

Recommendations of CAC Manitoba

Manitoba Public Insurance

General Rate Application

2018/19

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Overall Rate Recommendation and DSR

Overall Rate

Recommendation

- a) That MPI be granted an overall rate increase of 2.5%.
 - i. Determination of the overall rate change should include recognition of the demonstrated challenges of the Corporation in addressing risk related to investment income and Information Technology, demonstrated challenges of the Corporation in following appropriate reserving practices for long-tail lines of business, as well as the unrealized opportunity relating to loss prevention (specifically fleet rebates and the combined risk of vehicle drivers).
 - ii. Determination of the overall rate change should include recognition of the implication of significant changes in interest rates on the projected claims liabilities and revenues (with the September 2017 results suggesting a 0.8% reduction in the overall rate indication).
 - iii. Determination of the overall rate change should include a reduction of 1.1% due to including the investment income on the Rate Stabilization Reserve in the rate indication.

Driver Safety Rating

Recommendation

- a) That MPI's proposal to increase premiums on the negative side of the DSR scale not be approved and that research into a more comprehensive reform be undertaken (see recommendations a) and b) under Road Safety and Loss Prevention, page 10).

Investments

Recommendation

- a) That MPI file, for the next GRA, the results of the Asset Liability Management (“ALM”) study and provide an analysis contrasting the results from the previous ALM study to the updated ALM study and the improved investment performance gained to-date.
- b) That CAC MB offer MPI to review, with its expert consultant, the findings of the Mercer ALM study as soon as it is available to provide comments that maybe helpful to MPI (this work could be done before the next GRA so MPI can receive the benefit of this review on a more timely basis).
- c) That MPI file with the PUB its Corporate Strategic Plan as soon as it is available but, at minimum, in the next GRA.

Claims Forecasting

Recommendation

- a) That MPI management review its Personal Injury Protection Plan (PIPP) claims adjudication processes, including reserving, as well as its required PIPP adjudication skills set by engaging an expert external consultant in this area and provide a report to PUB at the next GRA Hearing.
- b) That MPI provide an update in next year's GRA on whether the lack of confidence in PIPP reserving, identified in this GRA, has been resolved.
- c) As recommended by the PUB in past GRAs, that MPI take advantage of potential learnings from Quebec with regard to long-term PIPP claims.
- d) In future GRA Hearings, MPI claims management be part of the Panel providing responses/evidence along with the Chief Actuary and CFO.
- e) That MPI implement constant assessment of climate change impact on claims, including hail claims. This assessment should include a review of the data to identify changes in trends (e.g. structural breaks in the data) and/or possible changes in volatility.

DCAT and RSR

Recommendations

- a) That the DCAT analysis, as the best vehicle to assess the risks facing MPI, be used consistently and collaboratively to determine the lower and upper thresholds for the RSR.
- b) That the use of the MCT criterion to set the upper threshold for the RSR be rejected
- c) That the appropriate methodology for setting the upper RSR threshold resides in the use of the DCAT in a comparable fashion to the methodology used to establish the lower threshold for the RSR, involving testing of at least 99th and 99.5th percentile outcomes
- d) That MPI apply the RSR wider range using the DCAT technique based on plausible adverse scenarios as recommended by Dr. Simpson for setting the upper RSR threshold.
 - i. Based on Dr. Simpson's recommendation, the RSR range would be from \$201M to \$310M, based on a two-year combined scenario.
- e) That the strict use of the naïve forecast in the DCAT be replaced with at least the 50-50 forecast used previously. That MPI undertake to assess the 50-50 forecast in light of rising interest rates.
 - i. While CAC MB has consistently recommended using the Standard Interest Rate Forecast ("SIRF") as a best practice, CAC MB recognizes that the collaborative process invites some compromise. While CAC MB sees the 50/50 interest rate forecast as a compromise between the naïve interest rate forecast and the SIRF for forecasting on a 15-month horizon, it would not object to the use of the SIRF.
- f) That the DCAT Base Scenario assume 2% rate increases in 2019/20, 2020/21 and 2021/22 as a reasonable assumption about expected future cost and price inflation
- g) That the results for the interest rate decline and combined scenarios in the DCAT continue to be discounted because of the *ad hoc* nature of the interest rate decline scenario. That MPI consider revising the interest rate decline scenario in future DCAT reports to reflect rising interest rates.
- h) That MPI continue to calculate the MCT metric and compare this metric to the DCAT ranges.
- i) That the inclusion of the risk of corporate bond default risk in the combined scenario be reviewed.

- j) That MPI develop RSR rebuild/rebate guidelines when the lower and upper RSR ranges are pierced for review in the next GRA, taking into account the overall health of the Corporation, including the level of reserves in the Extension / SRE lines of business.

RSR Investment Income

Recommendations

- a) Investment Income on Total Equity should be included in the calculation of the Corporation's rate indication calculation. This should be done using the methodology discussed through the collaborative process and last year's GRA review process. This methodology is to determine a profit provision, adapted to Basic's break-even objective, estimated as IR / PSR , where IR is the expected before-tax investment return rate on investment assets supporting Basic Total Equity, and PSR is the expected Basic premium-to-surplus ratio.

Profit Provision as % of Premium = $\{ROE / [1 - Tx] - IR\} / PSR$

- Where ROE is the target after-tax return on equity
- Tx is the expected income tax rate
- IR is the expected before-tax investment return rate on assets supporting Total Equity
- PSR is the expected (i.e., normal) premium-to-surplus ratio

This would result in a "profit" provision of $-IR/PSR$ consistent with the Corporation's break-even objective for Basic (0 Return on Equity)

The PSR should be based on the forecasted 2018/19 Total Equity of \$205 million, resulting in an indicated rate increase of 1.6% instead of the applied for indicated rate increase of 2.7%.

Interest Rate Forecasting

Recommendation

- a) That MPI use at least the 50/50 interest rate forecast for forecasting its revenue requirement.
 - i. While CAC MB has consistently recommended using the Standard Interest Rate Forecast (“SIRF”) as a best practice, CAC MB recognizes that the collaborative process invites some compromise. While CAC MB sees the 50/50 interest rate forecast as a compromise between the naïve interest rate forecast and the SIRF for forecasting on a 15-month horizon, it would not object to the use of the SIRF.

Road Safety and Loss Prevention

Recommendation

- a) That MPI review the effectiveness of its current rate-making methodology and the Driver Safety Rating (“DSR”) system in terms of associating insurance risk to the cost of insurance, including a comparison to rate-making methodologies used in other Canadian jurisdictions.
 - i. Consideration should be given to the factors (e.g. designation of primary and secondary drivers to a vehicle) and analytical tools used for setting premiums that reflect the risk.
 - ii. Based on the review, consideration should be given to whether MPI's current rate-making methodology appropriately signals to consumers that the cost they pay on vehicle insurance premiums matches the risk they bring to the system. Consideration should also be given to whether the DSR addresses its objectives (and specifically the objective to “Enhance the overall understanding among drivers of how their driving behaviour can affect how much they pay for auto insurance”).
- b) That MPI propose a plan based on the review of its rate-making methodology better associate drivers' risk to their insurance premiums.
 - i. MPI's plan for rate-making methodology should be developed in consultation with stakeholders.
 - ii. MPI's plan for rate-making methodology should include a process for evaluation on whether risk is better addressed.
- c) That MPI reviews the effectiveness of its fleet rebate program to be filed in the next GRA, with the purpose of testing whether loss prevention strategies are effectively targeting different classes of drivers.
- d) CAC MB supports the recommendation of CAA for MPI to formally conduct a stakeholder survey with the Loss Prevention Committee. MPI should report back to stakeholders on the results of the survey and opportunities for improvement should be identified and acted upon.
 - i. This survey should include discussion of whether stakeholders feel they have been meaningfully engaged and whether their input is used by MPI.
- e) That MPI proceed to add measurements to the “Road to Zero: Manitoba Road Safety

Plan 2017-2020”, involving the participant stakeholders, and file an update for the next GRA.

- f) The MPI provide a review of its Road Safety and Loss Prevention strategy for rural Manitoba, including its gravel road strategy.
- g) CAC MB supports the recommendation of CAA to conduct regular roadside studies regarding cannabis use.
 - i. As recommended by CAA, regular studies should be conducted ahead of July 1, 2018 with the data aggregated to draw a baseline average to use as comparison post-legalization.
 - ii. Studies on cannabis use in Manitoba should be conducted using best scientific evidence.

Information Technology

Recommendations

- a) MPI file, for the next GRA, an analysis of the financial impact of IT costs on rates (what percent of the basic insurance rate, over time, are consumed by IT costs?).
- b) For CARS and AOL, MPI file, at the next GRA, the following detailed calculations, including the supporting working papers:
 - Total cost of ownership
 - Net Present Value analysis
 - Internal Rate of Return analysis
- c) That MPI file, for the next GRA, the Corporate Information Technology Strategic Plan.
- d) That MPI file an articulation of how the Corporation conducts Project Portfolio Management (“PPM”), and demonstrate how projects are aligned to strategic organizational objectives.
- e) That MPI provide an update on opportunities to achieve savings in software and staffing.

Physical Damage Re-Engineering

Recommendations

- a) That MPI provide an updated Physical Damage Re-Engineering (“PDR”) Net Present Value and Internal Rate of Return analysis for review in the next GRA including the success and/or failure of the projects in operation.
 - o That any Net Present Value calculation undertaken include consideration of operating and maintenance costs and demonstrate that the weighted cost of capital selected is appropriate to MPI.
- b) That MPI survey policyholders to test whether the services provided by PDR are acceptable and superior compared to the Service Centre services.
- c) That MPI provide a separate Customer Claims Reporting System (“CCRS”) Net Present Value and Internal Rate of Return analysis for review in the next GRA.
- d) That MPI provide a Service Centre use and disposition analysis for review in the next GRA.

PUB Orders

Recommendation

- a) That the PUB put MPI on notice that if the Corporation is not able to comply with a PUB Order, it should seek an Order to review and vary that Order.