



Opening Statement of the Public Interest Law Centre on behalf of the Consumers' Association of Canada (Manitoba Branch)

2018/19 MPI GRA

October 2nd, 2017

CAC Manitoba

- Over two decades of rate hearings
- Core Consumer Rights:
 - to be informed
 - to choose (or be involved in the regulatory process as a proxy for choice)
 - to have a voice in marketplace decision-making
 - to consumer education

Developing the CAC Manitoba Position

- Day to day consumer contact
- Focus groups / stakeholder engagement, where possible
- CAC Manitoba Board
- Advice from expert advisors

The Test

MPI Onus

The burden of proof to show that any such increases, changes, or alterations are just and reasonable is upon the owner seeking to make the increases, changes, or alterations

[Public Utilities Board Act, s 84(2)]

Just and reasonable rates

- *Public Utilities Board Act, s 77*
- *Crown Corporations Governance and Accountability Act, s 25(4)*
- *Public Utilities Board Order 98/14, p 28*

Setting Just and Reasonable Rates

- Ensuring that forecasts are reasonably reliable
- Ensuring that actual and projected costs incurred are necessary and prudent (justified)
- Assessing the reasonable revenue needs of an applicant in the context of its overall general health (including necessary reserves, if any)
- Determining an appropriate allocation of costs between classes (and between drivers and vehicle owners)
- Setting just and reasonable rates in accordance with statutory objectives

[PUB Order 98/14, p 28]

Forecasts Reasonably Reliable

Interest rate forecasting

- Is the naive forecast as of November 2017 an appropriate estimate for an insurance year that runs from 1 March 2018 to 28 February 2019?
- Does the selection of a naive forecast effective November, 2017 for the March 2018 through February 2019 insurance year significantly overstate claims costs (also overstate Investment Income) with an overall effect of unreasonably inflating the revenue requirement?
- In determining a sustainable and balanced mechanism to forecast interest rates what (if any) implications do recent significant changes in the interest rate marketplace have?

Forecasts Reasonably Reliable (cont)

Claims forecasts

- Are the forecasting techniques employed by MPI consistent with those used by other modern insurance corporations? If not, why not?
- What are the implications to the forecast of claims costs flowing from outlier years (if any) relating to collision severity forecasts?
- Has MPI appropriately tested the hypothesis that the higher frequency of extreme hail events is not random?

Forecasts reasonably reliable (cont)

Personal Injury Protection Plan

- What are the implications to the forecast of claims costs of the challenges MPI is experiencing in reserving PIPP long term claims?
- What are the implications to the forecast of claims costs of the incomplete experience of MPI as compared to some other no-fault plans in terms of the tail factor selected for long term claims?

Actual and Projected Costs – Necessary and Reasonable

Personal Injury Protection Plan – long-term claims

- Has MPI demonstrated that it is reasonably and justifiably managing long-term PIPP claims?
- Has MPI demonstrated that it is appropriately reserving long-term PIPP claims?
- Are there any inferences that should be drawn by the choice by MPI (to date) to not take advantage of potential learnings from Quebec with regard to long-term PIPP claims?

Actual and Projected Costs – Necessary and Reasonable (cont)

Information Technology (IT)

- What are the implications of historic, current and future IT costs on ratepayers?
- What is the evidence that MPI is strategically prioritizing forecasted future expenditures in IT?
- Has MPI demonstrated appropriate prioritization, management and prudence in future proposed expenditures (estimated at roughly \$70 M) related to services that it judges obsolescent?
- Is the Customer Claims Reporting System (CCRS) project an appropriate assumption of risk given the purported value to the Corporation?
 - Which ratepayers bear the primary risk of the CCRS?
- Are information technology services being managed in reasonable and justifiable manner or are there significant opportunities for savings related to software, staffing and business process management?

Actual and Projected Costs – Necessary and Reasonable

Road Safety

- In terms of reducing tragic human, economic and social cost in urban and rural Manitoba, can we have confidence that the Corporation is making justifiable, evidence-based changes to its Road Safety portfolio?
- CAC Manitoba presented major witness a few years ago
 - Movement toward common vision
 - Focus on areas where differences still exist or where clarification is required

Overall Health of the Corporation – Including Risk

Investment Portfolio

- Given persuasive evidence last year that the current investment portfolio of MPI was over-concentrated, over-constrained and accepting undue risk for inadequate returns what are the implications, if any, for the setting of Rate Stabilization Reserve (RSR)?
 - Are ratepayers being asked to assume additional risks related to arguably imprudent portfolio design choices of the Investment Committee?
- From the perspective of risk assumed by ratepayers, what are the key considerations relating to investment portfolio design (what is the relative weight that should be given to non payment of liabilities risk as well as long term health of ratepayers versus short term considerations of rate stability?)
- Has MPI adequately addressed the problems identified with its investment portfolio in last year's GRA, including “smoothed” accounting and IFRS changes, as well as completing an asset liability study?

Overall Health of the Corporation – Including Risk

Rate Stabilization Reserve (RSR)

- Is the primary purpose of the RSR the avoidance of rate shock related to one time only events?
 - To what degree should concerns relating to rebates or surcharges drive RSR design considerations?
- Has MPI misstated the purpose of the RSR?
 - Has that misstatement biased its approach to the setting of the RSR, the design of its investment portfolio and the design of rates in accordance with Accepted Actuarial Practice?
- Has MPI incorporated feedback received during the Technical Conference into its setting of the RSR upper range?
- Does the Reinsurance Program, as currently structured, impact the rate stabilization process and mitigate the RSR quantum?

Self-sustaining

- Has the MPI discussion relating to the self-sustaining nature of Basic failed to consider the inordinate risk borne by Basic in consideration to other lines of business and the benefit that other lines of business derive from the Basic monopoly?
- Considering the financial results over the longer term (past decade), is it appropriate to consider Basic as self-sustaining?

Just and Reasonable Rate Design

Appropriate Allocation of Costs among Classes – Vehicles and Drivers

- Is the division of the revenue contributions between vehicle owners and drivers just and reasonable?
- Are the approaches of MPI in determining the appropriate allocation of risks between vehicle owners and drivers consistent with modern, good practice?
- From the perspective of just and reasonable rates, what are the implications if any of the proposed significant increases in DSR premiums for higher risk drivers?

Just and Reasonable Rate Design

Accepted Actuarial Practice

- Is the determination of the rate indication by MPI consistent with modern actuarial practice?
- What are the implications of MPI's status as a Crown Corporation on the concept of intergenerational equity?
- Does the exclusion of equity returns from the calculation of the rate indication unreasonably inflate the revenue requirement?
- Has the Corporation mischaracterized the Supreme Court findings from *ATCO Gas & Pipelines Ltd. v. Alberta (Energy & Utilities Board)*, 2006 SCC 4 regarding investment income on the RSR?

Main themes of CAC MB

Basic insurance monopoly as core strength

- Drives health of entire corporation including market share in other lines
- Significant assumption of risk
 - Interest rate risk/CCRS

Main themes of CAC MB (cont)

Unfinished business on significant risk issues

- Investment portfolio including over-concentrated, over-constrained and acceptance of undue risk for inadequate returns
- Appropriate mechanism to demonstrate strategic prioritization of IT expenses
- Insight from Quebec on PIPP Tail Factor

Main themes of CAC MB (cont)

Sustainable forecasting tools

- Interest rates
- Claims
- Long-term PIPP claims

Main themes of CAC MB (cont)

Building on success of regulatory dialogue

- PUB has played an instrumental role in dialogues with MPI, Interveners, consumers
- Iterative, respectful dialogue, recognizing distinct roles and perspectives

Result = evidence-based approach

Main themes of CAC MB (cont)

Building on success of regulatory dialogue

- Examples:
 - Move to Accepted Actuarial Practice for rate setting as a way to mitigate forecasting risk related to interest rates and to better comply with appropriate practice
 - Investment portfolio risk
 - Re-examination of fundamentals (e.g. investment portfolios)
 - Value management approach to IT expenditures
 - Technical conferences

BUT unfinished business remains

Experts who are highly qualified

Ms. Andrea Sherry

**FCAS, FCIA, CPA, CMA
actuarial practice with
property and casualty
insurers, VP private sector,
extensive experience with
Crown public insurers**

Wayne Simpson

**PhD, MSc, applied
econometrics and applied
micro-economics,
nationally recognized
2014 recipient of the
McCracken award for the
development and analysis
of economic statistics
from the Canadian
Economics Association**

Independence of Expert Witnesses

It is your duty to provide evidence that:

- is fair, objective and non-partisan;
- is related only to matters that are within your area of expertise; and
- to provide such additional assistance as the Public Utilities Board may reasonably require to determine an issue.

Your duty in providing assistance and giving evidence is to help the Public Utilities Board. This duty overrides any obligation to the Manitoba Branch of the Consumers' Association of Canada. By signing this letter of retainer, you confirm that you will comply with this duty.



Thank you