable for meeting KPIs it makes the effective management of each LoB extremely difficult.

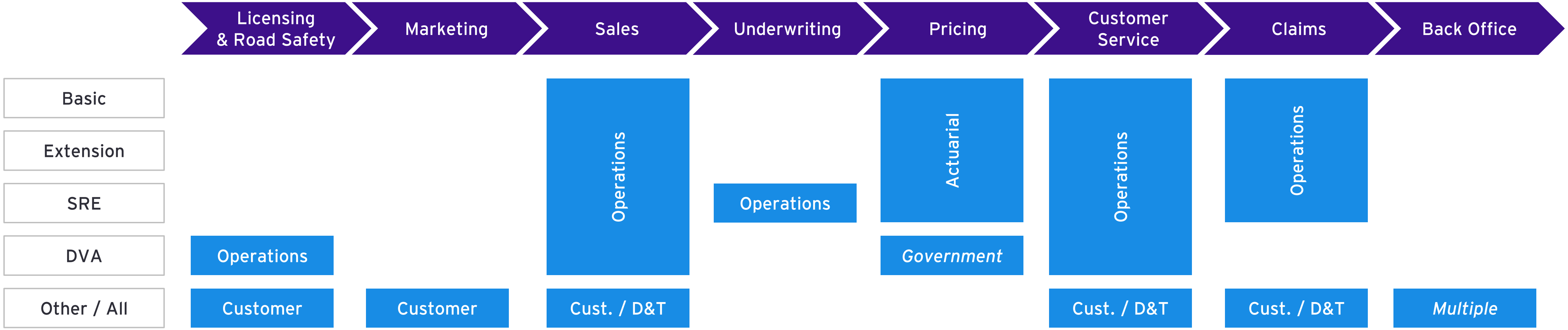
Driving accountability for performance in a non-line of business model

- Considering the insurance value chain may be helpful to define ownership for each LoB (see slide 34).
- Many large insurers structure their divisions by LoB as a primary organizing principle (e.g., auto insurance, home insurance). This helps to drive clear business performance accountability, with each LoB leader taking ownership of the value chain for their product. However, given MPI's narrow and closely related product set, and business size, a LoB model is not likely to be optimal.
- Under MPI's current 'functional model' it is difficult to have a single executive owner accountable for full LoB performance. However, it does not mean that accountability for performance should not be clear. Clear ownership and KPIs for each stage of the value chain should be set up and managed for each LoB.

Key findings

- Not having a single LoB leader in a predominantly auto-only insurance organization is not a material concern. However, creating clear ownership for each stage of the value chain will improve accountability.
- Being a Government Agency may require MPI to respond to broader government priorities from to time which could impact MPI's financial plans. However, sound management at MPI is very important to advise the government on the financial impacts of any proposed plans so that they can make informed decisions.

MPI’s current structure has multiple divisions playing a role across various points of the value chain, including several points of overlap, with limited line of business ownership



Using the insurance value chain to consider MPI’s current structure and LoB accountability raises a number of considerations:

1. **DVA and road safety:** DVA is not an insurance LoB. As a result, and given the broad accountabilities of the COO, it may be beneficial to explore alternative executive ownership options, e.g., Chief Customer Officer.
2. **Top line ownership:** Given the majority of MPI’s revenue is through mandatory insurance and licensing, there is a lack of clear ownership for revenue generation in extension and SRE lines. There is also an opportunity to clarify revenue channel ownership — e.g., broker and digital.
3. **Broker commissions:** Today, broker relationship management, including commission negotiations are owned by operations. It is common practice to segregate accountability for revenue and product profitability, including commission rates. Having a single point of ownership across both commission negotiations, sales and overall performance may negatively impact impartiality and healthy challenge.
4. **SRE underwriting:** Given the clear pricing rules for Basic and Extension lines, underwriting only exists within the SRE LoB, where there is suitable scope for discretionary pricing. Similar to broker commissions, it is not good practice to mix accountability for top line and product profitability (i.e., pricing, product features or performance measurement), unless under a full LoB model.
5. **Pricing ownership:** Pricing (and therefore product performance) is regulated by the PUB for Basic, with other stakeholder groups influencing the pricing for other lines (e.g., SRE). The impact of the Actuarial, Investments & Risk division role in pricing will be greater when the PUB’s confidence has been regained and there is a strong sense of ownership of results by the Actuarial division.

Refining management ownership for external relations will help address existing overlaps

There is no centralized point of contact for external relations management

- As a crown corporation, MPI needs to comply with government and regulation guidelines provided by the following external stakeholders:
  - The Government of Manitoba provides directives with respect to several areas including financial performance, and expenditure & investment approval process.
  - The Treasury Board Secretariat is responsible for the overall fiscal management and reporting of the provincial government and thus supervises the annual budget.
  - The Public Utilities Board regulates designated monopolies and thus has oversight and supervisory powers over the rates for compulsory driver and vehicle insurance.
- Today the management of external stakeholders is shared between three divisions, leading to challenges in coordinating actions and messaging, as well as blurred lines of responsibility.[4] It may be beneficial to re-evaluate existing responsibilities to streamline and align ownership.
  - Within the Customer division, the Government Relations directorate is the liaison between MPI and government stakeholders.[25]
  - The Legal & Compliance division handles regulatory management related to the PUB, representing MPI as the lead counsel at the GRA hearings before the PUB.[29]
  - The Finance division has historically managed regulatory affairs from a financial and International Financial Reporting Standards (IFRS) perspective. However, this has been done without any clear rationale. The Regulatory Affairs directorate currently reports to the CFO, but the CFO only attends the PUB hearings as a witness and is not involved in the regulatory process.[4]
- The messaging to the government can sometimes vary from the messaging to the PUB, depending on the timing, direction and information given.[4] In this context, speaking with one voice is highly needed to coordinate actions and ensure overall consistency.

Insights

- Managing government and regulatory affairs requires a coordinated approach, from a process, timeline, dependency and stakeholder perspective.
- Accountability shared or divided across several divisions tends to increase the risk of inconsistency when liaising with external stakeholders.
- Exploring the consolidated ownership of external relations may help streamline processes, reduce reconciliation effort, increase reliability and in turn regain external stakeholders' confidence.

Key findings

- Shared and disparate accountability to manage external stakeholders results in additional complexity to coordinate data, insights and actions in a smooth and consistent way.

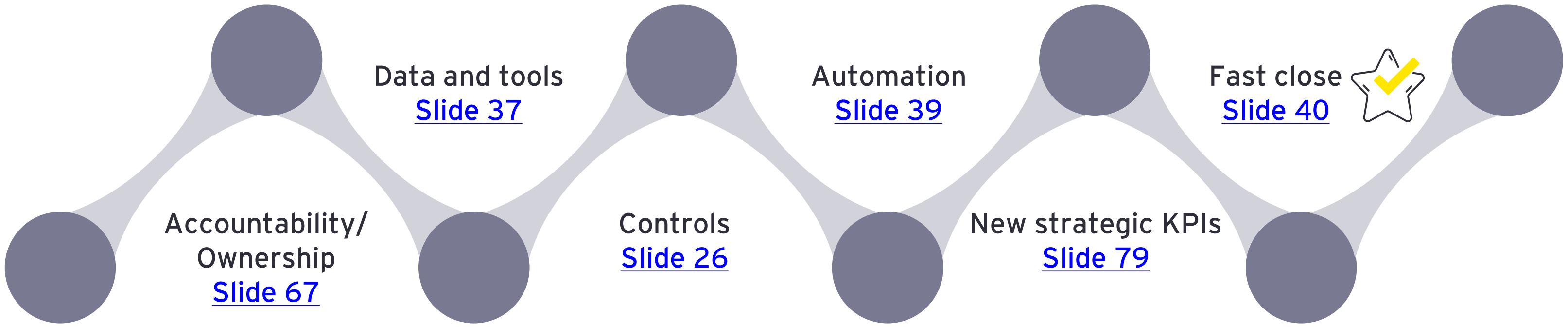
EY

Improving the annual insurance rates revision process within MPI can be improved through using multiple levers

The lengthy and time-consuming current General Rate Application (GRA) submission processes to the PUB shows the need to improve the process.

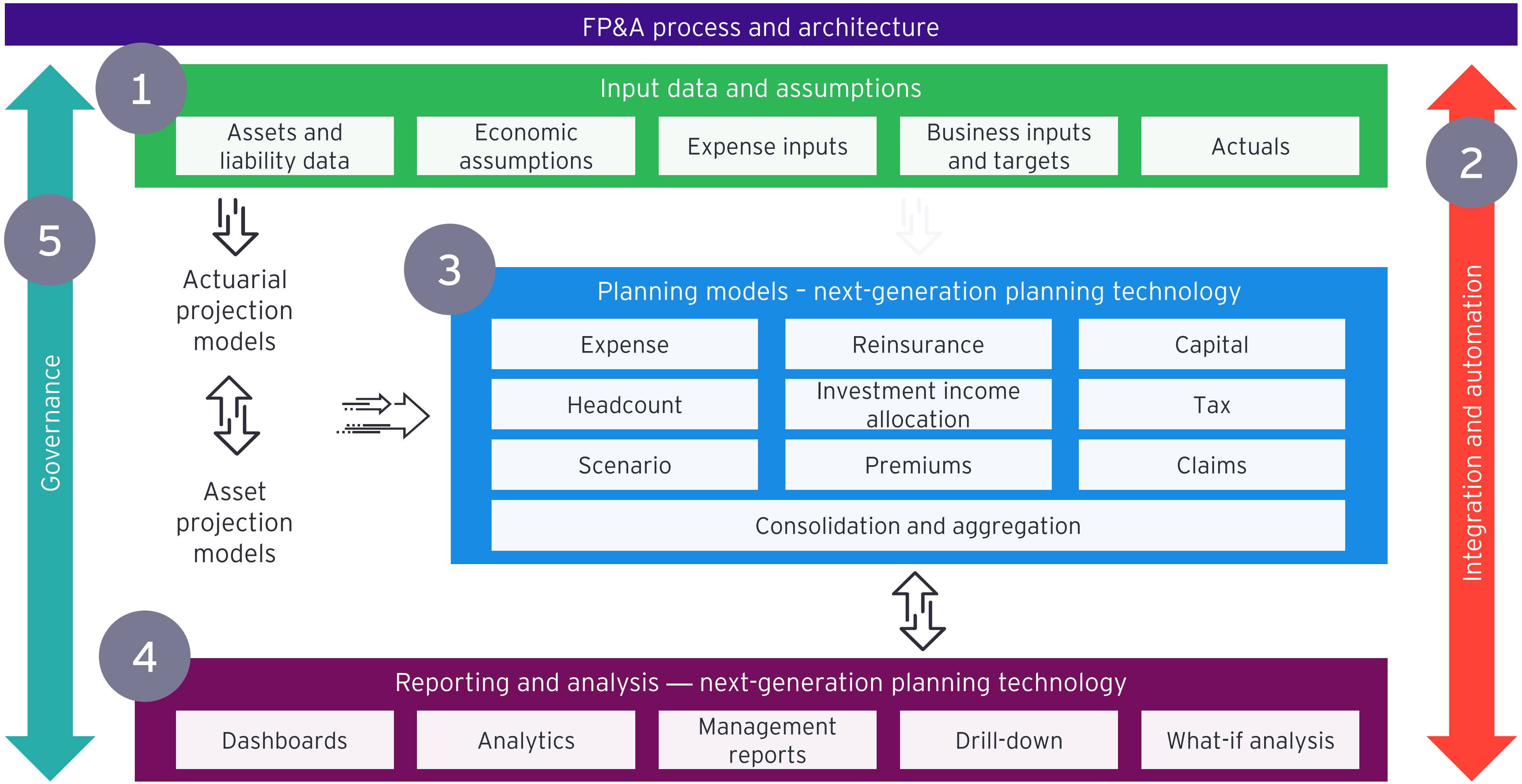
- The GRA submission process at MPI is lengthy and time-consuming and takes up enormous amounts of MPI's resources
  - The GRA report is around 6,800 pages, requiring tremendous manual work and coordination between different contributors.[147]
    - Two versions of the report are prepared (one being redacted to be publicly disclosed).
    - The process takes nine months to complete and appears to be disproportionately lengthy and detailed for a relatively straightforward organization such as MPI.
    - Urgent consideration should be given to taking proactive steps towards streamlining both the content and the process of this function.
  - Outdated tools combined with inefficient processes involving a lot of manual routines increase the likelihood of operational errors.
  - Tight deadlines for the different GRA milestones combined with the recurring activities in MPI (monthly and quarterly closings) don't allow enough time to perform proper controls and detect errors, resulting in more rework and increasing the workload for the teams involved.
  - With an appropriate FP&A framework and underlying automation, the overarching goal could be to analyze any deviations from the strategic plan and present alternative scenarios, rather than spending 6,800 pages explaining the rationale of the current proposal (done every year).

- Considering the following levers (discussed in detail throughout the report) can help improve the efficiency of the numerous required processes and the focus on delivering key messages.



A walk-through of MPI's Financial Planning and Analysis process (1/2)

Overview of a model FP&A process. The next slide compares this with MPI's current practice.



A walk-through of MPI's Financial Planning and Analysis process (2/2)

Observations on MPI's current FP&A process

Observations	Areas impacted*
MPI's current Financial Forecasting model tool does not allow it to easily identify input, assumptions and intermediary calculation, which may lead to operational error and time-consuming debugging activities.	1 2 3
Premiums, claims and reserves are not modelled in the tool, and it is impossible to know the key assumptions used for the projection of these major inputs.	1 2 3
There is no proper asset/liability management since a buffer is used to balance asset and liability. ► This leads to implicitly imply that cash (positive or negative) is the buffer. This asset/liability discrepancy amounts to -$40 million for 2024 and up to -$200 million for 2029 (meaning investments should be sold to pay the cash flows).[145] This modelling option precludes the use of sensitivities that impact cash flows as it would increase the magnitude of the effect described. ► It does not allow to properly check the consistency between Profit and Loss (P&L) movement and balance sheet positions.	3
Asset allocation: the tool assumes that the asset allocation will remain constant over time (including on the key asset characteristics such as duration). This modelling option precludes the use of financial sensitivities or alternative asset allocation projection.	3
The modelling of bonds is based on a simplistic (and likely wrong) assumption that the evolution of the coupon rates of the in-force bonds is constant. Indeed, the coupon rates seem to not be impacted by the bond's maturity (which is important since the interest rates at maturity are different from the coupon rates given the evolution of central interest rates and spread over the past years).	3
Discrepancy between IFRS 4 and IFRS 17 expenses modelling (which are two sets of inputs) is observed leading to adjustment for balancing purposes.	3
No KPI is produced to monitor the relevance of the projection and thus allows for a straightforward analysis against the actual performance.	4

** Numbers refer to FP&A architecture components on the previous slide*

Building clear alignment between corporate strategy, financial planning and performance measurement

There is room to improve FP&A

- MPI's FP&A-related processes, currently prone to errors and ineffectiveness need to be improved. FP&A's contributors struggle to gather, analyze, and report financial data accurately and efficiently. Additionally, the absence of well-defined KPIs impedes their ability to measure and track financial performance in alignment with strategic goals.
- Inefficiency is compounded by a lack of human capacity and capability. Insufficient resources and expertise in FP&A processes inhibit the analytical capabilities required for effective financial planning and analysis at MPI.
- Outdated tools and technologies are a major obstacle in the FP&A framework at MPI. Reliance on obsolete systems and manual spreadsheets makes data management and analysis laborious, prone to errors, and time-consuming. Furthermore, inconsistent data quality is a significant challenge at MPI.
- With the Director of FP&A position being vacant for some time, the blurred lines on governance within the FP&A framework creates confusion and obstructs accountability.

To improve the current FP&A framework, five dimensions should be considered by MPI

Process

- Improve and streamline the consistency of the performance management process to provide a link between overall strategy and day-to-day operational management.

KPI and reporting

- Produce coherent and automated reports integrating indicators in line with business and transversal ambitions (budget, forecast, ORSA, KPI).

Data and tools

- Help deploy an integrated performance management solution (data and tools) to facilitate straightforward access to KPI & reporting and increase the reliability of the data shared by different processes.

People

- Pool steering capacities to improve operational efficiency and create an integrated performance management community.
- Strengthen the performance management, and economic and financial culture at MPI.

Governance

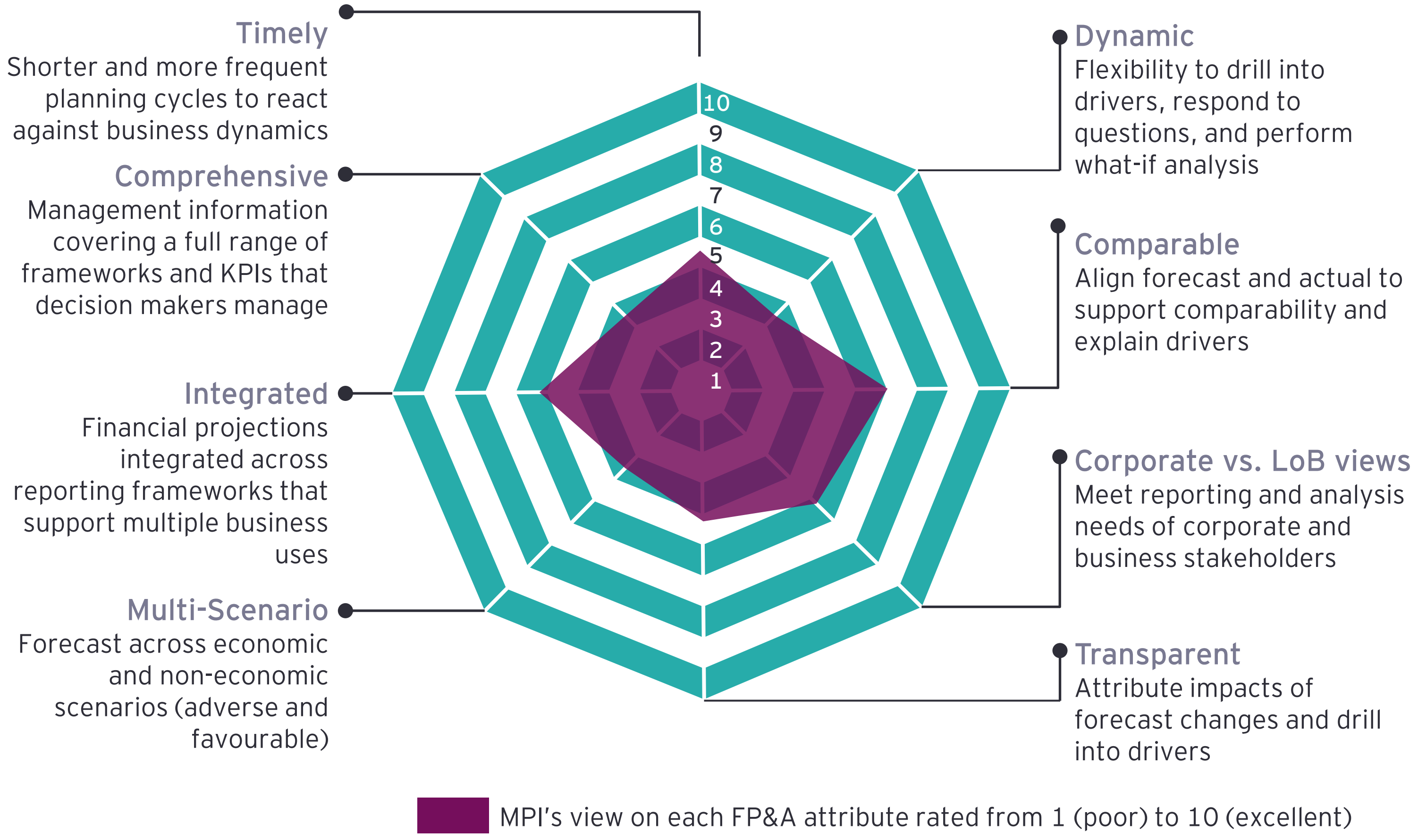
- Define a performance management framework suited to the size of the company and help develop a corresponding organizational model with a business partner logic.

The attributes of highly effective planning and performance management that MPI should have, considering its commitments to PUB and TBS

Key features of MPI's FP&A…

- MPI's GRA submission lasts around nine months, with few but lengthy iterations.
- Planning at MPI doesn't cover a large and diversified set of KPIs can support decision-making.
- Planning is mainly spreadsheets-based. MPI is currently contemplating a switch to modern tools.[4]
- Planning is not able to easily handle multiple scenarios.
- Answering questions quickly can be challenging as the model and the processes are not designed to respond quickly and lack drill-down capabilities.
- On the bright side, a new dashboard was introduced in 2023 to monitor actuals vs. budget at the executive level, with custom views according to their hierarchical position.
- Planning covers both corporate and LoB levels.
- Underlying key assumptions and inputs are not centralized within one tool, hardening the reconciliation and finding meaningful explanations/drivers when questions arise.

…that can be strengthened by implementing attributes of highly effective FP&A



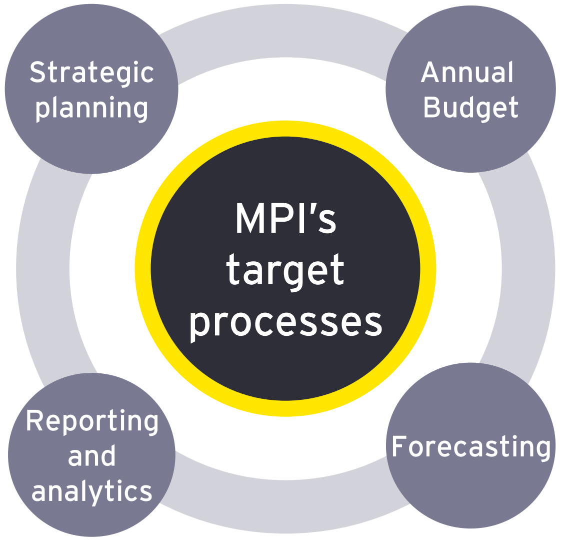
Digital and automation of finance processes to respond to stakeholders in an appropriate and timely manner

What are the pitfalls MPI needs to avoid in its Finance processes?

- Inaccurate processes
  - Plans built on a compromise of top-down stretch targets and bottom-up sandbagging, instead of fact-based historical and market data for key business drivers
  - Inadequate linkage of strategy, revenue and cost assumptions
  - Lack of confidence around setting and achieving targets
  - Inadequate use of scenario modelling and analysis to validate financial plans
- Inefficient processes
  - Lack of adequate visibility to underlying assumptions and drivers
  - Too much time on mechanical tasks that could be system-driven, rather than analysis
- Processes becoming complex
  - Work in silos, with no coordination between the contributors
  - Based on 'black box' spreadsheets where the inner working is difficult to apprehend
  - Too slow because of inadequate data structure

By redesigning the processes, MPI should integrate a detailed view to tackle the multifaceted features of FP&A

Translates an organization's long-term vision, objectives and goals into a financial roadmap for achieving them; feeds targets to the annual financial plan and detailed operations plan



Translates the strategic plan and financial targets into an annual budget to achieve expected results by business units, brand, categories and subcategories; basis for accountability

Communicates financial information to key stakeholders and business users to inform and facilitate decision-making; by leveraging analytics, identifies performance gaps and understands KPIs

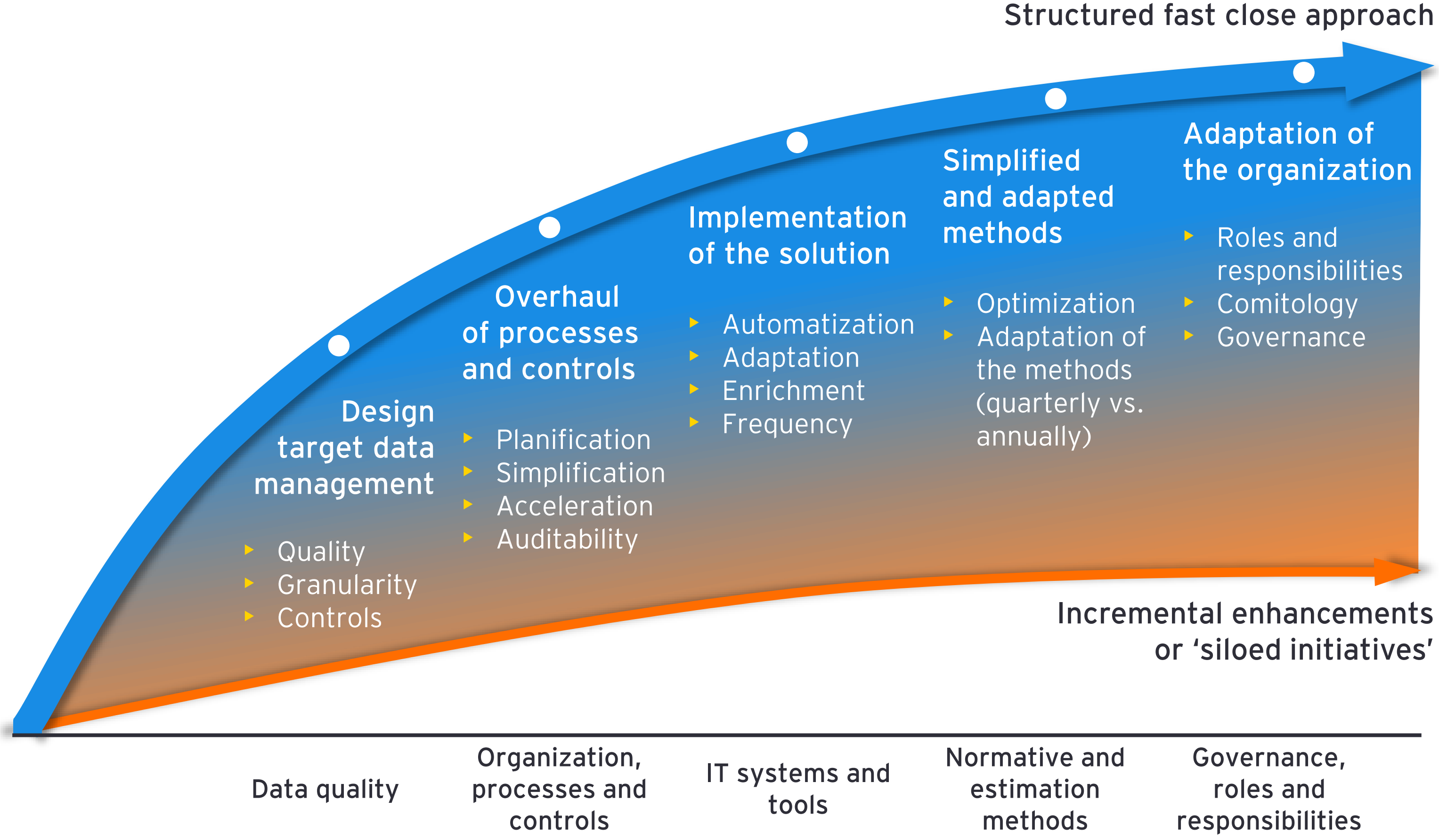
The process of periodic updates to the annual plan, reflecting new or changing information, over a fixed annual or predefined rolling period

To accelerate the quarterly financial closing process, MPI could use several levers in a structured approach to shorten the cycle time.

Insights

- Closing the books and reporting quarterly financial results currently takes two months after the end of each quarter. This makes it difficult to use the data in a meaningful way since the end of the following quarter is so close. As well it means that MPI has a difficult time responding to financial information from stakeholders in a timely way. The first step would be to acknowledge the necessity to accelerate the closing period.
- Considering an integrated approach (as opposed to piecemeal with siloed initiatives) to estimating the various inputs to financial results can bring better coordination and smoother processes . Moreover, embracing the opportunity for collaboration with the Lean Project Management (LPM) team can yield great results in terms of efficiency and effectiveness.
- Further, there exists a great opportunity to harness synergies between the closing process and FP&A activities. By aligning these two functions, MPI can streamline operations and eliminate redundancies, thus improving productivity.

MPI could use numerous levers into five clusters in a structured approach, setting the tempo of a successful evolution



Theme 3:
Aligning MPI's organization and operational initiatives to its strategy

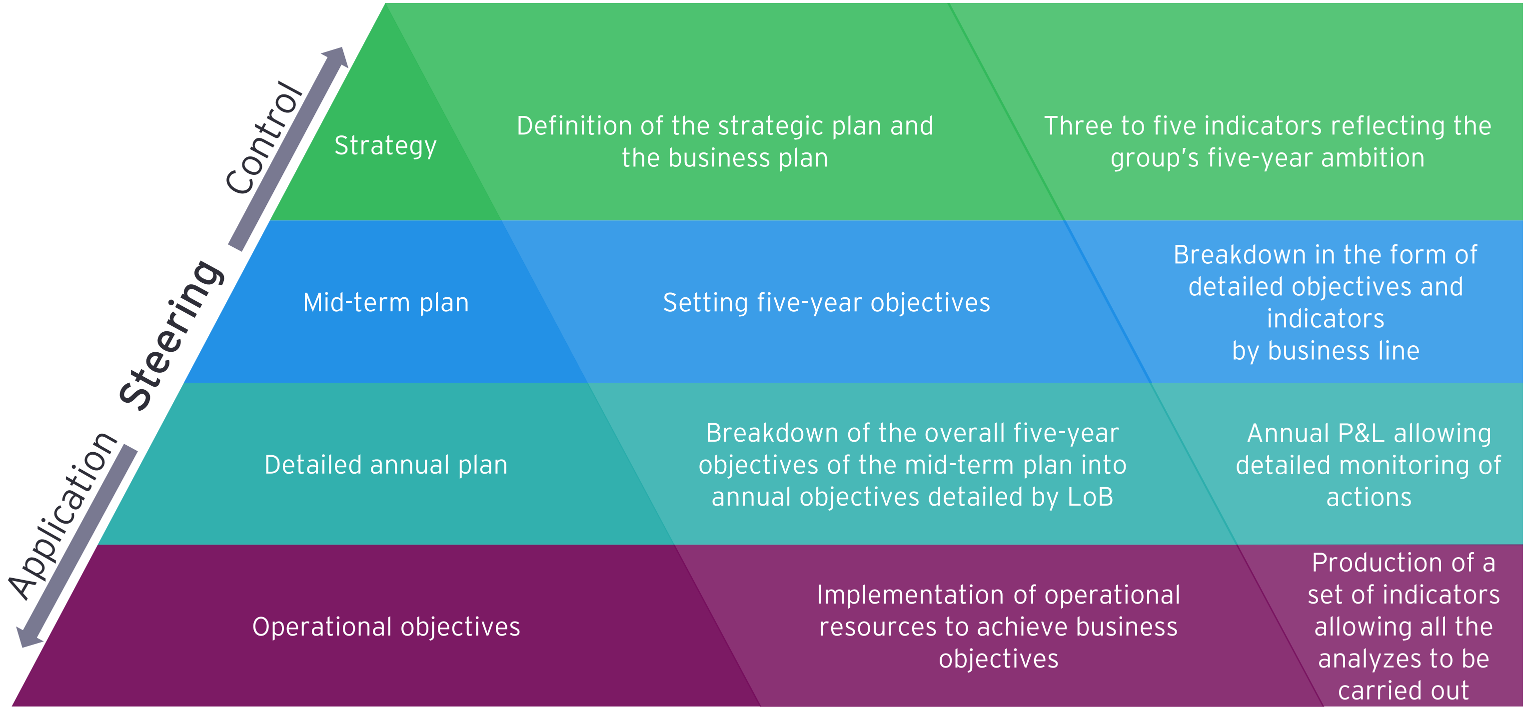
The content of the third section of this report is multifaceted and includes organizational design, transformation, as well as finance. This section aims to ensure that MPI's operational efforts are strategically aligned with its objectives. Some major themes include the importance of enhancing the staffing structure, improving divisional structures, strengthening MPI's transformation capabilities, and aligning MPI's corporate strategy to its financial planning and performance measurement.

Aligning corporate strategy, financial planning and performance measurement (1/2)

MPI does not have strong links between strategy and operational objectives

- Performing a five-year forecast at MPI without linking it to the strategy and using it for monitoring purposes presents several drawbacks. Without aligning the forecast with the organization's strategy, there is a risk of creating a disconnect between long-term goals and projected financial outcomes.
- Utilizing the five-year plan as a cornerstone would allow for proactive decision-making and performance evaluation. Monitoring financial performance against the forecast allows for early identification of deviations and potential risks. Without this link, MPI may struggle to address issues promptly and adjust strategies, accordingly, resulting in missed targets or inefficiencies. Not using the forecast for monitoring purposes undermines the value of the forecasting exercise itself.
- The lack of linkage between the five-year plan and the strategy can create a gap in organizational alignment. Strategic objectives and targets should shape the financial forecast, reflecting the anticipated financial outcomes required to support the strategy.

MPI could emphasize the role of steering processes as a link between the strategy and the operational objectives

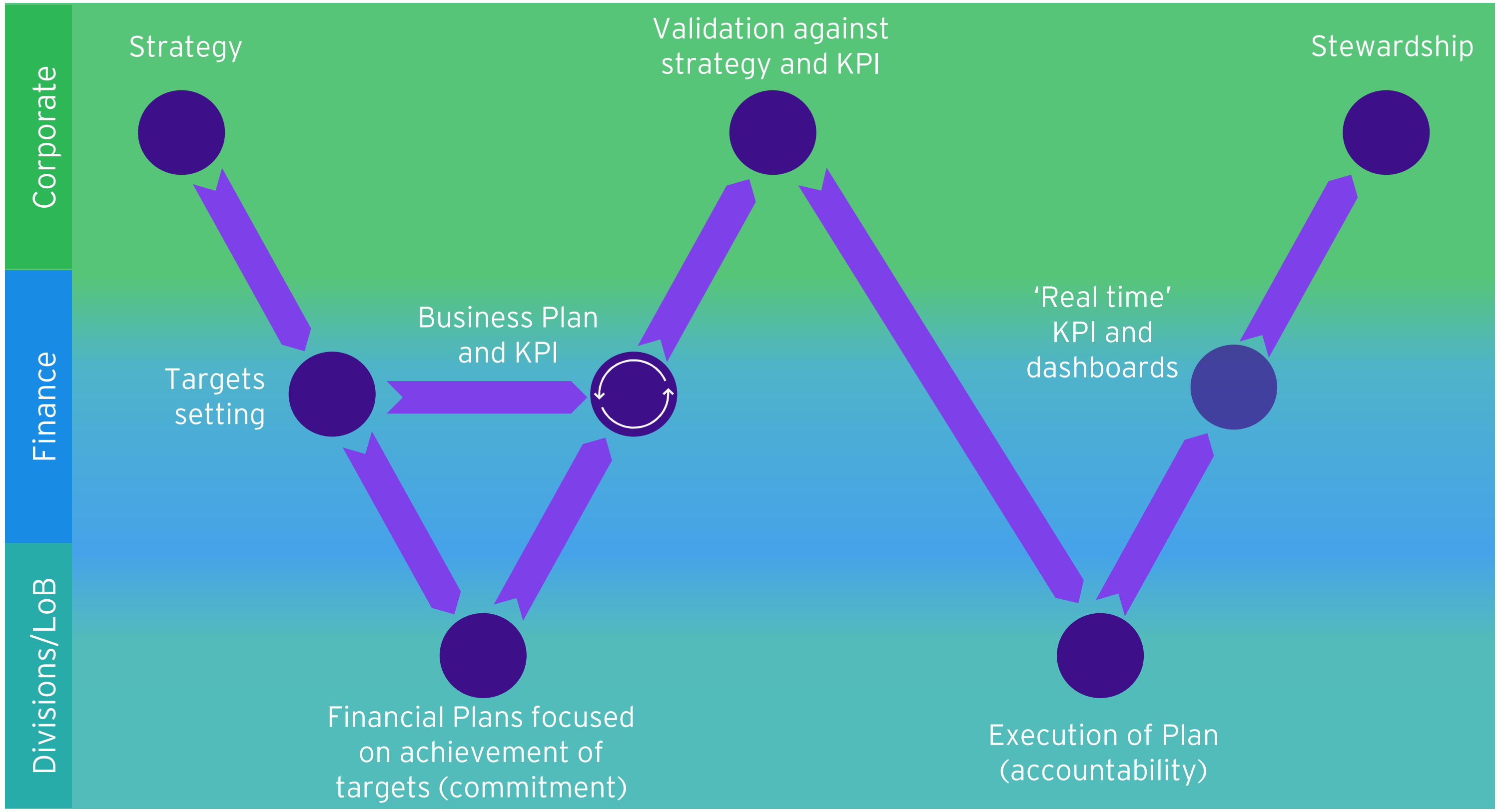


Aligning corporate strategy, financial planning and performance measurement (2/2)

Guiding notes

- Strong links between strategy and operational objectives are essential for sound decision-making.
- The graphic to the right illustrates the key steps to achieve this.
  - Strategic KPIs are set based on achieving the agreed Strategic Plan (for example, what does it mean to achieve affordable insurance rates?).
  - The Business Plan and Operational key KPIs are linked to the Strategy.
  - Commitment is obtained from Divisions and LoB owners to achieve the targets.
  - The Business Plan is then executed with continuous measurement and monitoring.

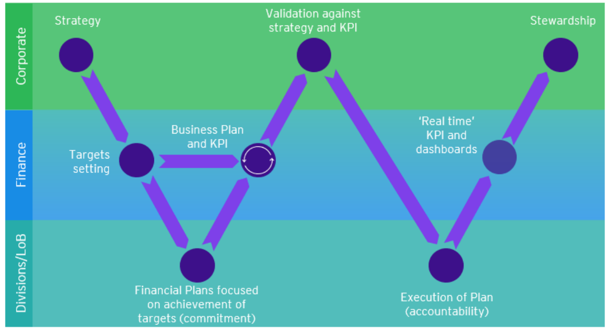
The W approach: An efficient tightly linked top-down/bottom-up convergence approach for Budget and Business Plan exercises that MPI could embrace



Implementing a full driver-based approach is an efficient way to operationalize the need for alignment between corporate strategy, financial planning and performance measurement (1/3)

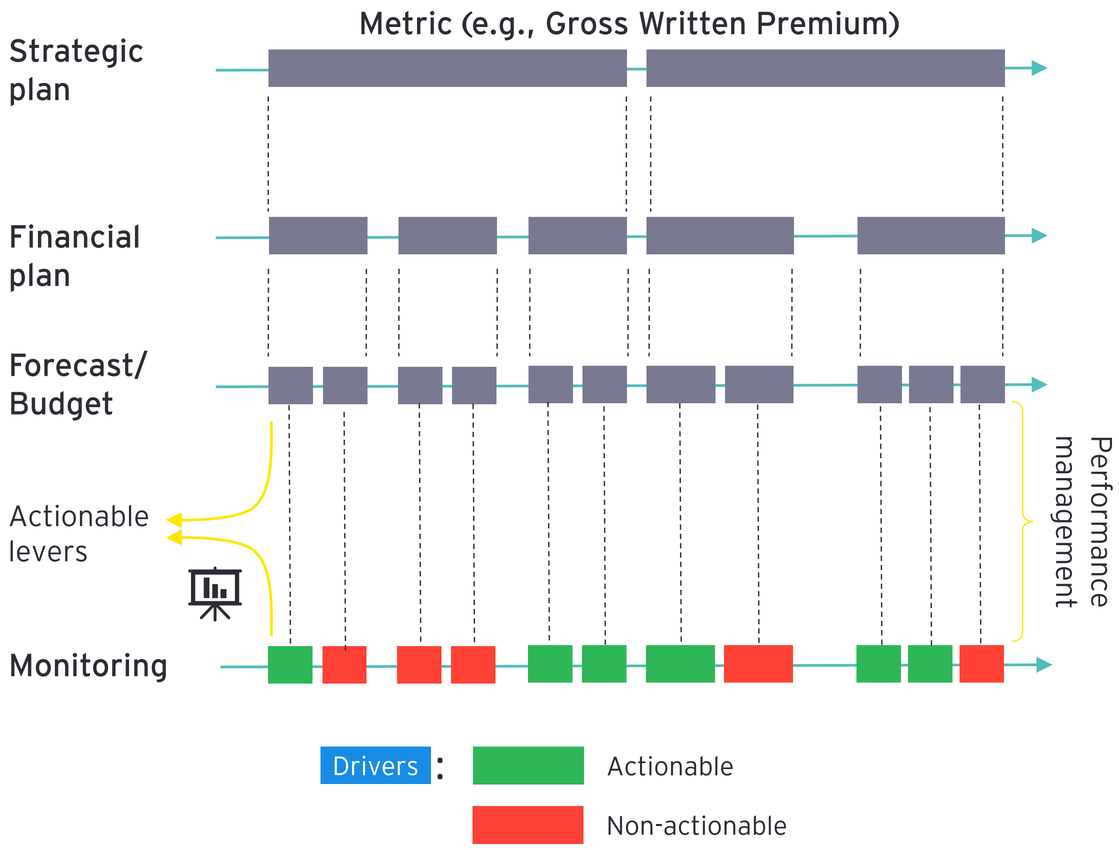
Operationalize the W Approach through a full driver-based FP&A modelling

- The driver-based approach is an efficient way to use the so-called W approach.



- A driver-based approach for forecasting would empower MPI to conduct scenario analysis and sensitivity testing in an efficient and insightful manner.
- MPI is already using a limited driver-based approach as part of its forecasting process.
- By incorporating a comprehensive list of drivers and considering their potential fluctuations, MPI's finance and actuarial teams could evaluate the effects on revenues, claims and expenses. Adopting this proactive approach would enable MPI to anticipate possible shifts in the rate setting or changes in market conditions, thereby allowing the organization to adapt its strategy accordingly. An example is provided on the following slide.

Identifying actionable drivers to raise the steering efficiency between strategic and financial planning

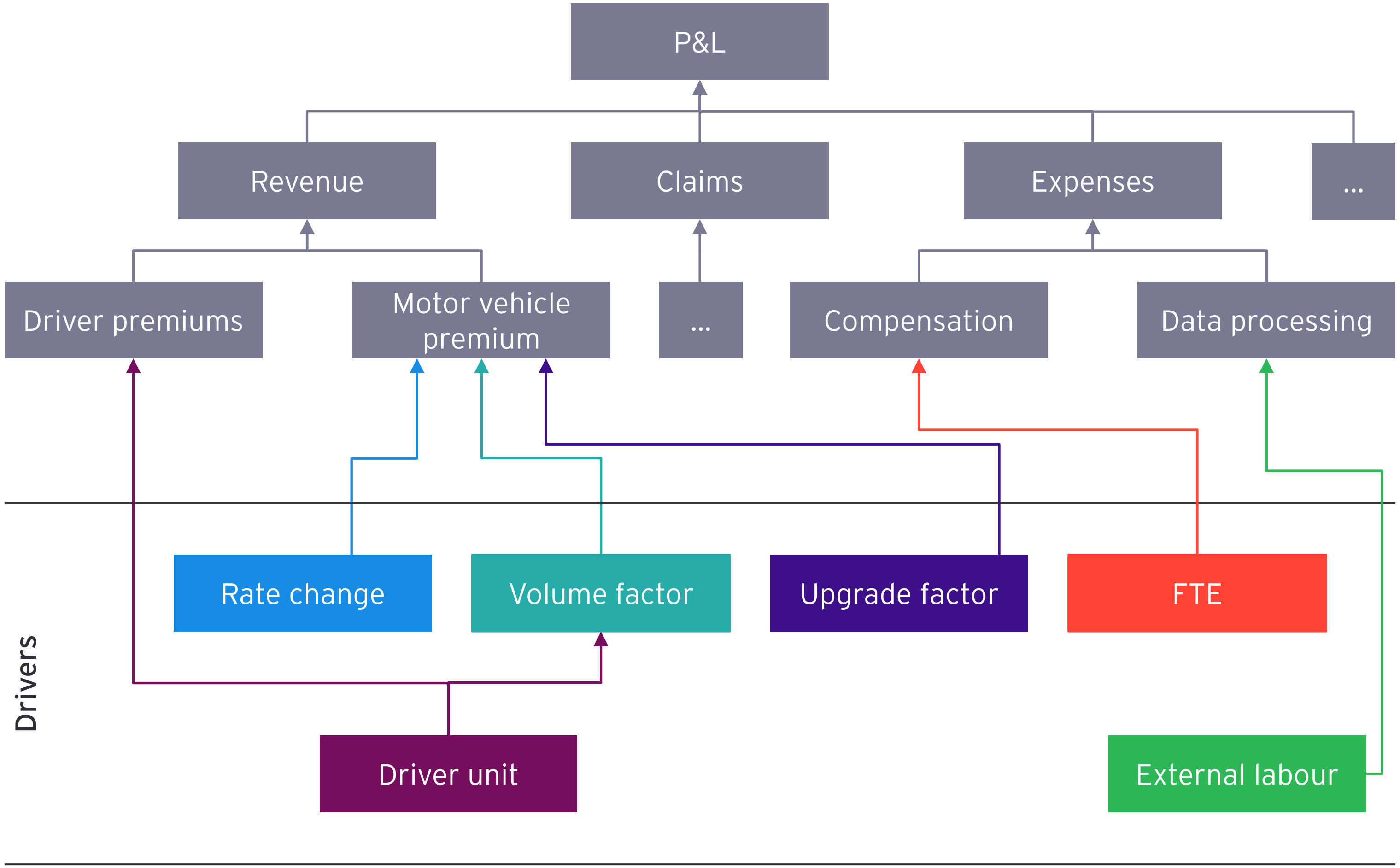


Implementing a full driver-based approach is an efficient way to operationalize the need for alignment between corporate strategy, financial planning and performance measurement (2/3)

How a driver-based approach works and its expected benefits

- A driver-based approach for FP&A involves identifying key drivers or inputs that impact financial performance and setting KPIs to be actioned.
- Correctly identifying and monitoring changes in key drivers and their related KPIs will allow MPI to do accurate forecasting and scenario analysis.
- The approach plays a key role by cascading the strategic KPIs into tangible operational KPIs, which can be thoroughly monitored and tracked against expectations.
- Furthermore, having concrete and transparent KPIs it allows for better alignment and collaboration throughout the organization.

Simplified example of the use of a driver-based approach for basic insurance



Implementing a full driver-based approach is an efficient way to operationalize the need for alignment between corporate strategy, financial planning and performance measurement (3/3)

Beyond improving the core FP&A process, a driver-based approach adds additional value

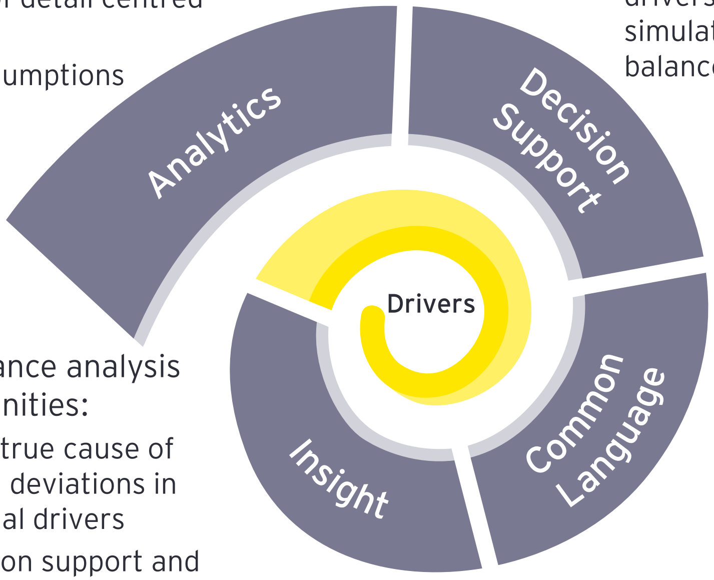
- Implementing driver-based analysis in MPI's FP&A and performance measurement processes will bring significant further benefits. It enhances the understanding of the business and what factors affect its performance, improves decision-making and allows MPI to benchmark itself against peers to identify opportunities for improvement.
- Furthermore, driver-based analysis would promote a proactive and strategic approach at MPI, optimizing opportunities, managing risks, and communicating effectively with its key stakeholders.

Use of advanced **analytics** to improve the planning process:

- Target setting at a deeper level (key drivers)
- Pre-populating budgets and forecasts based on historical performance of drivers and external data
- Appropriate level of detail centred on strategy
- Visibility to key assumptions underlying plans

Planning systems built on drivers become the basis of simulation analysis for **decision support** :

- Pre-built driver-based plans contain key relationships between revenue and cost elements. By adjusting drivers, management can quickly simulate the impact on the P&L, balance sheet and cash flow.



Allow for **insight** into variance analysis and improvement opportunities:

- Helping to identify true cause of variances based on deviations in forecasted vs. actual drivers
- Streamlining decision support and analysis
- Guiding improvement efforts by analyzing performance on key drivers vs. target

Create a **common 'language'** in the organization, and focus management on key strategies and improvement goals:

- Align/Integrate operational and financial plans
- Become the basis of Rolling Forecasts

Staffing, a key driver of corporate performance needs to be aligned with corporate priorities

Since 2020, full-time equivalent (FTEs) at MPI increased, total policies grew and claims remained stable

By insurance year	March 2020	March 2021	March 2022	March 2023	Evolution 2020-23	CAGR* 2020-23
Total FTEs (incl. CEO) [258]	1,830	1,836	1,932	2,057	+227	+4%
Executive	11	8	11	9	-2	-6%
Operations	1,216	1,202	1,223	1,276	+60	+2%
IT	286	308	361	362	+76	+8%
Digital & Transformation**	28	31	46	76	+48	+39%
Finance	137	137	141	148	+11	+3%
Actuarial, Investments & Risk	19	17	23	41	+22	+29%
Customer	54	58	60	61	+6	+4%
Legal & Compliance	39	30	30	31	-6	-7%
People & Culture	40	45	38	53	+13	+10%
Total policies [224]	3,143,633	3,176,440	3,298,198	3,363,068	+219,435	+2%
Basic	1,168,944	1,184,448	1,226,157	1,240,742	+71,798	+2%
Extension	1,961,891	1,979,064	2,059,077	2,109430	+147,540	+2%
SRE	12,798	12,927	12,964	12,895	+97	0%
Total claim count [224]	400,662	325,927	367,785	357,029	-43,633	-4%
Basic	234,304	186,120	215,456	202,702	-31,602	-5%
Extension	163,013	136,620	148,516	150,976	-12,037	-3%
SRE	3,345	3,187	3,812	3,351	+6	0%

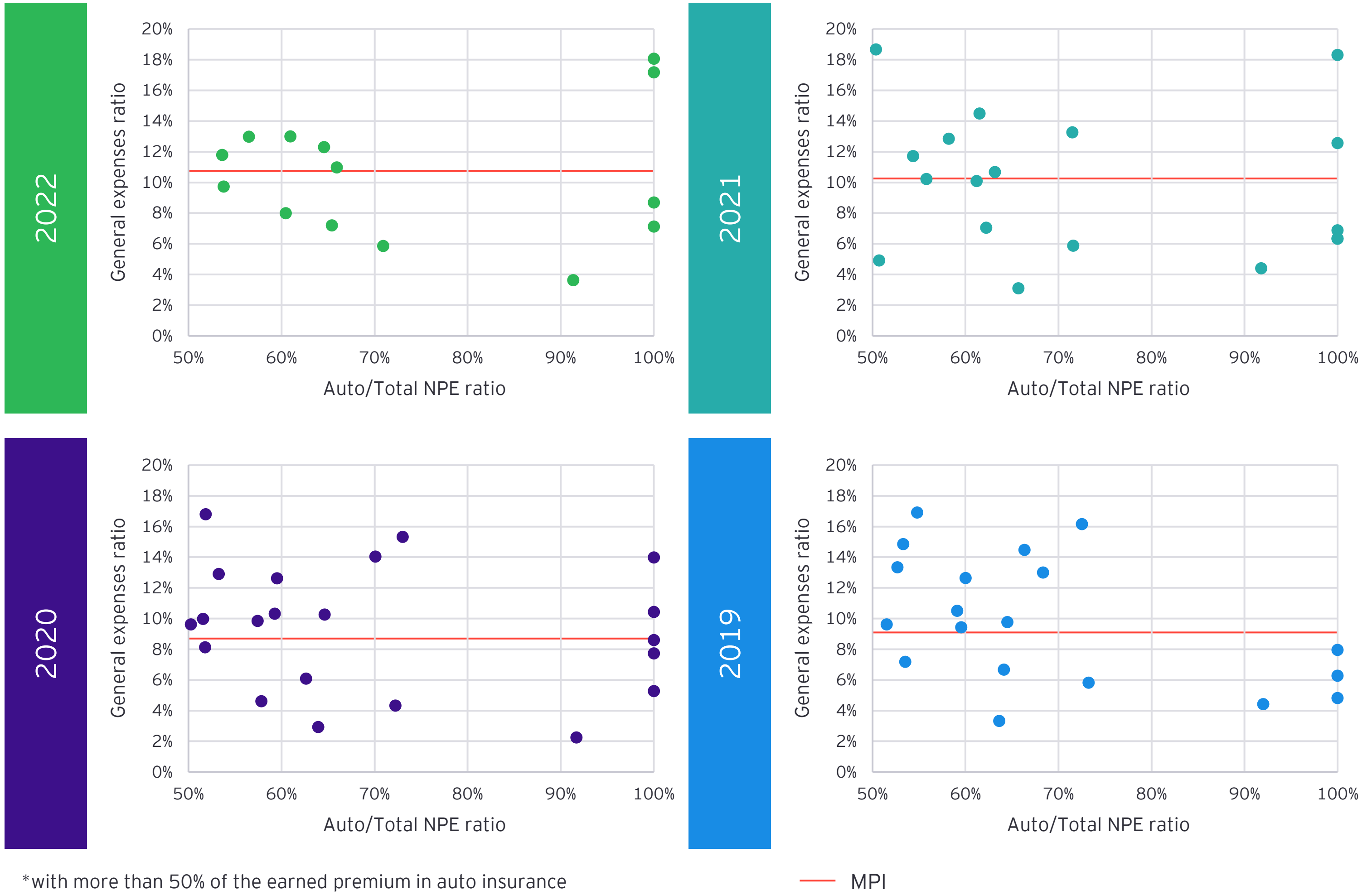
Note that the total number of FTE cited include permanent and term contracts and are exclusively point-in-time counts as of March 2020, 2021, 2022 and 2023 based on the spreadsheet generated by the Finance system. Data has not been altered. *The compound annual growth rate **D&T was created in 2021 and previous existing roles have been included.

Substantial FTE increases are observed in divisions, particularly in IT, Digital & Transformation and AIR

- MPI had 2,057 FTE as of March 2023, a growth of 12% since 2020. Multiple organizational changes, transfers and new positions without a decision log or rationale documented in many cases, make it challenging to trace and explain every workforce movement.[23, 258]
  - The **Operations** division has annually increased FTE by 2% from March 2020 to 2023. During this time, policy volumes have increased by 7%, increasing operational workload. Since 2021 after COVID-19, claims volumes have remained largely stable. The SRE team was transferred into operations. Resources were added in Contact Centre Ops, Compliance & Analytics, Estimating.
  - **IT** teams that expanded the most are Nova project roles (now 95 FTE from 25 in 2020). Three centres of excellence were created in 2022 to take on the responsibility for IT delivery including Nova, resulting in additional resources in Digital Solutions and Quality. Staff were assigned to develop capabilities including Digital Workplace and Service, Systems, Data Science and Network.
  - Within **Digital & Transformation**, resources were partly transferred from other divisions and new positions were created to develop existing capabilities of Business Architecture, Knowledge Management, Strategy & Portfolio Management, Change Management, Product Management and Value Assurance.
  - In the **Actuarial, Investments & Risk division**, additional workforce was assigned to build Valuation, Capital, Insights & Analytics, and with added resources in Pricing and Risk teams.
  - Within **People & Culture**, a shift from a centralized pool makes precise allocation challenging, but it appears resources have been added to existing teams, HR Partnerships, Learning and HR Systems.

Although MPI has recently substantially increased its workforce, the general expense ratio remains in the middle range of comparable industry peers

Over the last four years, MPI's general expenses ratio has been in line with the average for comparable Property and Casualty (P&C) carriers*



*with more than 50% of the earned premium in auto insurance

Insights

- A sample of insurers has been selected to compare MPI's general expenses ratio (including salaries and employee benefits, management and professional fees) against industry peers over the last four years. To be more representative, the sample is exclusively composed of insurers which report more than 50% of their earned premiums as part of auto insurance products.
- Among this sample, most insurers have had a general expenses ratio between five % and 15% over the last four years, which positions MPI in the middle range.

Key findings

- Despite the substantial FTEs increase since 2020 and the relatively high use of external resources (8.8% of the total workforce in October 2023 [60, 61]), the general expenses ratio at MPI remains in the middle of the P&C organizations pack.

Workforce planning could be improved with a more robust process and a stronger HR role

Current workforce planning is not sufficient to ensure MPI has the right people in the right positions

- Today, MPI lacks a well-established and effective approach to workforce planning, whilst the need is becoming even more critical as nearly 20% of the workforce will be eligible for retirement by March 2026. [235]
  - The current Human Resource Information System (HRIS) does not support modern position management or workforce planning activities. Despite this, the HR team goes to great lengths to try to manually manage positions. There is a lack of a consolidated view across HR and finance systems relating to workforce numbers, leading to different interpretations of data and a need to manually compare records in two systems to capture a complete picture.
  - Workforce planning is carried out in an uncoordinated matter at a divisional level, as opposed to an aligned and centralized effort. HR's involvement in guiding divisions and providing templates and tools should be significantly increased by taking more ownership and thus, acting more as a strategic business partner in workforce planning across the organization.
- There is a heavy focus at MPI on managing total FTEs, rather than total cost of the workforce.
  - Today, trade-offs may be made, in particular on contingent or contract labour, where human resources are obtained at higher cost and without retained organizational knowledge due to strict restrictions on FTE changes. Overall, the approach for managing workforce at MPI primarily focuses on budget limits for internal staff levels, which exclude contractors, leading to a relatively high proportion of contingent workers.[60]
- The approach for justifying changes to MPIs workforce size lacks robustness. As part of the 2023–2024 budget, the request for additional staff was led by the Finance team. [213] As the HRIS was (and is still) not able to support workforce planning, individual divisions made their requests through a basic document. This document only included the details surrounding the FTE net new additions whilst not providing business case justification for the need or demonstrating return on investment. Additionally, there is currently a lack of robust internal gating processes. As a result, MPI's request for additional staff was not well received by Government and the PUB.

Insights

- Developing a robust workforce planning process linked to business needs, better IT systems support and greater HR involvement would improve MPI's ability to satisfy MPI's workforce needs in this critical area.
- Leveraging total workforce cost as a key workforce planning statistic will help MPI and its stakeholders to not only manage FTEs, but also manage overall expenses.

Key findings

- Workforce planning is performed at a divisional level without effective coordination, and the process of requesting additional staff significantly lacks maturity and robustness.

Optimizing MPI's organizational structure through focus on spans of control and managerial layers (1/5)

Context of HR analysis

- To conduct the spans of control and managerial layers analysis, MPI shared an anonymized data extract from the HRIS as of October 2023.[60-61]
  - The analysis includes all regular active permanent employees and employees with a term contract.
  - The following are excluded from the assessment: contingent workers, casual workers, contract workers, employees on leave, vacant positions.
- **People leaders** at MPI refer to employees who have a managerial role according to MPI's HR policy. Those are defined if one of the seven following job categories is assigned: Supervisor, Assistant Manager, Manager, Director, Senior Director, Executive, CEO. Employees who do not have any direct reports are called Individual Contributors.
  - Ten employees did not have any of the job categories above while they had at least one direct report and thus were recategorized as 'Supervisors'. On the contrary, some people leaders do not have any direct reports but are still defined as managerial roles according to MPI's HR policy.
  - Four employees who exclusively oversee contingent workers have been categorized as 'Individual Contributors'.
  - A total of 114 employees have a vacant leader whose job category has been identified based on their title. For example, 'Supervisor Commercial Estimating' was categorized as 'Supervisor'.
- The average span of control at any given level is a feature of the specific direct reports into all people leaders at that level. These direct reports could be at different levels, therefore the average spans of control cannot be calculated by looking at the number of employees at the next level down only.

The HR analysis is based on four steps

- The spans of control and managerial layers analysis is conducted by divisions. Given the significant size of the Operations division, a detailed split within Operations has been provided.
- The spans of control analysis of MPI is based on the rule of thumb that a range of span below four i.e. less than four employees per people leader, is considered less than optimal.
- An overview of spans of control and managerial layers is first provided to highlight high-level observations and insights (see slide 51).
- The analysis then focuses on the managerial layers within MPI, which refer to the number of hierarchical management levels from the CEO to the most junior employee. MPI has a total of eight layers including seven managerial roles: Supervisor, Assistant Manager, Manager, Director, Senior Director, Executive, CEO (see slide 52).
- The next step of the analysis consists of counting the number of direct reports for each leader from zero to six and above (see slide 53).
- The final step of the analysis is to define the median span of control by division and managerial role (see slide 54).
- Target spans of control per division and per role/level may vary and should be defined through further analyses that will consider the nature of teams and roles in more detail. Specific target spans of control have not been defined at this stage. In general, more senior and specialized roles have narrower spans of control whilst more generalist and junior roles have wider spans of control.

Optimizing MPI's organizational structure through focus on spans of control and managerial layers (2/5)

Snapshot of MPI's organizational structure as of October 2023

Organization* [61]

2,134 employees
2,070 FTEs
349 people leaders
~16.4% of employees

Leaders' spans of control

5.7 %	Have 0 direct report
24.1 %	Have 1, 2 or 3 direct reports
28.1 %	Have 4 or 5 direct reports
42.1%	Have 6 and above direct reports

Managerial layers

8
Managerial layers in total across the organization

Spans of control

5
Median span of control for all management levels

* The number of employees and FTEs are point-in-time counts based on the HRIS extract as of October 2023.

MPI exhibits high managerial layers and low spans of control

- MPI has a relatively high number of managerial layers. This is partly driven by the Operations area, which both has a high number of managerial layers (to deal with a large mandate), though simultaneously has relatively low spans of control per managerial layer. Senior Director and Assistant Manager roles only exist in two divisions.
- The median spans of control across all management levels is five, which is relatively low compared to market practice.
- In total, there are 20 leaders at MPI with no direct reports, with a further 84 with fewer than four direct reports, from a total leadership population of 349. Whilst there may be sound logic in some cases, this warrants further investigation.
- MPI leaders with three or fewer direct reports represent 30% of total management roles. This is a strong indication that a material proportion of management roles have non-optimized spans of control.

Insights

- For an organization of the size and complexity of MPI, the managerial layers are relatively large and averages spans of control are relatively low. MPI has an opportunity to optimize management accountability with narrower spans of control and fewer managerial layers.
- Where organizations commit to building new capabilities, it is a common strategy to add additional experienced management, resulting in increased managerial layers and/or lower spans of control. MPI should be clear and specific on which capabilities require development and warrant additional management attention relative to more mature capabilities.
- The recent prolonged strike and labour interruption required substantial management flexibility to fulfill core and critical functions in service of Manitobans. Whilst this is not a justification for additional management, the means to continue to serve Manitobans' critical needs under future potential labour interruptions should be considered.

Optimizing MPI's organizational structure through focus on spans of control and managerial layers (3/5)

There are a total of eight managerial layers from the CEO to the most junior employee; flattening the organization would help reduce the high number of managerial roles

	Divisions	Digital & Transformation	Actuarial, Investments & Risk	Finance	Information & Technology	People & Culture	Legal & Compliance	Customer	Operations	Operations Performance, Data & Quality	Commercial Lines	Physical Damage Claims	Injury Claims Management	Customer Delivery, Services and Distribution	Driver & Vehicle Administration
Employee Count [62]	2,134*	101	37	154	325	51	36	66	1,363	28	48	227	183	703	174
Number of People Leaders	349*	24	11	43	48	12	7	17	186	1	11	35	29	82	28
Senior Director	4								4		1	1	1		1
Director	35	5	5	3	9	3	1	4	5			1		2	2
Manager	83	5	5	10	11	6	4	6	36		2	8	4	14	8
Assistant Manager	21			8					13		1	2	2	7	1
Supervisor	197	13		21	27	2	1	6	127		7	23	22	59	16
Total Layers**	8	6	5	7	6	6	6	6	8	8	6	7	6	6	6

Employee count is the point-in-time number of employees based on the HRIS extract as of October 2023.
* Including the CEO ** Including the CEO, the Executive and the most Junior Employee

Divisions | Directorates split within Operations

Optimizing MPI's organizational structure through focus on spans of control and managerial layers (4/5)

30% of managers across all divisions have three or fewer direct reports, indicating room for improvement

	Divisions	Digital & Transformation	Actuarial, Investments & Risk	Finance	Information & Technology	People & Culture	Legal & Compliance	Customer	Operations	Operations Performance, Data & Quality	Commercial Lines	Physical Damage Claims	Injury Claims Management	Customer Delivery, Services and Distribution	Driver & Vehicle Administration
Employee Count [62]	2,134*	101	37	154	325	51	36	66	1,363	28	48	227	183	703	174
Number of People Leaders	349*	24	11	43	48	12	7	17	186	1	11	35	29	82	28
Span of 0	20	3	0	2	2	1	0	1	11	0	0	3	2	5	1
Span of 1	21	3	1	7	4	1	0	2	3	0	1	2	0	0	0
Spans of 2 & 3	63	6	5	17	6	5	1	5	18	0	4	4	0	5	5
Spans of 4	58	5	3	6	6	1	2	3	32	1	3	3	4	14	7
Spans of 5	40	3	1	4	4	2	3	1	22	0	0	5	9	6	2
Spans of 6 & Over	147	4	1	7	26	2	1	5	100	0	3	18	14	52	13

Employee count is the point-in-time number of employees based on the HRIS extract as of October 2023.
* Including the CEO

Divisions | Directorates split within Operations | Potential sub-optimal spans of control

Optimizing MPI's organizational structure through focus on spans of control and managerial layers (5/5)

The median spans of control across multiple divisions and management levels are low compared to market practice

	Executive	Senior Director	Director	Manager	Assistant Manager	Supervisor	Portfolio Median
Digital & Transformation	5		3	4		3.5	4
Actuarial, Investments & Risk	5		3	4			3
Finance	3		5	2	3	3	3
IT	9		3	5		7	7
People & Culture	3		3	5		5.5	3
Legal & Compliance	5		5	4.5		4	5
Customer	4		3.5	5.5		2	4
Operations (Overall)	4	3.5	4	4	4	8	7
Operations Performance, Data & Quality	4						4
Commercial Lines		2		3.5	3	4	4
Physical Damage Claims		3	4	2.5	9.5	7	6
Injury Claims Management		4		5	5	7	6
Customer Service Delivery & Distribution			6	4	4	10	8
Driver & Vehicle Administration			3	4	3	7.5	5
Overall Role-level	4.5	3.5	3	4	4	7	5

Divisions | Directorates split within Operations | Median spans of control below 4

Insights

- For an organization of the size and complexity of MPI, it is likely that no more than seven managerial layers would be optimal, with a desire for less than that for divisions with smaller portfolios.
- Reducing managerial layers naturally helps widen spans of control. It is likely that further span refinement is possible, even with reduced managerial layers, and that priority should be given to evaluating where management roles have fewer than four direct reports, by identifying if those include specialized skills. This is never a one-size-fits-all answer and there can be a myriad reasons why there are low spans of control in any one area. However, overall, MPI seems to have low spans of control across multiple divisions and managerial levels.

Key findings

- MPI has relatively high managerial layers and relatively low spans of control, with potential improvement from an efficiency perspective.

Exploring the structure, size and effectiveness of MPI's divisions (1/9)

Focus on Operations

- Operations has a substantial size team (1,363 employees) with around two-thirds of the total MPI workforce reporting into a single VP. [61] The scope is very large for one executive to oversee all accountabilities effectively, with a substantially larger portfolio than other VPs.
- Claims does not have a single owner. Within Operations, there is one Senior Director for Injury Claims Management and one for Physical Damage. The Subrogation team reports to Finance.[4] This means there is not a single executive role accountable for the full claims value chain or claims performance. The current COO role is accountable for the vast majority of claims, but as part of a much broader portfolio.
- Legacy systems and lack of digitization likely contribute to a relatively high manual work effort required within operational teams compared to market practice.
- For a large operational division, the spans of control are relatively low, particularly at Manager and Assistant Manager level.

Insights

- Streamlining the operations division to exclusively drive service delivery would help focus its mandate on core insurance operational activities with sufficient executive attention. Alternative ownership for non-core insurance operations areas (see next slide) could be explored as potential mechanisms to balance the portfolio. This would help reduce the total size of the team, including the number of senior leaders.
- Overall spans of control could be increased and there is an opportunity to streamline the eight current managerial layers from CEO to Operations' individual contributors.
- It is a common market practice to have a single leader accountable for Claims, though not necessarily at the executive level. There are likely three broad options for Claims:
  - Integrate subrogation into existing teams, under COO mandate – split Damage and Injury Directorates with COO acting as de facto Chief Claims Officer
  - A stand-alone Chief Claims Officer at executive level, separate from COO portfolio
  - A Chief Claims Officer role reporting to the COO, with accountability across Damage and Injury

Structure snapshot[61]

Level	People leaders	Ind. contrib.	Total empl.	% of total	Mean spans of control
Executive	1	0	1	0.1%	4.0
Sr. Director	4	0	4	0.3%	3.3
Director	5	0	5	0.4%	4.4
Manager	33	3	36	2.6%	4.3
Ast. Manager	13	0	13	1.0%	5.2
Supervisor	119	8	127	9.3%	8.6
Employee	0	1,177	1,177	86.3%	-
Total	**175**	**1,188**	**1,363**	**100%**	**7.2**

Individual Contributors (Ind. Contrib.) do not have direct reports.

Key findings

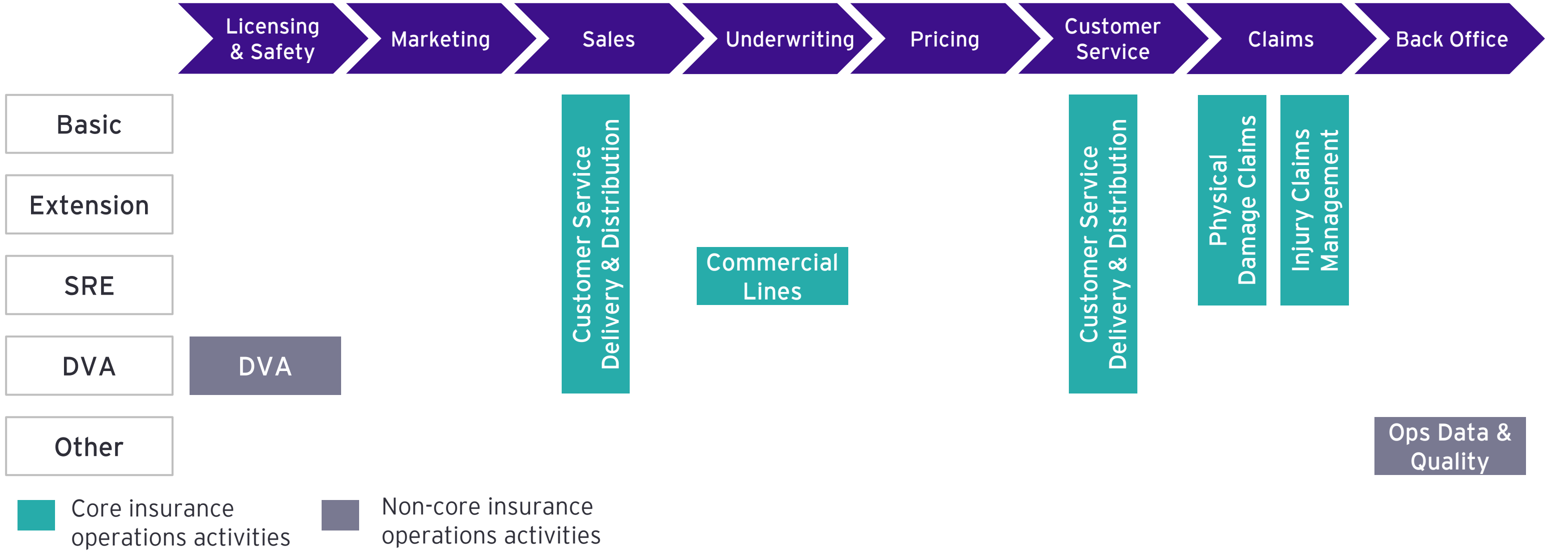
- The Operations division lacks a streamlined structure, both from an accountability perspective, as well as spans of control and managerial layers.
- Claims does not have a single leader, which would be expected, particularly in a model that is not LoB-led.

Exploring the structure, size and effectiveness of MPI's divisions (2/9)

Operations has a substantial scope that includes activities related to the traditional insurance operations but also non-core insurance operations activities, leading to an opportunity to better balance the portfolio

- The operations division has six senior directorates with the following responsibilities/mandates: [33]

Driver & Vehicle Administration (DVA)	Customer Service Delivery & Distribution	Commercial Lines	Physical Damage Claims	Injury Claims Management	Operations Performance, Data & Quality
Responsible for the LoB governed by *The Drivers and Vehicles Act* and oversight of loss prevention initiatives and road safety programming	Responsible for the services delivery through Contact Centre Operations, Service and Claims Centres, and Broker Support and Autopac Services	Responsible for providing strategic direction in the design, implementation, pricing and assessment of competitive products for commercial lines of business	Responsible for the Physical Damage Claims service line as well as the decisions that influence corporate-wide financial results, customer service and employee engagement	Responsible for the management and administration of Injury Claims Management including all Personal Injury Protection Plan losses in North America	Responsible for supporting the pursuit of operational excellence through the development and monitoring of operational standards, rooted in data



Key findings

- Operations' mandate is extremely large, both in scope and size of organization.
- Work exists within the Operations team that is not core insurance operational work – i.e., DVA and performance, data & quality.
- Underwriting for SRE could potentially be housed elsewhere if looking to balance executive portfolios.

Exploring the structure, size and effectiveness of MPI's divisions (3/9)

Focus on IT

- Fifteen percent of the total workforce sits under IT [61], which is higher than comparable insurance organizations. The hypothesis provided is that the large volume of legacy systems (~150 applications at end-of-life) contributes to a high need for IT roles, including developers, solutions architects and business analysts. The size of the team has been increased over the past several years to staff Nova.[258] Contractors represent a significant proportion (32%) [60] of the total IT division workforce, which highlights the high dependency on external resources. Whilst high contractor and third-party use in the IT space is not uncommon, the extent of use at MPI is likely to contribute to ongoing knowledge and capability risks. Potential root causes may include tight management to total FTE rather than total workforce cost, specific skill sets required related to Nova and challenges attracting sufficient IT talent at the current salaries offered.
- A substantial IT transformation roadmap exists outside of Nova, which presents a material effort, cost and delivery risk.

Insights

- Simultaneous high demand on IT resources to manage legacy systems and implement new systems creates a need for a high number of staff. On the current path, a short-term period of increased IT staff is expected.
- There appears to be no plan for how to maintain the new systems once built, with already a substantial defect and change backlog from early Nova releases. Defining a plan is needed to maintain the new systems including Nova once the developers leave.
- The substantial volume of legacy IT systems at end-of-life and technology change required appears under-appreciated from a resource, cost and effort perspective.
- The IT division is one of the better organized functions from a spans of control and layers perspective. There are a large number of Directors with relatively low spans of control. There may be opportunities to streamline accountabilities, particularly at this level.
- There is a lack of a sufficiently robust workforce plan for how to acquire the necessarily skills and staff within the division, for both the short and long term.

Structure snapshot[61]

Level	People leaders	Ind. contrib.	Total empl.	% of total	Mean spans of control
Executive	1	0	1	0.3%	9.0
Director	7	2	9	2.8%	3.0
Manager	11	0	11	3.4%	6.3
Supervisor	27	0	27	8.3%	7.7
Employee	0	277	277	85.2%	-
Total	**46**	**279**	**325**	**100%**	**6.7**

Individual Contributors (Ind. Contrib.) do not have direct reports.

Key findings

- Short term resource demands in IT are inevitable to maintain current systems and deliver both Nova and the broader technology roadmap. IT lacks a robust workforce plan, aligned to and independent of Nova, including a plan to transition new systems into business-as-usual ownership and anticipate running maintenance.

EY

Exploring the structure, size and effectiveness of MPI's divisions (4/9)

Focus on Finance

- Finance constitutes 7% of MPI's headcount.[61] The workforce dedicated to core financial activities (including financial planning, reporting, accounting, treasury, cash management) is slightly larger on a proportionate basis compared to similar insurance organizations.
- The division faces operational challenges stemming from legacy systems, highly manual work, elongated total process times, spreadsheets-based models and non-optimized processes (including forecasting, expenditure and reporting). The absence of robust data management has led to errors and omissions in external and internal reporting, which has been a key factor in the loss of confidence by both the government and PUB, and by internal executives in the reliability of financial and operational information from MPI.
- This systems and process landscape contributes to a high number of transactional and operationally focused roles, especially accountants, with a lack of resource allocation for strategic or value-adding activities.

Insights

- Modernizing the finance infrastructure and key processes will be a material driver of the effectiveness and total cost of delivery for the Finance function (e.g., reporting and allocation engine). There has been under-investment in core finance infrastructure. Modernization of this infrastructure will not only drive operational benefits, but also significantly improve data reliability and mitigate risk.
- Reducing the amount of the workforce allocated to manual and operational processes, towards higher value tasks will positively impact MPI's ability to provide more credible and stable information, and improve decision-making. For instance, strengthening FP&A capacity would help MPI support major corporate decisions through more robust planning, forecasting and budgeting.
- Rebalancing the portfolio, including re-evaluating the spans of control and managerial layers required in Finance may be beneficial to optimize management effectiveness, speed and proximity to decision-making.

Structure snapshot[61]

Level	People leaders	Ind. contrib.	Total empl.	% of total	Mean spans of control
Executive	1	0	1	0.6%	3.0
Director	3	0	3	1.9%	5.3
Manager	9	1	10	6.5%	2.8
Ast. Manager	7	1	8	5.2%	2.7
Supervisor	21	0	21	13.6%	4.0
Employee	0	111	111	72.2%	-
Total	**41**	**113**	**154**	**100%**	**3.6**

Individual Contributors (Ind. Contrib.) do not have direct reports.

Key findings

- Underinvestment in finance systems and processes is a major contributing factor to the loss of confidence in MPI's financial data reliability.
- Modernizing and digitizing finance systems and processes will drive both effectiveness and efficiency, reduce risk and allow for improved resource allocation.

Exploring the structure, size and effectiveness of MPI's divisions (5/9)

Focus on Actuarial, Investments & Risk

- The size of the combined Actuarial, Investments, and Risk team is in line with industry average. This team has grown substantially over the last three years to strengthen risk management broadly and increase capabilities, such as capital management and valuation.
- The division developed robust processes including assets and liabilities matching, interest rate, inflation indication.[4] However, productivity is hindered by difficulties to reconciliate data and low levels of automation.
- The Actuarial, Investments & Risk division is accountable for both pricing and risk management.[4] OSFI's Corporate Governance guideline recommends separate accountability for performance management and risk management to maintain objectivity. This presents a challenge for an organization of MPI's size without lines of business.
- The Actuarial, Investments & Risk team has relatively small spans of control, which is not uncommon given the specialized roles within the division.

Insights

- The size of the Actuarial, Investments & Risk division may be explained by MPI's allocation of responsibilities. For example, Investments (Finance), Pricing (LoB) and Analytics (various) are often activities owned by other divisions from a market perspective.
- In a functional model, it is not common for operations to be responsible for sales and service, as well as for underwriting (SRE) and setting broker commissions. These are potential areas to explore including in the Actuarial, Investments & Risk mandate (and Finance, Customer re: commission strategies).
- Pricing (and therefore product performance) is regulated by the PUB for Basic, with other stakeholder groups influencing the pricing for other lines. SRE underwriting is also owned outside of pricing. Greater confidence and governance will help drive pricing and performance accountability in a more effective way.
- Investment management often sits within the remit of the CFO. There is no 'right' answer, but this could be considered if balancing portfolios.

Structure snapshot[61]

Level	People leaders	Ind. contrib.	Total empl.	% of total	Mean spans of control
Executive	1	0	1	2.7%	5.0
Director	5	0	5	13.5%	2.8
Manager	5	0	5	13.5%	3.4
Employee	0	26	26	70.3%	-
Total	**11**	**26**	**37**	**100%**	**3.3**

Individual Contributors (Ind. Contrib.) do not have direct reports.

Key findings

- Accountability for product performance and risk management could hinder objectivity. Governance, behavioural and structural changes will help MPI improve LoB pricing and performance accountability and Increase confidence from the PUB.

Exploring the structure, size and effectiveness of MPI's divisions (6/9)

Focus on Digital & Transformation

- D&T is a newer division that was created to support transformation, including the MPI 2.0 strategy. [23] In addition to transfers, employees have been hired to fulfill mandates including:[258]
  - Business Architecture
  - Enterprise Value Assurance
  - Centre for Change Enablement
  - Strategy & Portfolio Management
  - Product Management
  - Continuous Improvement
  - Business Readiness
  - Knowledge Management
- The division was formed in mid-2021 with some activity previously being managed by other divisions. The size of the roles supporting this mandate has more than doubled, from 28 focused predominantly on Knowledge Management, to 76 across the above portfolios, in part to focus on the delivery of Nova. [258]
- The division represents 5% of the total workforce, which is slightly above market practice, highlighting the desire for MPI to focus on building transformation capability.

Insights

- The capabilities built in this division are aligned with the direction of large privately owned P&C insurers. In managing digital and transformation, MPI needs to consider whether this is necessary for MPI.
- Nova needs strong leadership and appropriate resources allocated. Many MPI systems and processes urgently need modernization. The broader enterprise transformation roadmap also needs attention. However, there is an open question as to whether these needs are best met by D&T in its current form.
- The current split of accountabilities at the executive level creates blurred lines, with overlaps creating friction between the IT and Customer divisions.
- A high proportion of MPI's discretionary roles are deployed within the division.
- Given potential changes to MPI's strategy (with a likely emphasis on focusing on basics) there is an open question as to whether the structure and level of allocation of discretionary roles to this division will best serve the future strategy of the organization.

Structure snapshot[61]

Level	People leaders	Ind. contrib.	Total empl.	% of total	Mean spans of control
Executive	1	0	1	1.0%	5.0
Director	5	0	5	5.0%	3.8
Manager	5	0	5	5.0%	5.4
Supervisor	10	3	13	12.8%	3.1
Employee	0	77	77	76.2%	-
Total	**21**	**80**	**101**	**100%**	**3.9**

Individual Contributors (Ind. Contrib.) do not have direct reports.

Key findings

- The D&T division has been built to support the MPI 2.0 strategy and has a high proportion of discretionary roles. In the context of a change to strategy, the allocation and optimal structuring of the capabilities within the division could be reviewed.

Exploring the structure, size and effectiveness of MPI's divisions (7/9)

Focus on Customer

- The Customer division mandate includes four directorates: Communications, Brand & Marketing; Customer Experience; Customer Value Proposition; and Government Relations.
- Since 2020, there has been a material drop in customer experience scores (10-point decline relative to 2018–2020 baseline).[211] Areas of material decline are broad and include policy changes, damage claims and injury claims. Conversely, new policy purchases and licensing have not seen a material decline.
- Nearly half of Customer division leaders (47%) have a direct report below three, which indicates room for improvement from a spans of control perspective.
- MPI's current customer experience includes minimal digital interaction, but however quickly or robustly MPI moves to a digitally enabled model, it is likely to need attention in the future.

Insights

- Many Canadian P&C insurers operate a Chief Customer/Chief Marketing & Communications Officer model. In MPI's current executive structure, several potential accountability overlaps exist between the Customer division and the D&T division (Customer/Digital experience) and also the Finance and Legal divisions (external relations). See slide 33 and slide 64, respectively for further analysis.
- Like various divisions, spans of control could be improved. Consolidating and reducing overlaps, in particular with D&T could help improve this.
- Many insurers have seen reductions in customer experience scores and have had operational challenges to deliver services as effectively in a pandemic context. Our hypothesis is that MPI has been more challenged than other insurers due to legacy technology infrastructure. The customer experience reports we have received do not have substantial root cause analysis, and this could potentially be an area of improvement.

Structure snapshot[61]

Level	People leaders	Ind. contrib.	Total empl.	% of total	Mean spans of control
Executive	1	0	1	1.5%	4.0
Director	4	0	4	6.1%	4.0
Manager	6	0	6	9.1%	5.3
Supervisor	5	1	6	9.1%	2.6
Employee	0	49	49	74.2%	-
Total	**16**	**50**	**66**	**100%**	**4.1**

Individual Contributors (Ind. Contrib.) do not have direct reports.

Key findings

- Consolidating overlaps between the Customer and D&T division and between the Customer, Finance and Legal divisions could yield several benefits from both an efficiency and effectiveness perspective.

Exploring the structure, size and effectiveness of MPI's divisions (8/9)

Focus on Legal & Compliance

- The Legal & Compliance division is currently at 1.7% headcount [61], which is toward the higher end of market practice.
- The majority of Legal & Compliance leaders have four or more direct reports, with a median span of five direct reports.

Insights

- Overall, the size of the division seems reasonable to deliver its mandate.
- Potential root causes that the team size is slightly large relative to general P&C insurer Legal & Compliance functions could be the higher claims volumes as well as the importance and high demand of external relationship management.
- Spans of control and managerial layers are appropriate for a specialized function of this size.
- The one topic related to the division that may warrant further exploration is the accountabilities and hand-offs between the Legal & Compliance and Customer divisions related to external relations (see slide 33).

Structure snapshot[61]

Level	People leaders	Ind. contrib.	Total empl.	% of total	Mean spans of control
Executive	1	0	1	2.8%	5.0
Director	1	0	1	2.8%	5.0
Manager	4	0	4	11.1%	5.3
Supervisor	1	0	1	2.8%	4.0
Employee	0	29	29	80.5%	-
Total	**7**	**29**	**36**	**100%**	**5.0**

Individual Contributors (Ind. Contrib.) do not have direct reports.

Key findings

- The one potential area to explore for the Legal & Compliance division is to clarify the demarcation of responsibilities related to external relations.

Exploring the structure, size and effectiveness of MPI's divisions (9/9)

Focus on People & Culture

- The People & Culture division headcount is in line with industry average.
- The People & Culture division is focused on core HR activities including talent acquisition, HR business partnering, HR systems, Learning & Development, talent management.
- The core HRIS is at end of life, with various poorly integrated systems and processes, resulting in high manual effort for the People & Culture team. The lack of HR self-service also contributes to high manual work.[4]
- Currently, the People & Culture division provides other divisions with templates and guidelines for people-centric processes but does not provide strategic guidance.[4]
- Succession planning has been a challenge for the organization, particularly at senior levels.
- There is a lack of consistent and quality role profiles across the organization, linked to a wider job and career architecture.

Insights

- Modernizing the legacy HRIS should be a priority to improve workforce data accuracy, enable improved resource allocation from low value to high value tasks, and ensure smooth integration between Finance and HR.
- People & Culture has an opportunity to elevate itself to become a strategic partner in the organization. The key areas it could further add value include workforce planning, talent development, succession planning, and managing a clear job and career architecture.
- Overall, HR should be more broadly defined by focusing not only on internal person years but also contingent workforce and part-time workers.
- Ownership of Learning & Development and Knowledge Management is somewhat fragmented, with accountability sitting across People & Culture, D&T and Operations.
- At an enterprise level, there are pressures building to increase staff, and it should be the role of People & Culture to help make appropriate staffing decisions aligned to long-term workforce plans.

Structure snapshot[61]

Level	People leaders	Ind. contrib.	Total empl.	% of total	Mean spans of control
Executive	1	0	1	2.0%	3.0
Director	3	0	3	5.9%	2.3
Manager	5	1	6	11.7%	4.8
Supervisor	2	0	2	3.9%	5.5
Employee	0	39	39	76.5%	-
Total	**11**	**40**	**51**	**100%**	**4.1**

Individual Contributors (Ind. Contrib.) do not have direct reports.

Key findings

- Whilst system constraints exist, the People & Culture division could provide more strategic value to the organization including in key areas such as workforce planning, talent development, succession planning, and managing a clear job and career architecture.

Addressing overlaps will support MPI in clarifying division mandates and increasing collaboration

Division mandates are not clearly outlined, and overlaps exist. The following examples highlight the need to provide clarification and avoid duplication

Topic	Observations	Insights
Overlaps between D&T, Customer, and IT divisions	Potential overlapping accountabilities exist across D&T, Customer and IT divisions, leading to friction. For example, ownership of customer experience definition across all channels (face to face, phone and digital) is unclear, hindering MPI's ability to deliver an effective end-to-end customer journey. Furthermore, there is a lack of clarity between the Digital and IT divisions, for instance accountability related to business requirements definition and delivery are not defined. Blurred lines also exist around transformation initiatives, which cause friction.	Each organization is specific, however from a market perspective, we typically see two rather than three executive roles covering these mandates across most comparable insurance organizations, often organized by a combined Customer and Digital or IT and Digital leader. Where substantial focus on a capability is required, it is not uncommon to add a specific senior role or executive scope to manage this (e.g. Nova delivery). In the context of MPI, it will be important to consider the focus required to deliver the future corporate strategy. Clarifying accountability and reducing friction should be high priority, whatever the ultimate organization structure.
Forecasting overlap between Finance and Actuarial, Investments & Risk divisions	There are blurred lines of accountability between the Finance and Actuarial, Investments & Risk divisions with regards to forecasting. The Actuarial, Investments & Risk division is developing its own forecasting model for financial condition testing (FCT) purposes. It is industry practice to have the Risk division as the owner of the FCT mandate as it is one of various stress-testing processes that fit within the insurer's overall risk management process.	Co-developing forecasting by the two divisions is essential to avoid duplication of efforts and to leverage the appropriate expertise of both divisions, as well as consistency of the methodologies. It will also help ensure comparability of both baseline scenarios and assumptions. To be successful, strengthening FP&A requires robust and smooth coordination with shared objectives and framework, as well as clear roles and responsibilities. See slides 23 to 28 for further detail.
Scattered data teams	MPI has data and analytics roles that are spread amongst several divisions, including Operations, IT, Actuary, Investments & Risk. There is not a clearly defined operating model (e.g., hub and spoke) for Data & Analytics. The current fragmented model leads to inefficient allocation of resources, lack of synergies and absence of a unified approach to data management.	Multiple operating models can be successful from a Data & Analytics perspective. A data hub and spoke may be appropriate to help develop a common, and shared data model and governance. MPI should evaluate the optimal operating model for the organization and implement it consistently. Given the relative immaturity of Data & Analytics at MPI, there is a definite benefit to a clear executive owner – whether centralized or hub and spoke. The organization doesn't have the maturity to operate in the current decentralized manner effectively.

Additional overlaps related to external relations management are described slide 33.

Having a robust learning strategy is critical to maintaining a skilled workforce

The lack of a strong learning approach combined with existing skill set gaps hinders the upskilling of the workforce

- There are mixed perceptions amongst executives in terms of the skills and skills development available to staff to support them in delivering their roles, with some believing skills shortfalls exist today.[4] Inadequate capability was identified at the enterprise level as a critical risk in Q3 2022/2023, then a high risk in Q1 2023/2024, impacting productivity and limiting the ability to execute activities.[108]
- Learning and Development (L&D) activities are being led across three divisions: knowledge management is performed by D&T, People & Culture provides support in soft skills, individual divisions are responsible for technical skills, with the bulk of this learning occurring in Operations.[4] Divisions are individually responsible for identifying learning opportunities, resulting in a lack of an enterprise and strategic roadmap to map and prioritize L&D needs.
- It is not uncommon to have some shared L&D accountabilities, but the lack of an overarching owner or integrated strategy likely prevents optimal learning outcomes. MPI does not have a consistent job architecture or defined learning journeys, which creates challenges in talent management and development.
- Elevating capabilities in core insurance operational functions such as contact center and claims should always be top priority. Onboarding in operations often takes up a substantial portion of enterprise L&D attention. Beyond this, several additional capability gaps could benefit from further attention:[4]
  - Strengthening risk management and finance acumen would help increase ability to deliver more impactful and stable financial information including forecasts to external stakeholders.
  - Further developing project management capability, including for 'travellers' who join a program for a temporary period or in a part-time capacity.
  - Further developing technical skills on data and analytics to facilitate business performance predictions and problems solving.
  - Accelerating speed to gain general insurance knowledge across all levels.

Insights

- Defining a learning strategy aligned to a clear job architecture and career framework will help to strategically develop the workforce. In an increasingly fast pace world and changing skills, job architectures should not be set once and then forgotten, but rather iterated regularly. Skill gap mapping against the job architecture should be a regular process, with learning reviewed, iterated and aligned to changing skills requirements as well as skills gaps.
- To reach this maturity is a stretch for MPI, but setting a clear learning operating model and a job architecture with skills gap assessment would be beneficial.

Key findings

- The current learning approach does not have a consistent job architecture with gap analysis and some skill sets need to be strengthened. An enterprise learning operating model and learning strategy will support the upscaling of the workforce.

Strengthening MPI's capabilities to deliver successful transformation

Ownership of transformation initiatives are not clearly assigned to the correct stakeholders

- A well-defined and efficient transformation office is pivotal to ensure that the organization can modernize and adapt its structure, systems, processes and people to stay up to date with the customers' evolving needs. Although a distinct team in and of itself, its impact is designed to be felt across the whole organization.
- At MPI, the Chief Digital & Transformation (CTO) role and in effect, the D&T division, was created in May 2021 to focus on long-term transformation and strategic initiatives.[23] At the heart of the D&T division lies MPI's portfolio management process, referred to as their Integrated Corporate Portfolio (ICP) framework. It outlines the process to gather, analyze and select transformation projects to action. Developed in part over the past few months, the ICP framework consists of seven phases (Ideation, Idea Development, Funnel, Reviewing, Analyzing, Ready & Build). At the Funnel stage, projects are reviewed by the Lean Portfolio Management (LPM) committee. The LPM committee is made up of four to five executives that are responsible for reviewing business cases and approving funding for projects meeting certain criteria. [4, 116]
- Despite best intentions, the potential of this transformation office and its portfolio management process have not been fully realized. This is in part due to blurred lines of responsibility for transformation initiatives that are spread across multiple divisions. For example, the Enterprise Project Management Office, Capital Master Summary and the LPM committee all sit under the CITO.[4,22,127] Contributing further to this issue is the lack of a corporate strategy, therefore preventing alignment to one. While organizational alignment and cross-division collaboration are needed for successful transformations, defining clear ownership, clarifying responsibilities, and strategic alignment to an annual plan are essential.
- To elevate the effectiveness of the transformation office and its paramountcy on the transformation journey, MPI will need to take steps to strengthen certain foundational capabilities. These capabilities are highlighted in more detail in the chart on slide 68, which illustrates what an industry leading transformation office should look like.

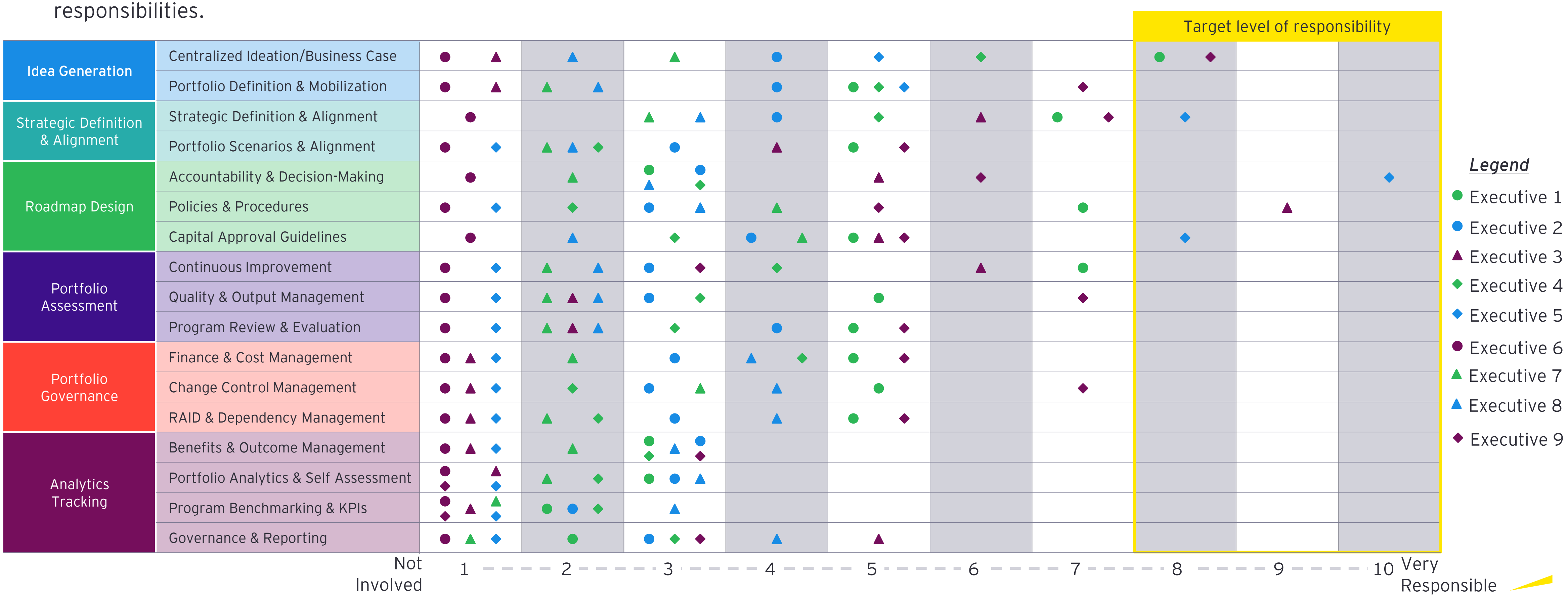
Key findings

- There are overlapping responsibilities regarding transformation efforts across different divisions within the organization. Ownership of transformation-related activities must be clearly defined to reduce friction and improve decision-making capabilities.
- Transformation efforts are not aligned to a strategic plan and priorities at the corporate level.

Empowering decision-making in the portfolio management process

The EY enterprise portfolio planning and management framework was used to gain a better understanding of executive involvement in MPI's project portfolio management and highlighted the lack of ownership in certain capabilities

- MPI's executives were asked to conduct an individual assessment to describe their contribution for each of the 17 activities involved in managing a portfolio of projects, using a scale from 1 to 10. Ideally, there should be one stakeholder listed as an 8 or more for each activity.
- The low number of activities for which no stakeholder ranked themself as an 8 or more signifies the need to identify a clear owner and clarify the roles and responsibilities.



Setting the right foundation will help MPI build its transformation capability

MPI can leverage industry leading practices to set their transformation office up for success

- The chart below outlines the capabilities and structure required to build an industry leading transformation office. While not in line yet, MPI can take certain steps to bring themselves in line with this structure. Four success factors have been identified on the next slide for MPI to consider. While a more detailed and holistic assessment is required to address each capability, these factors will provide opportunities to deliver immediate value.

Transformation Office Management
- Governance
- Resource Management
- Knowledge Management
- Communications

Portfolio Management
- Demand Management
- Stakeholder Engagement
- Strategic Impact Management
- Capacity Management (Resources)
- Integrated Planning
- Value Targeting
- Financial Management
- Dependency Management

Program Initiation/Delivery
- Business Design
- Change Management Strategy (OCM)
- Solution Architecture
- Requirements Management
- Cost Estimation
- KPIs Dashboard Definition
- Vendor Management
- Program Delivery Structure
- Business Case

Program Governance
- Program Execution Toolbox
- Performance Management & Reporting
- Benefits Realization
- Integrated Master Schedule
- Quality Control
- Governance Effectiveness
- Program Delivery Framework

Program Closing
- Lessons Learned
- Knowledge Transfer
- Transfer to Ops
- Benefit Tracking
- Demand Management
- (OCM) Change Sustainment

Program Execution Toolbox
- Scope and Change Control
- Schedule Management
- PM Monitor & Control
- RAID Management
- (OCM) Change Enablement
- Resource Management
- Time Reporting
- Cost Control

There are several key success factors that are common to successful transformation programs

A deep dive into project Nova was not within the scope of this review, however the following key success factors are often observed in setting a program like Nova up for success

1. ***Ensure that the program's strategic intentions are clearly defined and in line with the corporate strategy***. This will directly impact both the high level and detailed requirements gathering phases of transformation programs, which in turn will inform system selection and architecture design – which should be completed downstream from high-level requirements and benefits case completion.
   - Collaboration with different stakeholders including the business, customer, IT and transformation is vital to establish clear and precise requirements before functional design. Failure to suitably document requirements will lead to problems at go-live and cumbersome IT rework.
2. ***Be realistic about in-house capability and capacity to deliver, and proactively manage risk accordingly.***
   - Most executives don't have deep experience of leading multi-year and multi-million-dollar transformation programs. It is important that the right level of senior capability and capacity is deployed to successfully lead such programs, with candid assessment of the skills and knowledge gaps of current leaders.
   - For many enterprise core systems transformations, organizations choose to leverage a lead systems integrated, who manages the risk, including through partnerships with other software and delivery vendors. This outsourcing of risk to an expert organization to be on point from an overall delivery perspective is a way of mitigating risk of internal capability to effectively manage and integrate the complexities of a multi-software and multi-partner program.
3. ***Take the time to build a robust project and resourcing plan***. This will allow the program and organization to both understand and help meet the demands of the project, resulting in on-time delivery.
   - Establish a clear plan, detailing phases, milestones and deliverables. Once completed, the program must develop a resource plan aligned to the project plan that outlines effort required over the project duration at a granular level. This should be supported by the HR function who will also need to conduct the proper workforce planning. Typically, the most critical area is suitable understanding and commitment from the IT and operations functions with funding and backfill planning to allow suitably skilled staff to be transitioned onto the project when needed.
   - Major programs are often strong at developing resourcing plans, but organizations are often weak at integrated into an enterprise view across all programs and operational requirements, and gaining commitment to support and resource as required. This can result in additional contractor cost and risk
4. ***Balance IT and Operations in deployment planning and make sure that the business is ready to accept the change.***
   - At the beginning of the project, identify core deployment principles (e.g., no 'big bang' deployment, start with proven auto functionality) to help evaluate deployment options. It is typical to split deployment into manageable 'chunks' – both from an IT build and operational point of view to mitigate risk. This can lead to substantial trade offs.
   - The impact and associated operational readiness actions for each impacted group for each deployment should be carefully considered and planned. Furthermore, it is essential to ensure that the organization has the required ongoing skills and resources to maintain the new systems once implemented.

There are opportunities for MPI to implement these success factors

Addressing these opportunities will yield benefits for Nova R3, R4 and beyond

- Responsibility for Nova is being split between the IT and D&T divisions. Without clear owners in place, responsibility for decision-making has faltered, resulting in confusion around roles and directions, exorbitant expenses and implementation errors.[4]
- Whilst it is not abnormal for major core systems transformation programs to have governance outside of 'standard' transformation oversight, it is vital that there is full integration to the overall enterprise, e.g., funding, IT delivery capacity, resourcing allocation, etc. There appears to be a lack of integration from Nova to the wider enterprise roadmap and organizational capacity.
- Delivery of additional projects are currently limited due to the significant volume of resources being consumed by Nova. Furthermore, although a robust resource plan is in place for Nova, business resources staffed to the project are still having difficulty managing their workload between the program and day-to-day operations. This highlights the need for an enterprise-level capacity resourcing model that has the right business buy-in. This would allow MPI to balance the needs of their entire portfolio, meet program demands and maintain operational service quality.
- Involving the right stakeholders (including IT, Operations & Customer) both before and throughout is vitally important to ensure that requirements are being properly met. Although requirements were captured on Nova, it is apparent that it was not captured with enough precision, resulting in missed targets for R1 and R2. Furthermore, these requirements were gathered after the system selection had taken place, as opposed to before, and thus could not inform the system selection.
- Looking beyond Nova, the ICP framework follows a valid progression that MPI should be following to build out strong business cases, review the costs and benefits of each project and select which ones will be delivered. While it is too early to tell whether its application will be effective, aligning criteria to a defined corporate strategy will be critical to its success. Furthermore, ensuring that this framework is fully integrated with the organization's enterprise technology roadmap will ensure that short, medium, and long-term needs are being appropriately addressed. This will result in a strong and diversified portfolio.

Key findings

- Project Nova is largely managed as a separate business unit with its own strategy, governance and workforce planning.
- Project Nova dominates and consumes most of the available discretionary resources of the organization. Although Nova will solve 60 out of 150 applications that need urgent renewal at end of life, consideration needs to be given for how to address the balance.
- Project prioritization needs better alignment to MPI's strategy and its priorities.
- A complete and integrated enterprise technology roadmap with suitable funding and resource allocation is required to reduce potential risks.

Theme 4:
Setting and measuring the efficiency of the organization to deliver stakeholder value

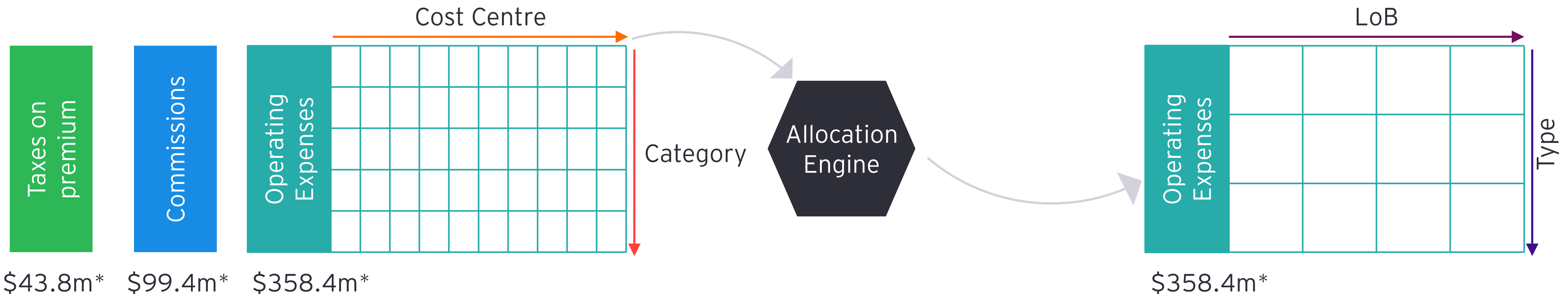
The fourth section of the report suggests the development of several new key performance indicators (KPIs), as well as the refinement of MPI's expense ratios and key definitions to more closely align with its strategic intent. Furthermore, it analyzes, in detail, MPI's current cost allocation and calls for a review of the expense allocation engine, given its importance to decision-making.

The expense allocation engine is a vitally important component that impacts the decision-making for several key processes

Overview of the expense allocation scheme

What are the expenses?

Where and what are they used for?



Operating expenses to be allocated by:

- Cost Centre: >150
- Category: 29 including 'Compensation,' 'Data processing,'…

Operating expenses to be allocated by:

- LoB: 'Basic,' 'Extension,' 'SRE,' 'DVA'
- Type: 'Claims,' 'Acquisition,' 'Administrative'

How is it used?

- FP&A drivers (expenses by 'category')
- More details can be found in Appendix C

- Administrative expense ratio (expenses by 'type')
- GRA submission (expenses by 'LoB')
- Comparison with peers (expenses by 'type x LoB')
- More details can be found in Appendix C

*Based on 2022/2023 MPI's figures

The administrative expense ratio is a key factor in how MPI's cost efficiency is judged, it is important to get it right and to understand its value and limitations

Summary of insights on the administrative expense ratio and underlying expense allocation scheme (1/2)

- MPI's expense allocation methodology significantly impacts financial decision-making processes:
  - The allocation per LoB plays a crucial role in the performance of the different products. The rates submission process for Basic is therefore directly affected by this allocation.
  - The allocation per category influences the determination of administrative expenses and, subsequently, the administrative expense ratio.
  - These effects are further emphasized by the fact that actionable levers, such as FTE and investments (including Nova), are inherently linked to specific expense categories. Moreover, Appendix D describes how expense allocation could be leveraged to bring additional value, beyond the sole reporting needs, in the financial decision-marking processes.
  - A detailed examination of certain mechanisms within the expense allocation methodology is covered in Appendix E. This deep dive sheds light on the intricate details that contribute to the overall allocation process.
  - MPI can assess the use of a simplified waterfall (or 'step down') methodology for cost allocation, described in Appendix F, covering the key steps to consider for such an implementation, and the benefits and disadvantages of the methodology.
  - In addition, MPI could explore the opportunity to define guiding principles to evaluate the current cost drivers and assess the opportunity to adopt new ones. See Appendix G for more details, with an illustrative example on how it can be achieved.
  - Finally, MPI could consider the following refinements for its allocation mechanism, described with more details in Appendix H:
    - Methodological refinement 1: Full allocation vs. partial allocation
    - Methodological refinement 2: Budget-based (with periodic true-up)
- It is important to note that monitoring the administrative expense ratio as the sole KPI may not fully capture MPI's operational efficiency and its capacity to successfully sustain affordable rates. This topic is further discussed on slide 78.

Key findings

- Given the significance of cost allocation on vital metrics under scrutiny, MPI should refine its methodology to ensure accuracy and effectiveness.
- Reviewing the cost allocation process can be done through multiple ways, such as defining guiding principles to evaluate the current cost drivers or assessing the opportunity to use a simplified waterfall methodology.
- In addition to the administrative expense ratio, exploring alternative indicators is recommended to broadly monitor and assess MPI's operational efficiency alongside its capacity to successfully sustain affordable rates.

The administrative expense ratio is a key factor in how MPI's cost efficiency is judged, it is important to get it right and to understand its value and limitations

Summary of insights on the administrative expense ratio and underlying expense allocation scheme (2/2)

- The administrative expense ratio serves as a KPI for tracking MPI's operational efficiency. This ratio relies on the allocation of a portion of total expenses to 'administrative expenses.'
- It is essential to consider the context of MPI to ensure that the impact on administrative expenses is adequately considered:
  - It is difficult to articulate a strategic transformation vision with the financial plan since the means to finance it (i.e., the admin expense/premium ratio) are not determined to deliver the strategy but to guarantee financial balance, regardless of the setting of other parameters.
  - MPI's business model exhibits several specificities compared to private insurance companies, such as the tariff setting process of Basic and the integration of DVA.
  - With these factors at play, we believe that the calculation methodology of the administrative expense ratio could benefit from refinement, with four methodological refinements suggested (refer to slide 77 for more details):
    - The use of allocation engine instead of frozen parameters
    - Net impact of DVA
    - Removal of the pension benefit interest rate
    - Inclusion of the acquisition expenses
  - The reasoning behind this need of refinement in the calculation methodology is described on slide 76 (and more in depth in Appendix I) with a recalculation of the administrative expense calculation performed by EY based on the refinements suggested on slide 77.

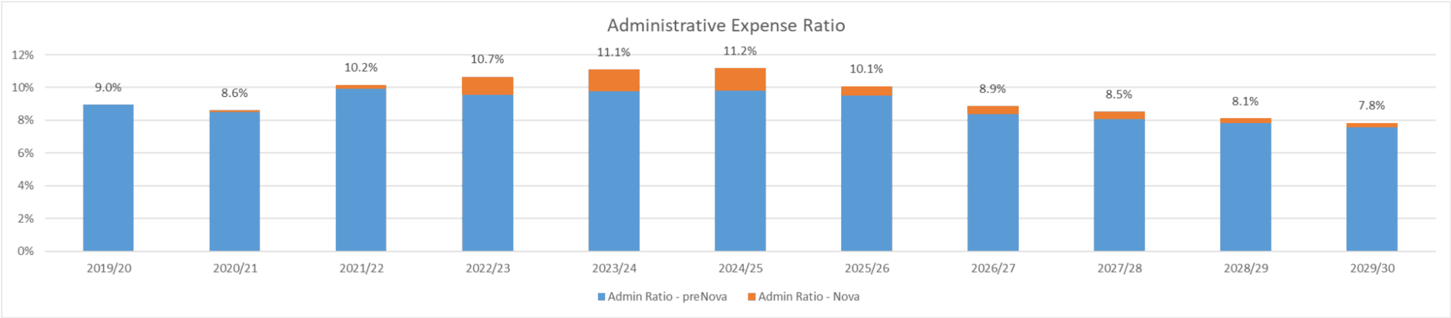
Key findings

- The existing administrative expense ratio calculation methodology should be carefully examined and adjusted to better accommodate the unique characteristics of MPI's business model
- Four methodological refinements are suggested to support a more accurate calculation of the administrative expense ratio, among which is the use of allocation engine instead of agreed frozen parameters.

Refining the administrative expense ratio (1/3)

Context on administrative expense ratio within MPI

- During the 2023/2024 annual 'Estimates' review process, the TBS reconfirmed its guidance that MPI should reduce its administrative expense ratio to 7.2% by 2028/29, along with a further reduction to 6.7% by 2029/30; or provide an analysis supporting an alternate % for consideration. This messaging was consistent with the original TBS messaging from the 2021/2022 'Estimates' process where in MPI was directed to reduce its administrative expenses by 2.0% as a percentage of net premium, to align itself with its provincial crown counterparts pursuant to an internal TBS analysis.[243]
- At the request of the TBS, MPI is providing updated guidance on landing an administrative expense ratio of 7.2% for 2028/2029. MPI's current forecast suggests 8%. As MPI works through the 2024/2025 budget process in the months ahead, MPI will specifically look to refine cost down initiatives to align with the TBS guidance. MPI is also in the process of upgrading our forecasting/budgeting capabilities. This will assist MPI in providing the TBS with improved vision through to 2028/2029 administrative expenses.[240]
- Current trend expectations calculated by MPI are illustrated, below:[240]



Insights

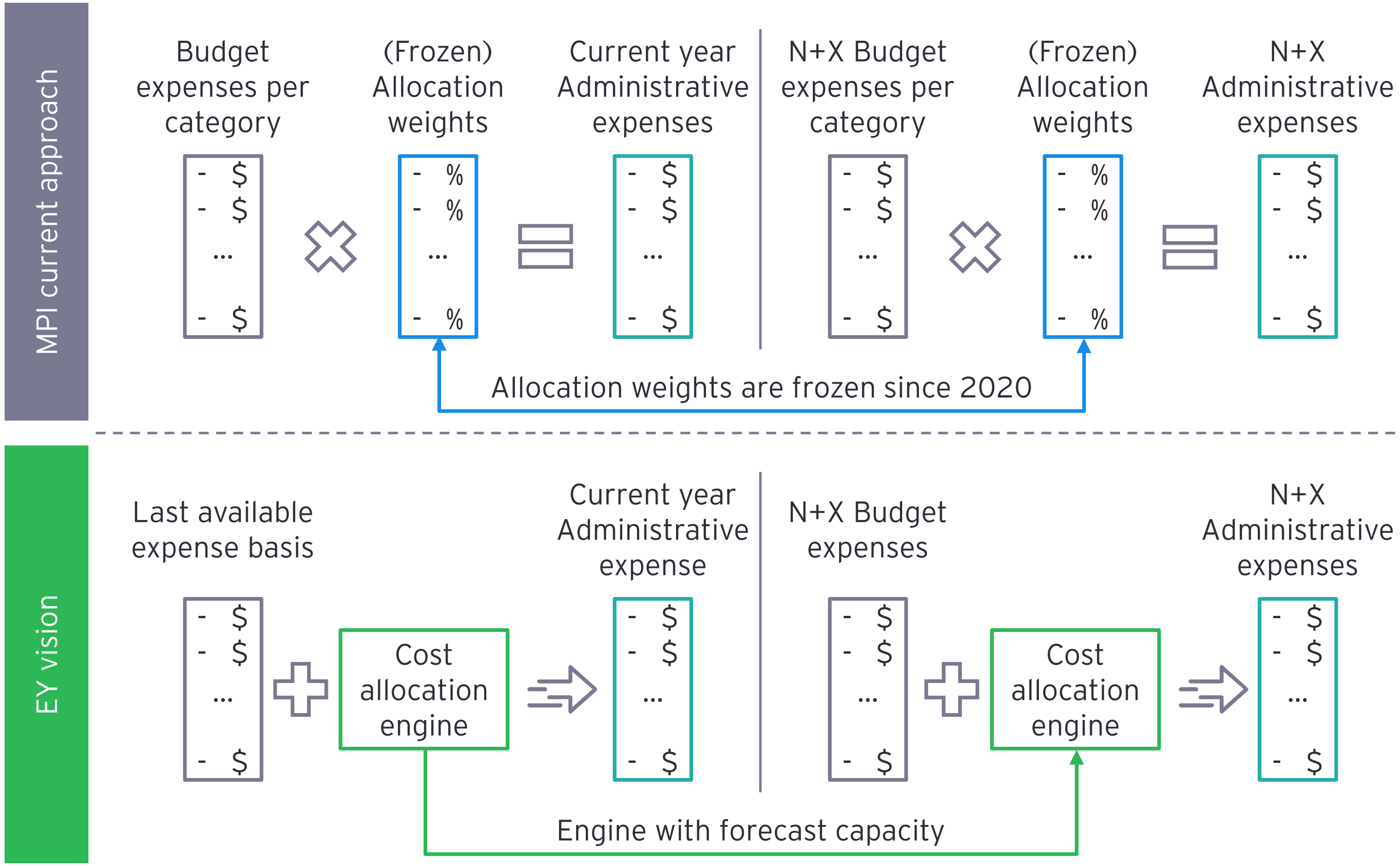
- The administrative expense ratio is a vital KPI that MPI commits to when talking with the TBS about budgets and financial planning.

Key findings

- The goal to gain an improvement in efficiency representing 3.5% of the earned premium, which translates to recurring savings of more than $50m on operating expenses by 2028/2029 (irrespective of the cost-benefit from Nova) may be overly ambitious.

Refining the administrative expense ratio (2/3)

It is important to improve the data and assumptions used to calculate the administrative expense ratio



Insights

- As of today, allocation weights used to derive the administrative expenses from the ones per category (irrespective of the Accounting Unit), have been defined in 2020 and are now frozen.
- The impact of this change is further discussed as the 'methodological refinement A' on slide 77 (additional details on calculations in Appendix J) and would lead to an increase of the administrative expense ratio from 10.66% to 11.73% based on 2022/2023 figures.

Key findings

- Using the current methodology for allocating operating to administrative expenses leads to a significant gap in the 2023/2023 ratio (11.73% versus 10.66%).
- The allocation of expenses to administrative expenses should be done levering the cost allocation engine for the current year as well as for the forecasted expenses.

Refining the administrative expense ratio (3/3)

Proposition of methodological refinements to the administrative expense ratio calculation methodology

- Methodological refinement A – Use allocation engine instead of frozen parameters:
  - From our understanding and provided documentation, the administrative expense ratio is not based on internal cost allocation engine. Indeed, the passage from operating expenses to administrative expenses is based on a vector which is hard-coded and commented as dated from 2020. We recommend using the internal allocation expense engine to calculate this important ratio for MPI.
  - We have carried out a study on recalculating the ratio using the existing framework and the operating expenses (i.e., excluding acquisition and claims expenses on top of premiums taxes and commissions).
- Methodological refinement B – Net impact of DVA:
  - The expenses allocated to DVA are considered in the administrative expense ratio while they do not support either the administration of insurance policies nor the claims maintenance. DVA activities are funded by the Province of Manitoba. Integrating this revenue in deduction of the expenses could lead to a better reflection of the nature of these expenses and continue to incentivize the reduction of the gap between the revenue and the expenses.
- Methodological refinement C – Removal of the pension benefit interest rate:
  - MPI is providing a pension benefit to its employees. The associated costs (including service costs and interest costs) are accounted in the administrative expenses (in 'compensation'). The interest costs represent the unwinding of the technical reserve based on the discount rate used for the calculation of the pension's actuarial reserve. This effect is analytically (partially/fully) offset with the investment income of assets backing this reserve (as the assets are kept on MPI's balance sheet). Deducting this revenue from administrative expense ratio could lead to better reflect the real cost of the pension benefit-related compensation.
- Methodological refinement D – Inclusion of the acquisition expenses:
  - MPI has defined three categories of expenses in its expense allocation engine: acquisition, claims and operating. We have proposed a recalculation based on the existing operating nature (as described before). As we have not rationalized the inductor used to allocate an expense to the acquisition category, we have calculated the impact of its integration.

Sensitivities on the administrative expense ratio

Methodological refinement applied	Administrative expense ratio*	Δ
Basis as per MPI calculation*	10.66%	-
A	11.73%	1.06%
A and B	10.56%	-0.10%
A and D	12.83%	2.17%
A, B and C	10.03%	-0.63%
A, B, C and D	11.14%	0.47%

*Based on 2022/2023 Actuals Preliminary computation and Net Premiums

Key findings

- The administrative ratio calculation is performed with outdated assumptions and does not leverage internally existing tools.
- The forecast goes beyond the existing five-year business plan.
- The methodology could be adjusted to better reflect MPI's business model.

Rethinking the reliance on the administrative expense ratio to assess and monitor MPI's operational efficiency and its capacity to successfully sustain affordable rates

Usage of the administrative expense ratio in assessing the efficiency of the management of MPI comes with certain limitations that must be considered

- One limitation is the lack of evidence regarding how it is captured within the business plan, budgets and forecasts. This raises questions about how the ratio is incorporated into the overall financial planning process.
- Another limitation is the absence of a clear process that cascades the administrative expense ratio goal into corporate and operational KPIs managed by assigned owners with the appropriate accountability. The lack of clear accountability can hinder the effective utilization of the administrative ratio as a performance metric.
- Furthermore, the current definition does not properly capture the underlying actionable items and other available levers to achieve the desired level of financial efficiency and sustainability. Examples include:
  - It excludes claims handling costs, which represent half of the overhead expenses and for which the split with operating expenses is done at more than 80% with allocation keys. Hence, the underlying actionable items are blurred (as when FTEs/systems cover both activities);
  - It also obfuscates other available levers (to increase the net income before rebate to policyholders) such as: assets yields, positive impact of road safety on claims, commissions paid to brokers, etc.;
  - It decouples the expenses with other factors: number of claims, inflation (as premiums have not increased since 2017), policy count, competitive landscape, product mix;
  - It does not translate the desired levers to action (reduction of FTE, non-replacement of retired FTE, increase of automation, externalization of certain tasks, etc.).
- This ratio would become more meaningful when derived from the combined ratio, which reflects the financial balance of the company. A product-focused view may also introduce bias considering the positioning choices that can guide the establishment of premiums (especially relevant for MPI given the particular pricing process at MPI) and expense allocation procedure.

Insights

- In the previous section we described the limitations of using the administrative ratio and that it should not be used as the only indicator to judge the efficiency of MPI.

Key findings

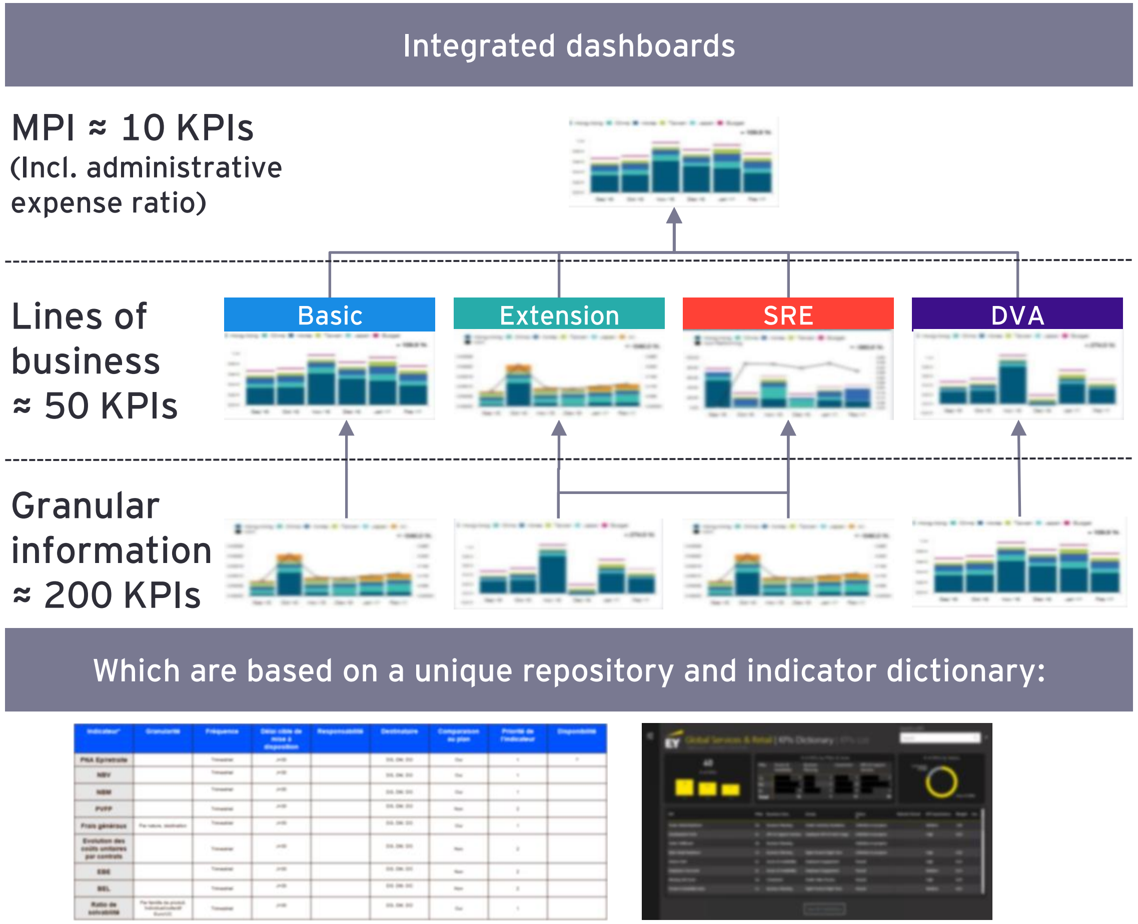
- The portion of administrative expense is highly dependent on the expense allocation methodology used.
- Assessing the efficiency of MPI should not rely solely on the administrative expense premium ratio, as more operational indicators such as the number of claims handled per employee in the case of claims handling expenses are crucial for obtaining comprehensive information and insights.

The need to have consistent, insightful and integrated KPIs across the organization

Observations driving opportunities

- The important function of setting and monitoring KPIs within MPI currently lacks consistency and has limited scope across the organization. This presents challenges for internal executives and external stakeholders in obtaining a comprehensive view of performance. Additionally, the use of different data sources for creating dashboards can lead to difficulties to ensure data accuracy, reconcile discrepancies, and maintain a unified view of performance.
- The use of a unique repository of data with consistent data definitions and consolidating of reports would ensure consistency and accuracy across all levels. With a centralized data repository, MPI could eliminate data discrepancies and maintain a single source of truth. This would help in generating reliable and standardized reports that can be leveraged for decision-making. MPI could identify trends, spot opportunities, and understand performance drivers at different levels.
- The reports generated by operational divisions should serve as a valuable foundation for creating consolidated reports at various intermediary levels within an organization. These operational division reports provide detailed data and insights into the performance of each division.

Developing dashboards with the right level of information consistent across each layer of decision-maker



Beyond the Administrative Ratio - Alternative levers to achieve financial sustainability

Financial balance could be achieved by working with the following key business factors (for illustrative purposes)

Product reform

- Premium:
  - Rates, including the rules for high-risk drivers
- Product design:
  - Product design including establishing what is included in the Basic product and the offering of the Extension product

Claims charge

- Paid claims:
  - Claims strategy (including salvage and subrogation)
  - Coverage and other claims-related features
- Reserves:
  - Release of the bonuses/penalties
- Reinsurance:
  - Reinsurance coverage

Expenses

- Claim expenses:
  - Claims efficiency and cost-saving initiatives
- Contract acquisition expenses:
  - Commission rates
- Administrative expenses:
  - Overall efficiency of the organization (cover in the report)

Other

- Financial result:
  - Investment strategy and its impact on the financial income on reserves and equity
- Road safety:
  - Impact of the road safety

Insights

- When striving to achieve financial goals within a specific time frame, relying solely on the administrative expense/premium ratio for expense determination is insufficient. Unless all other variables remain fixed and expenses are the sole adjusting variable, a more comprehensive approach is required to help provide financial success.
- Various types of levers can be used, including cost optimization measures and revenue enhancement.
- It is crucial for MPI to explore and deploy a combination of levers to effectively ensure long-term financial sustainability.

Key findings

- The achievement of financial balance for MPI should encompass the entirety of the organization's value creation chain and should not rely solely on expense reduction.

5 Conclusion

Call for change: navigating a critical juncture for MPI

The need for strategy, goals and accountability

Without a clear corporate strategy, it is easy for an organization to lose its sense of direction. The mounting pressure at MPI over the past several months has highlighted this and the need to address it. It is vital that MPI ensures that it sets a clear long-term corporate strategy, defines its goals and assigns accountability to guide the way forward.

'Ideas are cheap. Execution is everything' (Steve Jobs)

The operationalization of the future strategy and prioritized initiatives is crucial to deliver the anticipated value and reach the organization's goals. Under any strategy, there is likely to be a large volume of changes ahead for the organization, so improving execution focus will be critical, including the coordination of operational teams with projects.

The importance of the next six months

It is no secret that the chain of trust between MPI and its stakeholders has been fractured. MPI must demonstrate progress in the next six months underpinned by robust financial and operational data to regain the confidence of MPI's stakeholders.

Pressure on the results

Results are everything for an organization, and MPI is no exception. With high claims volumes and inflationary pressures on claims expenses, MPI must give special attention to their underwriting results as well as look to their cost base in an effort to ensure they maintain financially viable in the long run.

Tools modernization and process optimization to reduce the pressure on the FTE level

The need to increase the number of FTEs has been a reoccurring theme echoed by MPI's executives. As has been evident, this request is not always granted. Many systems are at end of life and there is a need to automate and modernize MPI's tools to improve operational effectiveness and efficiency, and reduce the pressure to increase the number of FTEs in the organization.

Closing remarks

This organizational review brings to a head what has been a challenging time in MPI's history. Reading through the report, it's easy to focus on the shortfalls and opportunities for improvement, but it is important to realize that there were also a number of positive aspects. The most noticeable of these are MPI's people; MPI's leadership and staff are extremely proud to be working for Manitobans and are committed to delivering a high-quality service. MPI's mission is well-understood and is truly the driving force that propels its people to show up and give their best each day. When guided by a clear corporate strategy and combined with some strong capabilities currently in place, MPI and its people will be able to build a strong foundation from which to progress and take their organization to the next level.

While stakeholder confidence in MPI has been tested, it has not been broken. We are confident that MPI has the ability to take the necessary steps to rebuild this trust and improve the overall efficiency and effectiveness of the organization in achieving its mission. As written in the opening remarks, this will require investment and effort, which will be justified by the returns that will be realized once the organization is back on track. We are excited to see what the next six months hold for MPI and the direction they will take.

6 Appendices

Appendices: Table of contents

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External Sources

1. STATEMENT FROM JUSTICE MINISTER KELVIN GOERTZEN, MINISTER RESPONSIBLE FOR MANITOBA PUBLIC INSURANCE, ON ORDERING ORGANIZATIONAL REVIEW OF MPI TO ENSURE AFFORDABILITY, RELIABILITY AND QUALITY CUSTOMER SERVICE - 2023
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- f. EY interview with Chief Information & Technology Officer (CITO), [redacted]
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List of acronyms (1/2)

Acronyms and associated description

Acronym	Description	Acronym	Description
AU	Accounting Unit (also refers to Cost Centre)	ERM	Enterprise Risk Management
CAGR	Compound Annual Growth Rate	ERP	Enterprise Resource Planning
CARO	Chief Actuary & Chief Risk Officer	External Stakeholders	Refers to Public Utilities Board, Government of Manitoba, Treasury Board Secretariat
CCO	Chief Customer Officer	FCT	Financial Condition Testing
CEO	Chief Executive Officer	FP&A	Financial Planning and Analysis
CFO	Chief Finance Officer	FTE	Full-Time Equivalent
CITO	Chief Information & Technology Officer	GL	General Ledger
COO	Chief Operations Officer	GRA	General Rate Application
DVA	Driver & Vehicle Administration	GWP	Gross Written Premium

List of acronyms (2/2)

Acronyms and associated description

Acronym	Description	Acronym	Description
HR	Human Resources	NPE	Net Premiums Earned
ICP	Integrated Corporate Portfolio	OSFI	Office of the Superintendent of Financial Institutions
IFRS	International Financial Reporting Standards	P&C	Property and Casualty
IT	Information & Technology	P&L	Profit and Loss
KPI	Key Performance Indicator	PUB	Public Utilities Board
L&D	Learning & Development	SRE	Special Risk Extension
LoB	Lines of Business: Basic Insurance, Commercial Extension, Special Risk Extension, Driver & Vehicle Administration	TBS	Treasury Board Secretariat
LPM	Lean Project Management	WCCCCR	Weighted Customer Contact Centre Call Ratio

Snapshot of MPI's split of their operating expenses (1/2)

Breakdown of operating expenses per category for 2022/2023[210]

Category (in $000)	Total	Initiatives	Nova	Other
Compensation	191,185	9	1,401	189,775
Data Processing	78,024	11,430	24,768	41,826
Special Services	15,897	-	-	15,897
Building Expenses	8,791	-	-	8,791
Loss Prevention/Safety Program	3,404	-	-	3,404
Telephone/Telecommunications	1,704	-	-	1,704
Advertising & Public Info	2,323	-	-	2,323
Printing, Stationery & Supplies	5,076	-	-	5,075
Postage	5,449	-	-	5,449
Regulatory/Appeal Expenses	4,408	-	-	4,408
Travel & Vehicle Expenses	1,151	-	5	1,146
Driver Education Program	3,714	-	-	3,714
Grant in Lieu of Taxes	1,833	-	-	1,833
Furniture & Equipment	2,963	765	-	2,198
Merchant, Credit & Debit Card & Bank Fees	10,036	-	-	10,036
Miscellaneous	8,682	5	79	8,598
Amortization of deferred development costs	7,990	-	(Note 1) -	7,990
Depreciation of operating property and equipment	5,728	-	-	5,728
Total	**358,358**	**12,210**	**26,253**	**319,895**

Numbers may not add up are due to rounded figures being displayed.

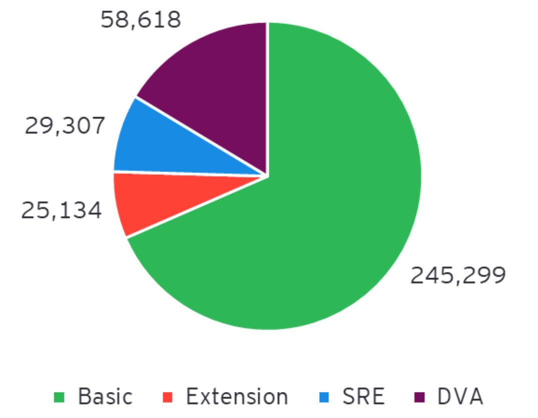
Insights

- In 2023, only $26.2 million of expenses related to Nova have been recognized in the P&L. Additionally, deferred development costs totaling $78.9 million (per the 2023 Financial Statements), which are currently not available for use and not being amortized, are scheduled to be incorporated into the cost basis in 2024 and 2025 in accordance with the Nova roadmap. As a result, approximately $20 million will be added to the cost basis, with around 50% of this proportion attributing to the administrative expense ratio as per the current methodology.

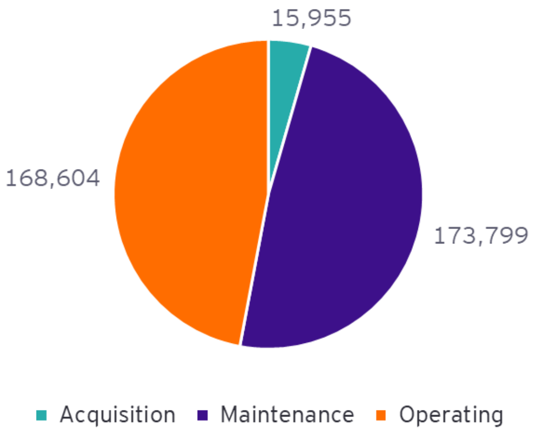
Snapshot of MPI's split of their operating expenses (2/2)

Total operating expenses 2022/2023 split per LoB and Category (in $000)[210]

Breakdown per LoB



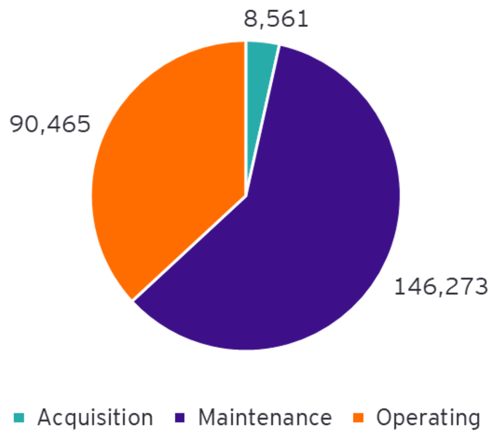
Breakdown per Category



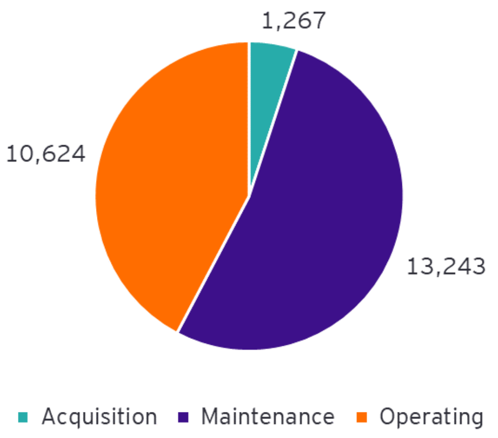
Total operating expenses 2022/2023 split per Category after allocation to LoB (in $000)[210]

Breakdown per Category after allocation to LoB

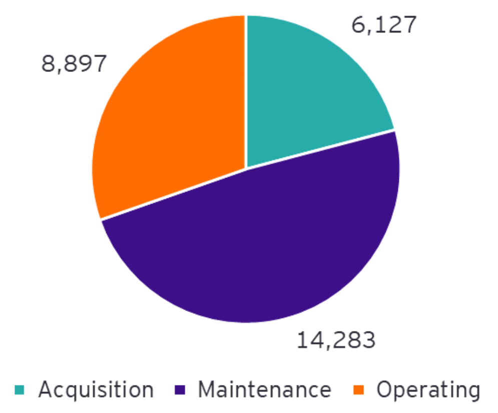
Basic



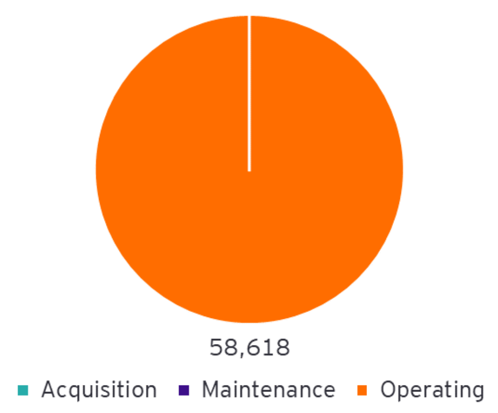
Extension



SRE



DVA



How the expense allocation could be leveraged to bring value to MPI

Leverage expense allocation to go beyond the reporting needs to enhance the financial decision-making process

Accurate, explainable and controllable allocations can help the business make decisions that can appropriately balance the cost impact with the potential upside

Decision Support
Help the business make better decisions

Strategy & Change Execution
Help the business deliver complex change programs and strategic initiatives

Risk and Compliance
Drive trust into daily operations

Allocation process controls ensure confidence that all applicable state and federal regulations are consistently followed

The oracle

The catalyst

The guardian

The curator

The steward

The concierge

Allocations typically serve a role in ensuring that financial results are accurately calculated and that a given product or service is appropriately costed

Finance & Accounting
Collect, process and deliver transactional information

Capital Use
Optimize the use of capital across the enterprise

Customer Support
Provide and continuously enhance the customer experience for internal and external stakeholder that consume financial information

Explanations of allocations and the levers that can influence them, delivered in an efficient and easy-to-understand format, help Finance serve its stakeholders

An in-depth analysis of the overhead allocation mechanism at MPI (1/6)

MPI follows an approach to charge back overhead costs to the respective LOBs that has been developed in spreadsheets and results in allocation of $328m and attribution of $30m[210]

Note		Amount ($m)	%	Method
1	Direct	30	8%	Assigned
2	Normal operating	290	81%	Allocated 1– corporate benefits, occupancy and FTE purification 2– using cost drivers
3	Projects	38	11%	Allocated using cost drivers
	Total	**358**	**100%**	

- Note 1:
  Prior to the allocation of overheard costs to the LoB, MPI performs an initial allocation of corporate benefits accounting unit (AU) 007 ($44m), occupancy costs AU 072 ($17m) , and FTE transfers from certain accounting units to others ($5m), referred to as 'FTE purification' to AUs. Subsequently, certain costs representing $30m are assigned to the LoB as direct costs and are categorized based on predefined expense categories.
- Note 2:
  Subsequently to that, all general ledger (GL) expense accounts ($290m) are mapped to the corresponding expense categories and grouped under the respective non-LoB accounting units (i.e., AU ranging from 002 to 499 except 007, 072 and projects related AU ranging from 221 to 277) . This results in the presentation of expense categories by AUs. Following this step, allocation drivers are applied to each accounting unit to allocate indirect expenses (referred to as 'normal operating') by categories to the designated LoB x IFRS 17 categories, which include:

	Basic	Extension	SRE	DVA
Operating	✓	✓	✓	✓
Claims Acquisition	✓	✓	✓	×
Claims Maintenance	✓	✓	✓	×

- Note 3:
  Moreover, the allocation of projects expenses (AU ranging from 221 to 277) for an amount of $38m follows a similar approach to that of normal operating expenses. These projects expenses are allocated to each of the aforementioned LoB x IFRS 17 categories utilizing allocation drivers similar to those applied for the allocation of normal operating expenses, such as the Weighted Customer Contact Centre Call Ratio ('WCCCCR').

An in-depth analysis of the overhead allocation mechanism at MPI (2/6)

Insights

- The current mechanism for allocating overhead expenses may not fully align with MPI's guiding principle of 'causality', potentially leading to distorted views of the actual performance of each LoB and eventually of the profitability of the contracts due to potential over or under allocation of costs. In particular:
  - The allocation of corporate benefits initially to cost centres and subsequently from the cost centres to the LoBs have responsibilities to both cost centres and profit centres. Consequently, the allocation of corporate benefits inherits the cost drivers used to allocate normal operating expenses to each LoB x IFRS 17 category, lacking a direct causal relationship that would exist if (a portion of) corporate benefits were allocated separately to each category. While it may be challenging in practice to precisely determine the amount of time spent by corporate in each cost and profit centre, management may consider revisiting the allocation process to incorporate objective criteria. This would ensure a more accurate and meaningful allocation of corporate benefits, enhancing transparency and aligning with the principle of causality within MPI's guidelines.
  - While the current practice of allocating occupancy costs to a single cost centre before reallocating them to other centres may be simple to apply, it may face challenges in certain scenarios. For instance, if there are specialized spaces utilized within specific buildings, varying rental rates, or teams that work remotely either fully or partially.
  - MPI is using one allocator for each AU to all the expense categories that are assigned for the allocation to the LoB, this approach may lead to over/under allocation if the cost centres are performing different activities that necessitate multiple allocators.
  - The fact that some allocators are used in multiple instances (such as WCCCCR) may also provide an indication that MPI needs to revisit the actual service usage (or volumes reflecting the utilization of services) for each (significant) accounting unit.

An in-depth analysis of the overhead allocation mechanism at MPI (3/6)

Description of the allocation of reciprocal services

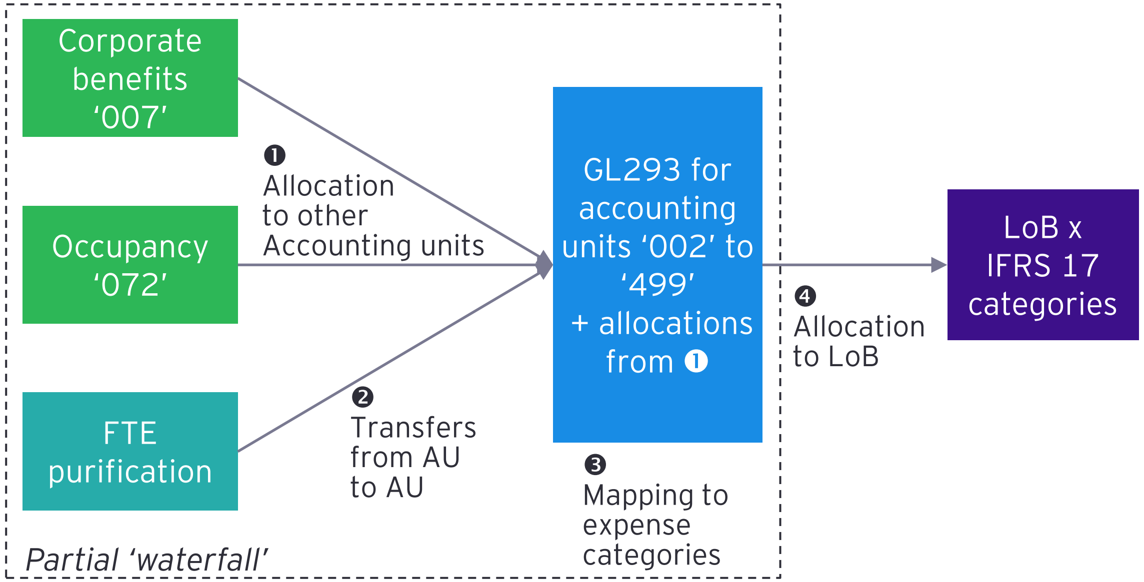
- The allocation of overhead costs by MPI involves the allocation of $328m (92% of the organization's operating expenses) from more than 120 accounting units to ten specific LoB x IFRS 17 categories in spreadsheets (detailed later in this report). [210]
- Managing the allocation of indirect costs, such as corporate benefits, occupancy costs and normal operating expenses, follows an approach described in detail on the next page. A noteworthy aspect of this approach is the manual mapping process, where the GL293 report (to which a certain number of entries, as described later in this report, are manually made for the allocation of specific costs, like corporate benefits) is linked line by line to expense categories.
- However, it is important to acknowledge that the existing methodology may face difficulties due to the presence of reciprocal services among departments, a substantial number of AUs requiring allocation (120+ AUs), the manual nature of mappings and calculations, alongside operating with a limited number of cost allocators.

Insights

- The current allocation mechanism employed by MPI offers simplicity and flexibility, manageable in spreadsheets though extremely manual. Thus, there is room for improvement to enhance automation and leverage the functionalities of the existing IT system or consider an IT change. Automation can expedite report generation, provide drill-down capabilities, and support more complex allocations, resulting in more reliable information for management decision-making.

An in-depth analysis of the overhead allocation mechanism at MPI (4/6)

High-level diagram of the allocation approach for indirect costs



- The first step outlined in the box above resembles a partial ‘waterfall’. A waterfall allocation refers to a sequential method of assigning costs or expenses among different cost centres within an organization. This method follows a predefined order, where costs ‘cascade’ down from one cost centre to the next in a specific sequence. Each cost centre receives costs based on its usage or consumption of resources, and the allocation continues until all costs are allocated to the LoB. We referred to it as ‘partial’ as it did not cover all accounting units but only corporate benefits and occupancy costs.

Insights

- As depicted in the chart on the left, MPI is currently utilizing a partial ‘waterfall’ approach for the allocation of corporate benefits and occupancy expenses. Implementing a more comprehensive waterfall methodology may be an effective solution to address the challenge of allocating reciprocal services for overhead costs.
- It is important to conduct such an exercise in conjunction with any necessary reorganization. To achieve the most efficient cost allocation, cost centres should adhere to certain guiding principles, including:
  - Analyzing the value chain within each division to identify the sequence of activities contributing to the organization. This helps pinpoint breaking points or logical divisions between departments. Currently, MPI has more than 120 AUs, with varying levels of direct expenses incurred by each division, such as $28m for vendor management, 44 units with direct expenses ranging from $2m to $12m, 44 units between $1m and $2m, and 37 units below $1m.[210]
  - Reflecting responsibility levels, i.e., the extent to which each division has control over its costs. This ensures that cost centre boundaries align with the level of accountability within the organization.
  - Accounting for direct costs specifically incurred by each division. Clear identification of direct costs can constitute an indication of a certain level of autonomy/responsibilities as opposed to multiple costs being shared with other divisions.
- Once the reorganization is conducted, MPI should consider developing a waterfall methodology, as illustrated on the next page, to streamline and refine

An in-depth analysis of the overhead allocation mechanism at MPI (5/6)

High-level drivers of the allocation per LoB and Acquisition/Claims/Operating (step ❹) (1/2)

- The goal of this paramount step is to allocate the expenses from 122 Accounting Units (AU also refers to cost centres) to LoB (including DVA) and Acquisition/Claims/Operating nature. It is worth noting that the category of expense (compensation, data processing, etc.) does not play a role in this scheme. This is a three-stage mechanism (the last two being done simultaneously). This represents a basis of $328m (see notes 2 and 3 on slide 85).[210]

Stage 1: Insurance (non-DVA) versus non-insurance (DVA)

- This is aimed at splitting the expenses between DVA and insurance (then per insurance LoB). The main drivers used are:
  - WCCCCR (basis of $160m), which is a call centre statistic applied to heterogeneous AU (but not related to call centres)
  - AU directly allocated to insurance LoB (basis of $84.2m)
  - AU directly allocated to DVA (basis of $16.4m)
  - Based on discretionary declared allocation of FTE for AU Service Centres (basis of $37.9m)
  - Other (basis of $30.2m)[210]
- Completing this stage before the allocation to insurance LoB is pivotal for the calculation of the administrative expense ratio

- WCCCCR stands for Weighted Customer Contact Centre Call Ratio
- Stage 2 and Stage 3 are detailed on the following slide

Insights

- It must be noted that, given the scope of our report, we have not been able to analyze in depth the allocation rules. Some examples include:
  - We have not further explored the rational of the expert declaration
  - We have not further explored the relevance of the directly allocated expenses to DVA or insurance LoB

- Using only the Accounting Unit for the allocation scheme (and not the expense category) may alter the possibility to tackle specific cases; which is the case as mentioned hereafter and on the following slide. In fact, based on our understanding of the charge-back model, the cost drivers used to allocate the services provided by the AUs do not appear to align with the volume of services provided. As a result, the allocation does not accurately reflect the utilization of resources in each AU.

- Using WCCCCR as an allocator for AU that do not operate as a Contact Centre is a strong assumption that can lead to significant bias.

- Based on the insights discussed above, it is important to highlight a potential concern regarding the current allocation method between insurance and non-insurance categories. The current approach may inadvertently lead to cross subsidies, wherein one category of business bears the costs associated with the other category, leading to distorted financial performance.

An in-depth analysis of the overhead allocation mechanism at MPI (6/6)

High-level drivers of the allocation per LoB and Acquisition/Claims/Operating (step ❹) (2/2)

Stage 2: From non-DVA to Basic/Extensions/SRE[210]

- This is aimed at splitting the non-DVA expenses per insurance LoB (Basic/Extensions/SRE). The main drivers used are:
  - Last four-year average claims (basis of $271m)
  - Per expert declaration for AU related to Nova – 24%/24%/52%, respectively for Basic/Extensions/SRE (basis of $19.9m)
  - Per expert declaration for few other AU (basis of $6.8m)
  - Other (basis of $31m)
- It is done simultaneously with the allocation per insurance LoB

Stage 3: From non-DVA to Acquisition/Claims/Operating[210]

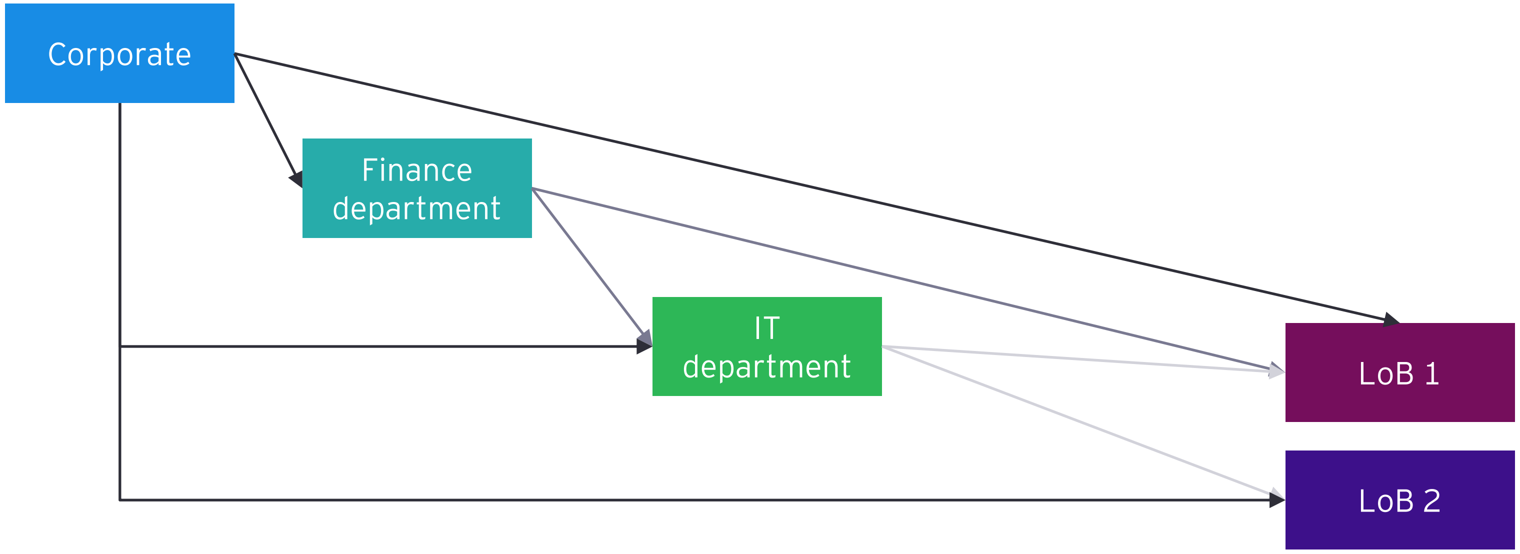
- This is aimed at splitting the non-DVA expenses per Acquisition/Claims/Operating nature. The main drivers used are:
  - AU directly allocated to operating (basis of $86,5m)
  - AU directly allocated to claims (basis of $67,3m)
  - AU directly allocated to acquisition (basis of $3,4m)
  - Based on discretionary declared allocation of FTE for several AU (basis of $117.2m). This allocator is also applied to AU with no or partial FTE:
    - AU vendor management has no FTE ($28,2m) as Enterprise Systems Support ($8.9m)
    - Amortization and depreciation ($5.5m)
    - AU IT Service Management as partial FTE related cost ($8.4m) as Infrastructure & Engineering ($5m)
  - Based on discretionary declared allocation of FTE for AU Service Centres (basis of $38.4m)
  - Other (basis of $15.9m)

Insights

- For ease of reading, the basis are expressed before DVA allocation.
- Using the claim as an allocator means that the $ value drives the burden. As an illustration, it would mean that handling a $1000 claim would cost 10 times more than handling a $10,000 claims. This assumption is pivotal, another choice (as premium in $ or number of policies) would significantly impact the outcome of the allocation per LoB. Generally, it is recommended to express cost drivers in volume units rather than utilizing $ values when allocating costs. This is because using $ values may introduce a price factor that can distort the allocation. For instance, allocating IT costs based on the number of FTE employees would yield different results compared to allocating based on individual salaries.
- When selecting appropriate cost drivers, we advise entities to reassess them in alignment with their guiding principles to ensure causal and meaningful cost allocation.
- We have not explored the rationale of the expert declaration further.
- Allocating simultaneously per LoB and nature (Acquisition/Claims/Operating) hinders the possibility to leverage information brought by LoB (or respectively nature) to strengthen the rationale of the allocation scheme.

Considering an alternative approach for cost allocation: The waterfall methodology (1/2)

Presentation of a simplified waterfall (or 'step down') methodology for cost allocation



Insights

- Implementing a waterfall methodology for cost allocation involves several practical steps to ensure a smooth and effective implementation. Here are the key steps to consider:
  - Assess organizational structure and services: Understand the organization's structure, departments and the services they provide.
  - Define cost centres and allocation sequence: Determine the cost centres to be included in the waterfall and establish the appropriate sequence for cost allocation.
  - Gather data and costs: Collect accurate and comprehensive data on costs (direct and indirect) incurred by each cost centre.
  - Develop allocation rules: Create allocation rules (cost drivers or allocators) and formulas reflecting the services rendered by each cost centre.
  - Implementation: Perform the allocation of costs. Starting from the top-level cost centre and sequentially allocate costs based on the predefined sequence, considering reciprocal services and shared resources.

Considering an alternative approach for cost allocation: The waterfall methodology (2/2)

Benefits

- By providing granular information on the costs allocated to each department, the waterfall methodology offers decision-making support. It facilitates the evaluation of cost effectiveness, performance analysis and resource planning, enabling managers to make informed decisions.
- The structured nature of the waterfall methodology ensures a transparent and fair allocation of overhead expenses. It provides organizations with a clear understanding of how costs are distributed among different departments, enabling visibility into the cost structure of each department.
- The traceability of costs allocated to each department offered by the waterfall approach enhances cost control at all levels of the organization. For instance, in the chart Appendix I, IT departments can easily understand the amount of allocated occupancy costs received from assets management, aiding in monitoring and managing expenses.
- The structured approach of the waterfall methodology helps identify areas for optimization. By analyzing the cost allocations, organizations can gain insights into potential synergies, allowing them to streamline operations, and identify opportunities for cost savings and efficiency improvements.

Disadvantages

- In certain instances, the waterfall methodology may appear simplistic when dealing with reciprocal services that are challenging to sort. For example, when departments like assets management provide office space to IT, but IT also provides services to assets management through system accesses; sorting the reciprocal services can be intricate and require thoughtful consideration. One approach in such cases is to simplify the allocation process by considering a single allocation for the reciprocal services. Alternatively, organizations can choose to go through multiple iterations within the waterfall methodology to address the complexity of reciprocal services.
- The waterfall methodology needs to be regularly revised to accommodate organizational changes. Adding or removing departments can require significant efforts to adjust the cost allocation model accordingly, ensuring accurate and up-to-date cost allocation.
- If MPI chooses to continue utilizing the cost allocation models developed in spreadsheets, implementing a waterfall approach may involve transforming the current model. It is worth noting that several IT solutions available on the market offer waterfall functionalities and can handle challenges such as managing reciprocal services and accommodating organizational changes discussed earlier.

Exploring defining guiding principles to evaluate the current cost drivers and assess the opportunity to adopt new ones

Defining guiding principles to improve cost allocation

- The definition of new guiding principles generally constitutes an important first step in the transformation (or improvement) of cost allocation methodologies. The implementation of new guiding principles usually involves an evaluation of current cost drivers and the identification of alternative cost drivers based on the various guiding principles. This exercise is followed by a decision-making process by the management to determine whether certain cost drivers should be replaced with new ones that more accurately align with the new guiding principles.

- It should be noted that the exercise described on this slide may not necessarily be conducted on all cost drivers currently in place within the organization, particularly if the materiality principle is adopted by the organization. Additionally, some organizations choose to follow a Pareto law in the initial phase and evaluate the cost drivers of the top 20% cost centres that represent 80% of the total costs.

Example of the use of ratings to reassess the cost drivers using guiding principles

- In this illustration taken from the work conducted by an organization operating in the same sector to reassess their cost drivers, we observe the evaluation of the five guiding principles articulated by this organization and their rating on a scale of five and an explanation of the choice of the cost

Cost Centre/ Work Team	Driver	Simplicity	Equity/Fairness	Cost Effectiveness	Transparency	Actionable
CC300.2 Office of the CEO - Corporate	Current - Number of Total Members					
	Recommended – Number of Total Members, Allocated					
	Rationale	The CEO and his support team (defined to include 50% of the Vice Presidents' costs) support all members and no direct causal link is generally identifiable. As such, the current approach is retained albeit with a slight change in wording and calculation.				
CC300.1 Office of the CEO - Vice Presidents	Current - Number of Total Members					
	Recommended - 50% to their work teams and 50% to CEO Corporate (C300.2 above)					
	Rationale	Executives both support their own teams (1st half of driver) and act as corporate representatives (second half of driver). This method adds to equity/fairness and ability to action (i.e. if a plan consumes fewer cost centre resources, it will receive a smaller Vice Presidents' share of expenses) without sacrificing any other principles.				

Guiding principles | Rating of the guiding principles | Does not align to the principle | Significant gaps aligning to the principle | Moderate gaps aligning to the principle | Minor gaps aligning to the principle | Fully aligns to the principle

Refinements to consider to improve the cost allocation mechanism (1/2)

Methodological refinement 1: Full allocation vs. partial allocation of overhead expenses

- Full allocation generally refers to the practice of allocating all overhead expenses to cost objects, such as products, services or departments. The objective is to capture the entirety of the indirect costs associated with each cost object.
- Partial allocation involves selectively assigning or allocating a portion of the overhead expenses to cost objects.

	Full	Partial	EY teams view
Cost-effective	~	+	Allocating costs involves effort
Simplicity/ ease of use	~	+	Allocation leads to inevitable discussion on what is ‘behind the numbers’
Reflects full profitability of BUs	+	~	Not allocating will overstate profitability relative to business unit performance if it operated as a ‘stand alone’ entity
Transparency	+	~	Aggregate unit profitability might look great, but results are much weaker
Incentivizes efficiency	+	~	Not allocating creates the impression that service is ‘free’

Methodological refinement 2: Budget-based (with periodic true-up) or actual-based expenses

- Generally, evaluating the trade-offs and considering the purpose, accuracy, timeliness, stability, variance analysis, and decision-making needs will help determine the most suitable approach for charging out overhead expenses.
- As per industry practice, there is a slight preference for using budgeted expenses (with true-up) and full costs when charging out overhead expenses. By regularly reviewing and updating the budgeted expenses, organizations can strive to align allocated overhead costs more closely with the actual costs incurred.

	Actual	Budget	EY teams view
Cost-effective	~	+	Use of actuals requires more recourse to supporting data
Simplicity/ ease of use	~	+	Use of actuals requires tracking & rapid (near-live) reporting of volumes and expenses
Reflects full profitability of BUs	~	+	At some point, budget allocations might be disability ‘trued up’ to actual
Transparency	~	+	Use of budget creates predictable, stable results but full costs are not visible to consumers
Incentivizes efficiency	~	+	Budget forces provider to manage costs while actual allows consumer to see full cost of services

+ Favourable ~ Mixed − Unfavourable

Refinements to consider to improve the cost allocation mechanism (2/2)

Description of the current process to determine the costs

- Based on the analysis of the current cost allocation process, it appears that MPI utilizes actual costs extracted from the GL293 report to allocate and determine costs for each individual LoB x IFRS 17 category. This approach of utilizing actual costs offers the advantage of providing a more precise and realistic representation of the real costs incurred by the organization.
- However, it is important to note that relying solely on actual costs for cost allocation poses certain drawbacks and implications. Some major implications are the challenges of identifying inefficiencies and alignment to management's strategic plans or determining pricing in advance. Since actual costs are taken into consideration, it becomes difficult to establish pricing for products or services beforehand (i.e., at the beginning of each fiscal year).
- Additionally, other potential implications of using actual costs for cost allocation may reduce the organization's reactivity to market conditions. By relying solely on actual costs, the company may have limited flexibility in adjusting the allocation method based on changing business needs or market conditions during the year. This rigidity might restrict the company's ability to respond swiftly to cost-related challenges.
- The use of actual costs may also prevent the organization from accurately forecasting and budgeting future expenses as it needs to wait for period end to determine direct and allocate indirect costs. As the allocation is based on historical data, it may not adequately account for potential fluctuations or unforeseen circumstances.

Insights

- When updated frequently (that is, when they do not significantly differ from actual costs), the use of standard costs is compliant with IFRS.
- Organizations often consider a standard cost system as it holds several benefits and offers various applications. The following reasons outline why a standard cost system may be utilized:
  - Use in Control: An effective approach to performance control is to compare an individual department's actual results against the predetermined standard costs. This facilitates a clear assessment of any deviations, enabling swift corrective actions to be taken.
  - Use in Decision-Making: Standard costs often serve as a foundation for establishing normal selling prices. Furthermore, standard costs frequently provide the most reliable (forward-looking) approximation of relevant differential costs that are relevant for decision-making processes.
  - More Rational Costs: By implementing a standard cost system, an organization can eliminate month-to-month variations in unit costs resulting from the typical fluctuations of actual expenses (assuming that an organization has the capabilities to calculate actual costs and performs cost allocation on a monthly basis). This leads to more consistent and predictable cost patterns, allowing for better planning and forecasting.
- Management may consider transitioning to standard costs, which presents multiple benefits and as discussed earlier is a preferred approach in the industry.

Refinement of the administrative expense ratio (1/2)

Reasoning on the potential pitfalls of over-focusing on the current administrative expense ratio (1/2)

- From a business standpoint, the allocation of expenses per LoB is challenging between Basic and Extension, at least. Indeed, it seems questionable to consider Extension as an autonomous LoB on which all levers can be activated independently of the performance of others.
  - Regarding extensions, the economic balance is closely linked to the primary guarantee given the covered market (which is identical to the primary guarantee) and the underwriting journey, as well as IT systems.
  - Due to the above-mentioned interrelations of processes and systems, the allocation of expenses between these two LoBs may be perceived as subjective and difficult to rationalize. Special attention should therefore be given to this in order to separately assess the financial balance of these two LoBs.
  - The difficulty is further accentuated by the bifurcated control process over premium rates, and in reality, almost the entire premium level, considering the monopoly on the basic guarantee. In fact, the conquest of new markets or increasing market share is not possible, resulting in almost zero growth leverage (apart from exogen factors such as increase of Manitoba population).

- Major transformation projects immobilize significant amounts of capital whose business case is evaluated by increasing the top line and diluting fixed costs and/or improving operational efficiency.
  - The reversal of immobilized assets must therefore be compensated by the economic benefits that strategic projects bring. Thus, conducting an analysis on the current or future level of expenses does not provide significantly different insights.

Insights

- The introduction of new KPIs to assess the proper allocation of resources is therefore crucial. Additionally, it is important to judge the effective use of allocated resources through complementary indicators that will depend on the nature of the expenses.
- Furthermore, considering the need to respect financial balance, a multi-year perspective and an enhancement of forecast quality should be considered. This is especially important when financial balances can be heavily impacted.
- In the case of Nova, it is not certain that the economic benefits will fully compensate for the recovery of immobilized assets. Thus, a multi-year perspective would allow for an assessment of the profitability distortion that will materialize in a deteriorated combined ratio.

Refinement of the administrative expense ratio (2/2)

Reasoning on the potential pitfalls of over-focusing on the current administrative expense ratio (2/2)

- The case of DVA is unique (amongst private P&C insurers) in that it is not part of a traditional insurance company's activities leading to complexify the comparability.
  - It should be noted that DVA processes and systems are closely intertwined with the processes and systems of other LoBs. Moreover, MPI receives compensation for the services rendered. The determination of this compensation has not been reviewed by EY teams, but to our understanding, for the fiscal year 2022/2023, the Province of Manitoba increased funding to $40,250 thousand.
- One might be tempted to normalize the premium level with peers (other crown entities or private insurers) to better understand the 'real' level of expenses. At first glance, this approach seems appealing, but it has the following limitations:
  - Inability to adjust the premium based on differences in claims experience
  - Financial balance can no longer be truly guaranteed due to the normalization of premiums (unless acting on another aggregate)
  - Difficulty in maintaining this normalization over time

Insights

- It is legitimate to question the integration of DVA activities into the income and expenses used in MPI's insurance technical analysis.
- We do not recommend to try to normalize the premium for comparability's sake in the case of the calculation of the administrative expense ratio.

EY's recalculation of the administrative expenses

Table on the administrative expense calculation used with the TBS (based on 2022/2023 figures)[210]

Category In $000	MPI calculation (based on 2022/23 Preliminary Actuals)			EY recalculation* (based on 2022/2023 Final)			Δ Administrative	Δ Allocation key	Analysis
	Basis	Allocation key (1)	Administrative (2)	Basis	Allocation key (3)	Administrative (4)	(4) - (2)	(3) - (1)	
Compensation	191,181	41%	78,125	189,794	42%	80,430	2,305	2%	(c)
Data Processing	41,826	31%	12,773	41,827	36%	14,936	2,163	5%	(c)
Special Services	15,897	44%	7,060	15,897	34%	5,444	-1,616	-10%	(b)
Building Expenses	8,791	36%	3,149	8,791	34%	2,998	-151	-2%	(b)
Loss Prevention/Safety Program	3,404	0%	-	3,404	68%	2,320	2,320	68%	(a)
Telephone/Telecommunications	1,735	36%	617	1,704	42%	714	97	6%	(b)
Advertising & Public Info	2,323	16%	368	2,323	100%	2,323	1,956	84%	(a)
Printing, Stationery & Supplies	5,075	84%	4,250	5,075	83%	4,201	-49	-1%	(b)
Postage	5,449	86%	4,691	5,449	100%	5,449	758	14%	(b)
Regulatory/Appeal Expenses	4,408	1%	50	4,408	0%	0	-50	-1%	(b)
Travel & Vehicle Expenses	1,145	38%	432	1,144	39%	448	16	1%	(b)
Driver Education Program	3,714	0%	-	3,714	100%	3,714	3,714	100%	(a)
Grant in Lieu of Taxes	1,833	36%	657	1,833	33%	613	-44	-2%	(b)
Furniture & Equipment	2,198	51%	1,120	2,198	48%	1,055	-64	-3%	(b)
Merchant**	10,037	100%	10,035	10,037	89%	8,983	-1,052	-10%	(c)
Miscellaneous	8,599	50%	4,299	***8,599	93%	8,012	3,713	43%	(c)
Amortization & Depreciation	13,699	28%	3,846	13,699	37%	5,060	1,214	9%	(c)
Initiatives (excluding Nova)	12,210	50%	6,105	12,210	41%	5,051	-1,054	-9%	(c)
Nova specific costs	26,253	60%	15,752	26,253	64%	16,851	1,099	4%	(c)
Total	**359,776**	**43%**	**153,330**	**358,358**	**47%**	**168,604**	**15,274**	**4%**	**(c)**

Numbers may not add up are due to rounded figures being displayed.

*Based on MPI expense allocation scheme **Include these additional items: Credit and Debit Card and Bank Fees

***Include these items for comparability purpose: Miscellaneous, Comm & Corp Relations, Corporate Training, Sundry Claims, Directors, Memberships & Conference

(a) Major change in allocation procedure (b) Update from 2020

(c) Update from 2020 with high impact due to basis level

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