

2018 General Rate Application Closing Submissions

**Matt Ghikas and Steve Scarfone
October 18, 2018**



**Manitoba
Public Insurance**

Introduction

Matt Ghikas



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Manitobans Win When Basic is Fiscally Sound and Self-Sustaining

- Basic must be restored to a fiscally sound position and be regulated on a self-sustaining basis.
- MPI's GRA and requested orders put Basic on a path to achieve long-term rate stability for Manitobans:
 - 1.95% Rate Increase (based on September 30 interest rates);
 - Upper and Lower RSR Levels approved;
 - Use of income on total equity to help replenish the RSR; and
 - DSR revisions.



Agenda - Key Speaking Points

1. MPI's GRA is built around the priorities in the Minister's Mandate Letter.
2. MPI is thinly capitalized and maintaining capital within the proposed upper and lower RSR levels will promote rate stability.
3. Retaining income on total equity is consistent with AAP and makes good business sense given Basic's thin capitalization and growth in the business.
4. MPI has taken significant steps to contain operating and claims costs.



Agenda - Key Speaking Points

5. MPI is exploring ways to increase investment returns, but integral to that is addressing thin and uncertain capitalization and premium sufficiency.
6. MPI is delivering the vast majority of IT projects on budget, MPI benchmarks favourably, and the enhanced value management process is being consistently applied to all new projects.
7. MPI is investing significantly in Road Safety Loss Prevention, and is identifying priorities through stakeholder input and data analysis.



GRA Reflects Mandate Letter Priorities

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GRA Reflects Mandate Letter Priorities

- The Minister's Mandate Letter identifies prudent fiscal management and transparency as key priorities:

Manitobans have elected a government that is committed to improving the province of Manitoba. Our priorities include restoring prudent fiscal management...and increasing openness and transparency of our government. We are focused on achieving results on behalf of Manitobans. [MPI Exhibit 1: Overview, Attachment A]





Priority: Prudent Fiscal Management

- Basic rates have been deficient, Basic is thinly capitalized, and systemic cross-subsidization is neither desirable nor sustainable.
- MPI and the PUB have complementary roles in ensuring that Basic moves forward on a fiscally prudent and a sustainable path:
 - Adequate Capital Reserves;
 - Appropriate Premiums; and
 - Efficient and Effective Operations.





Priority: Transparency

- The regulatory process is an important means by which the public gains insight into the operations of MPI.
- MPI has taken a number of steps to improve process and presentation of information:
 - More comprehensive Application materials; and
 - Increased use of collaboration with PUB and interveners.
- The Board of Directors believe that its own due diligence and that of the PUB will be beneficial to Manitobans.
- There are areas (which I address later) where MPI and the regulatory process can improve.



Basic Requires Adequate Capital Reserves

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Basic Requires Adequate Capital Reserves

- Section 18 of the MPIC Act:

The corporation shall establish and maintain reserves in such amounts that, at all times, it has sufficient funds to meet all the payments as may become payable under this Act and regulations

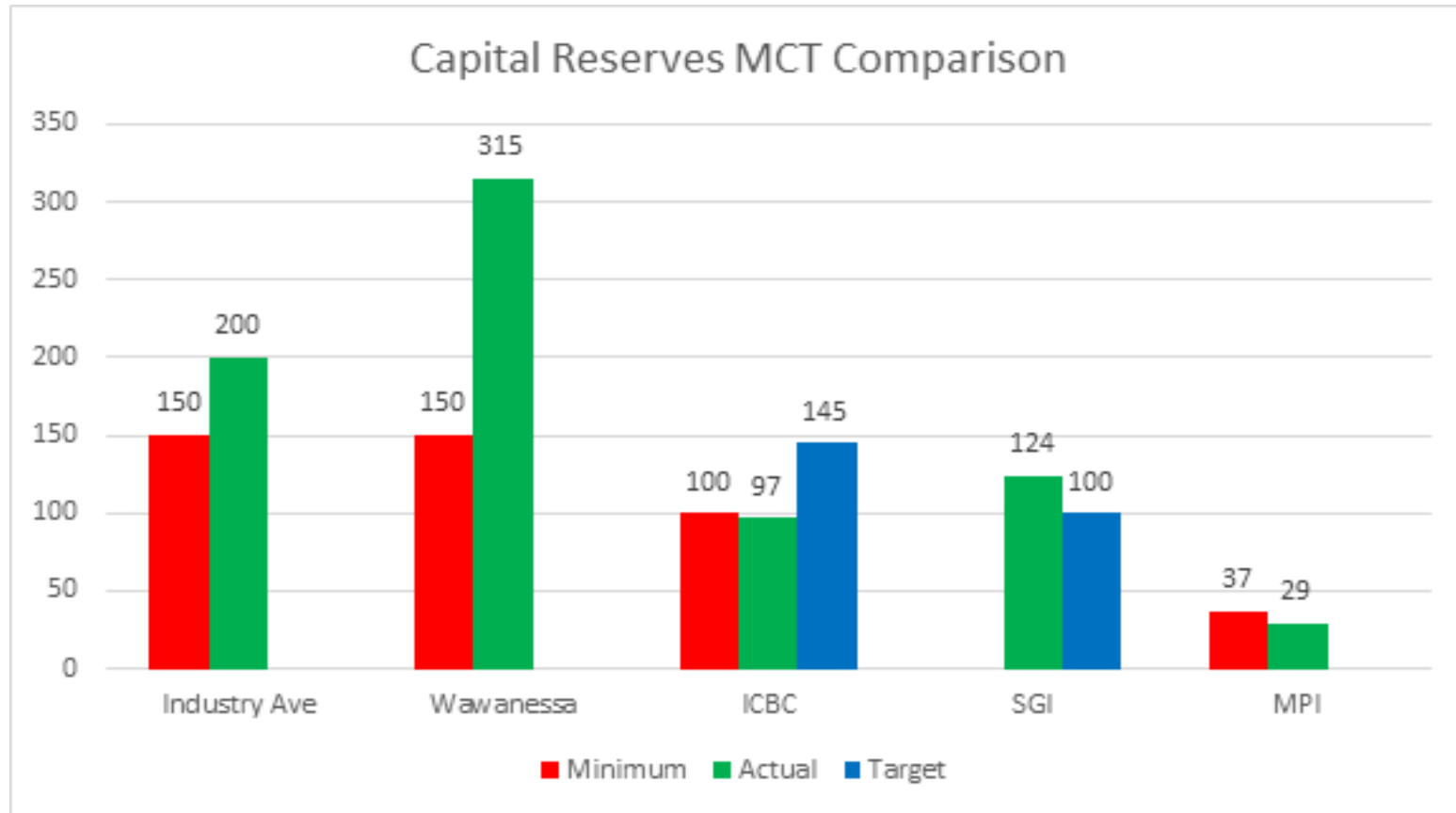
- MPI Executive & Board of Directors must be able to meet their financial and statutory responsibilities.
- How does Basic measure-up against this standard?



Most Thinly Capitalized in Canada

- Basic's current capital levels (29% MCT) and approved lower RSR level are – by far – the lowest among any insurer in the country.
 - The objective evidence is clear on that point; (next slide)
 - Ms. Sherry was not aware of anyone lower. [T 1700-1701]
- Basic policyholders avoided 18% rebuilding fees only because of the transfer of \$176 million from Extension in the last three years. [MPI-11, slide 8; PUB (MPI) 2-10]
- MPI's Chief Actuary has determined, based on DCAT analysis, that Basic to be in “unsatisfactory financial condition”. [MPI-11, slide 7]

Most Thinly Capitalized in Canada





Least Equipped in Canada to Rebuild or Even Maintain Capital Levels

- Unlike other insurers, the Basic rate indication contains no natural means of maintaining or building capital other than income on total equity:
 - Unlike private insurers, MPI's rate indication does not include an underwriting profit;
 - Unlike other crown insurers, MPI has no maintenance provision to prevent MCT from falling as business grows; and
 - Unlike other Crown insurers, MPI has no capital build provision.
- Even if the Board of Directors determined another transfer from Extension is appropriate, the current available excess retained earnings in Extension are \$30 million.





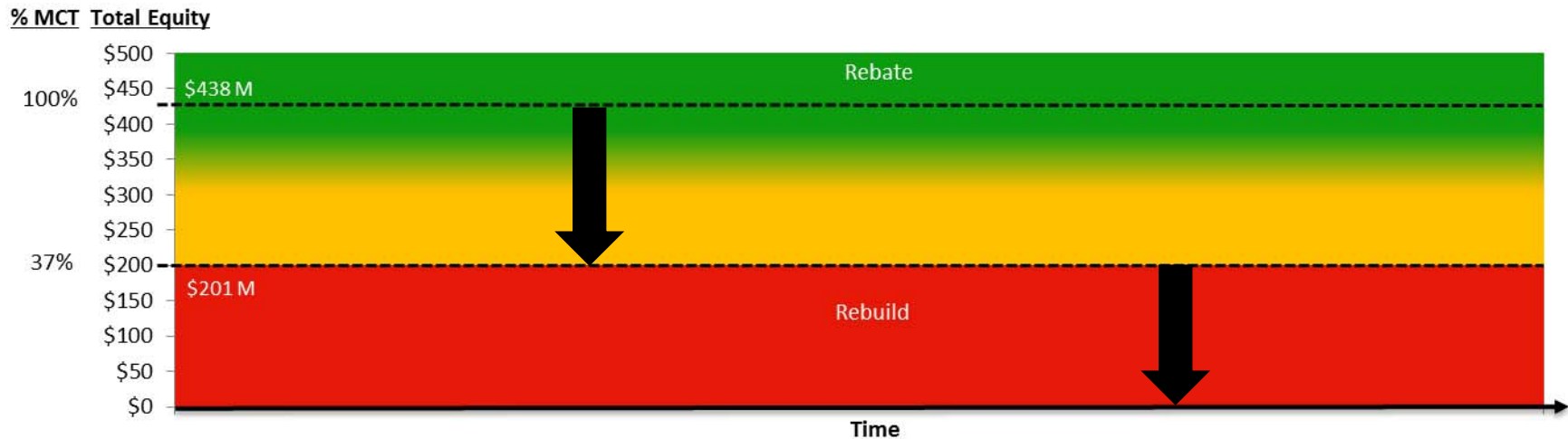
The Solution is Clear

1. The RSR lower threshold should be confirmed at 1 in 40 DCAT.
2. The upper RSR threshold should be set at \$438 million.
3. Basic needs a means of naturally replenishing capital.



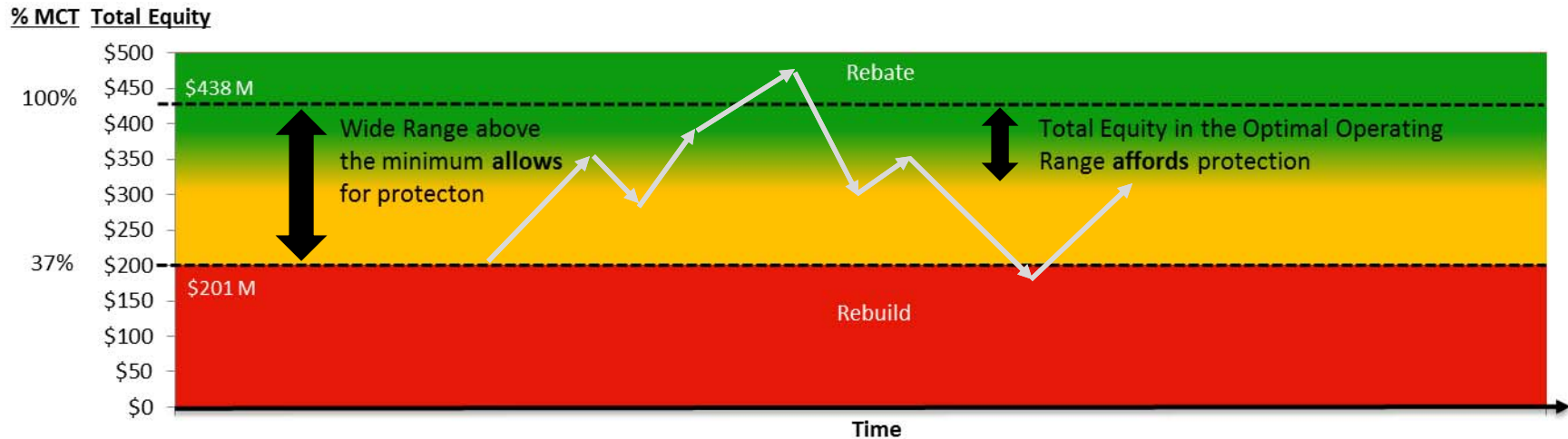
Lower and Upper Targets Have Distinct Purposes

- DCAT based Lower RSR Target is the absolute minimum capital requirement after management action:
 - Test – what level of capital is necessary to withstand plausible adverse scenarios without exhausting total equity?
- Upper RSR Target sets a band to absorb volatility without rebuilding fees:
 - Test – would capital fall below lower RSR, necessitating rebuilding fee?
- [MPI Ex. 11, slide 17]



Stability Requires Operating in the Range

- RSR range needs to be sufficiently wide above the minimum to reflect variability in financial results, within reasonable limits.
- Total equity in the 'optimal range' affords the best protection from rebuilding fees.
- Operating at the bottom of the range undermines the benefits of the RSR.
- [MPI Ex. 11, slide 18]





Volatility Due to Unforeseen Events is a Real Risk

- The types of risks assessed in the MCT test and DCAT are real.
- Events such as hail and interest rate variances have, in fact, led to very significant capital declines in recent years. E.g.,
 - Over the past three years Basic lost \$163 million due to interest rate forecasts not materializing
 - Hail events cost \$49 million and \$39 million in 2015/16 and 2016/17, respectively. [Ex. MPI-37, UT 28]
- \$176 million transfer was necessary in the past three years just to avoid 18% rebuilding fees.



Proposed Lower RSR is Absolute Minimum

- \$201 Million for 2018/19 to withstand modelled adverse scenarios:
 - Flows from the collaborative DCAT Process; and
 - Methodology remains the same. [Ex. MPI-11, slide 34]
- Based on a 1-in-40 year risk tolerance with “management action”:
 - i.e., Basic would expect to deplete a 2018/19 RSR balance of \$201 million once every 40 years even after rate increases and/or rebuilding fees; and
 - Combined rate increases and/or rebuilding fees range from 2% to 12% depending on the adverse scenario.
- MPI just experienced a scenario akin to a 1 in 40 year event, losing \$300 million over 5 years and more than \$170 million over two years. [T148]

\$438M Upper RSR Target is Appropriate

- MCT is an appropriate test and 100% is logical level:
 - Industry standard capital adequacy test used by private and crown insurers alike;
 - 1 in 100 probability test;
 - Requires consideration of a wide variety of risks;
 - Results are based on MPI's own balance sheet, and accounts for Basic monopoly.
- MPI's maximum will be at or below the minimum of every other Canadian insurer.

[OSFI Guidelines (Ex. MPI-53); Mr. Johnston (Ex. MPI-11, slide 35); Basic's MCT calculation (GRA, Vol.2, RSR.5 DCAT, App.1d, p.4)]
- Ms. Sherry contradicted her evidence last year on this point.


[T1697-8]

\$438M Upper RSR Target is Appropriate

The applied for Upper RSR Target is also supported by the adapted DCAT analysis:

- The relevant consideration for the Upper Target is whether capital may fall below the Lower Target, not falling to zero.
- DCAT analysis indicates that over a 3 year period an upper RSR target of \$442 million is appropriate.
- [Ex. MPI-11, slide 37]

Line No.	Starting	3 Year Combined Scenario before Management Action	
	RSR Balance February 28, 2017	Probability	Total Equity < \$239M (37% MCT) in 2020/21
1	\$181M (29% MCT)	68.11%	1 in 1.5
2	\$200M	62.64%	1 in 1.6
3	\$250M	47.25%	1 in 2.1
4	\$300M	32.17%	1 in 3.1
5	\$350M	18.96%	1 in 5.3
6	\$400M	9.09%	1 in 11.0
7	\$438M (100% MCT)	4.67%	1 in 21.4



MPI's Proposal Would Still Put Basic Below Every Other Insurer in Canada

- The lower RSR level established by collaboration (1 in 40 DCAT) is – by far- the lowest level of capitalization authorized by any regulator in Canada.
- MPI's Chief Actuary is unwilling to sign-off on anything less than the proposed lower RSR.
- MPI's proposed upper RSR of 100% MCT is:
 - Equal to the regulatory minimum of ICBC and well below the target of 145% and rebate at 160%;
 - Equal to the target at SGI; and
 - Half the average private P&C insurer (200% MCT).



Simpson and Sherry's Selective Use of the E&Y Report

- E&Y was speaking about ICBC's Basic, which has a capital management target of 145% MCT.
- E&Y's recommendation was to bring ICBC's capital management target more in line with the 100% MCT used by SGI and MPI.
- The passages Dr. Simpson and Ms. Sherry did not quote included:
 - “In light of the above discussion, ICBC, in conjunction with the government, should consider a lower target capital position for the Basic product more in line with other jurisdictions.”
 - "Other auto monopoly government schemes in Canada have a target MCT ratio of 100% (i.e., Manitoba and Saskatchewan), while similar schemes in Australia for auto and workers' compensation have targets that are no higher than an MCT of 100% (e.g., Victoria, South Australia, NSW). ICBC's capital target is high relative to these schemes. [Ex. PUB-11, p.85]





Concern About “Moral Hazard” is Unwarranted

- The PUB raised the possibility of a “moral hazard” existing if the upper RSR level is set at 100% MCT. This concern is unjustified:
 - MPI has a skilled and engaged Board of Directors that is working on behalf of Manitobans.
 - All of the evidence points to MPI having a very strong commitment to cost containment and process improvements;
 - Regulatory oversight, not undercapitalization, is the appropriate mechanism to guard against free spending; and
 - It is difficult to see how establishing an RSR range that is lower than any other insurer in Canada could cause irresponsible management.



The Upshot: Ratepayers Are at Risk and MPI's Proposals Reduce that Risk

- When Basic is operating at a minimum level of capital, the consequences of adverse financial results are more severe for ratepayers.
- MPI's RSR proposals reflect reasonable capitalization, with sufficient bandwidth to absorb the type of volatility that MPI has actually experienced.



Appropriate AAP Based Premiums With Zero Profit Provision

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AAP Focuses on the Policies in PY2018/19

- The PUB's direction to move to AAP is a good change.
- AAP rate setting involves:
 - Best Estimates of costs and revenues (means without bias, neither conservative nor un-conservative) “relating to” PY2018/19 policies; and
 - A “provision for profit”.

2620 Method

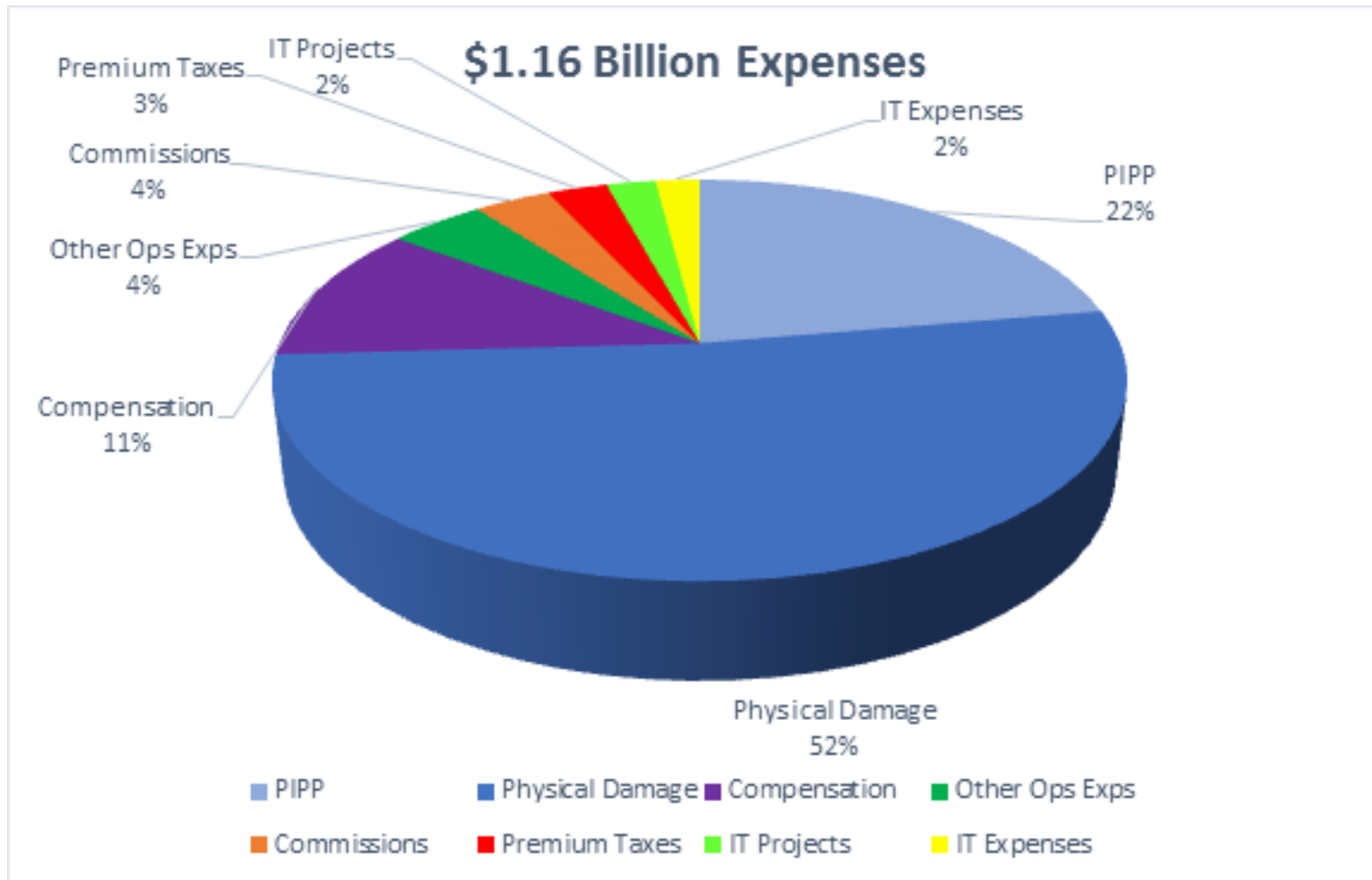
.01 The best estimate present value of cash flows relating to the revenue at the indicated rate should equal the best estimate present value of cash flows relating to the corresponding claim costs and expense costs, plus the present value of a provision for profit, over a specified period of time.

[Ex. CAC-4]



Costs “Relating to” PY2018/19 Policies

Exp App 1, p. 3; CI Claims Incurred, p. 5; PF Pro Formas, p. 5





Revenues “Relating to” Policies Written in PY2018/19

- MPI collects premiums during the Policy Year (new money) and invests them.
- In preparing the actuarial rate indication for PY2018/19, Mr. Johnston has forecasted that investment income on new premiums and credited it to reduce the rate indication.
- Income on total equity is different because the cash flow is not “relating to” policies written in PY2018/19:
 - That is a “provision for profit” issue, over which management (and thus the regulator) has discretion.

[Rebuttal Evidence, Ex. MPI-3, p.4]



The “Provision for Profit”

- MPI’s proposal has a **zero percent profit (i.e., break-even)** provision. [Ex. CAC – 4, p.4]
- Ms. Sherry’s approach has a negative profit provision (i.e., pricing for an **underwriting loss**), couched as “a profit provision, adapted to Basic’s break-even objective”:

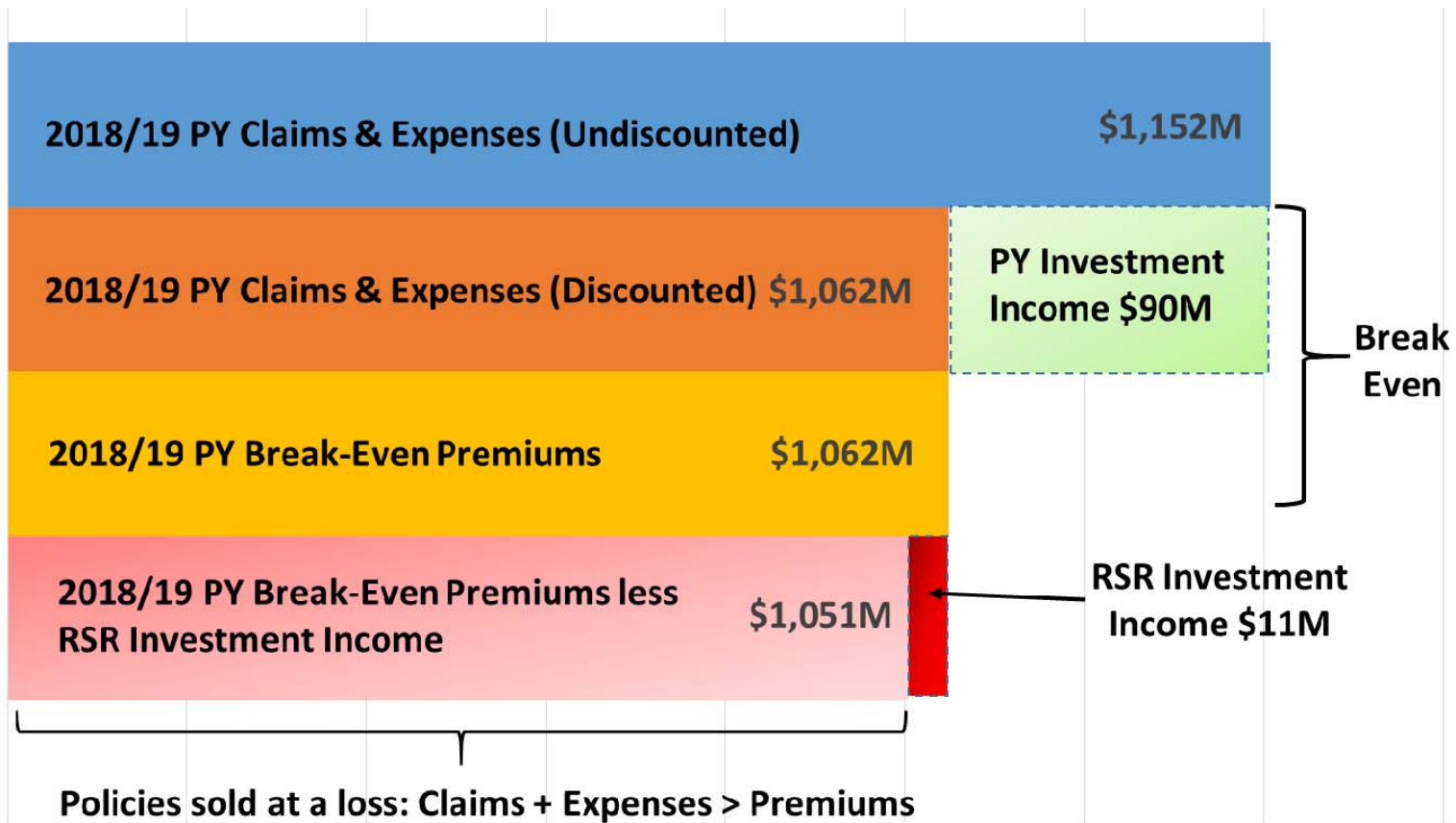
“This methodology is to determine a profit provision, adapted to Basic’s break-even objective, estimated as IR/PSR...” [Ex. CAC – 4, p.4]

- Characterizing a negative profit / underwriting loss as break-even because the RSR dollar amount remains the same is a throwback to pre-AAP ratemaking.



Basic Requires Appropriate Premiums

- Mr. Johnston’s Opening Presentation [Ex. MPI-11, slide 21] depicted AAP rates and the effect of a negative profit provision as follows:





MPI's Proposal Makes Good Business Sense

- AAP allows either approach, but MPI's proposal makes the most sense given:
 - Basic is thinly capitalized;
 - RSR Investment income is Basic's only means of replenishing total equity;
 - Other insurers (public and private) earn profit and/or have capital build/maintenance provisions to maintain and grow capital;
 - A Basic maintenance provision would actually increase the rate indication relative to what MPI is proposing; and
 - Setting up a situation where capital is barely above the lower level, and eroding due to growth in the business without any means of replenishing is laying the groundwork for an RSR rebuilding fee.

[Rebuttal Evidence, Ex. MPI-3, p.4]



MPI's Proposal Makes Good Business Sense

- Mr. Johnston summed up MPI's position on this point:

“So in the absence of those other methods, the only way the rate stabilization can grow...is through its investment income, and luck. Really, the only other way is luck, and that is not a strategy.”





Ms. Sherry's Selective Appeal to "Normal, Best Practice"

- Ms. Sherry says [Ex. CAC – 23, slide 3]:

“Normal, **best practice** to include the investment income on the surplus backing the book that you are pricing for as it is a revenue cash flow to that book.” [Her emphasis.]

- Her appeal to “normal, best practice” is highly selective:
 - Every other insurer in Canada has target of at least 100% MCT, but she advocates a 1 in 10 DCAT that she would not sign herself;
 - Private insurers have profits to maintain MCT;
 - Crown is to have both capital maintenance and capital build provisions;
 - “normal, best practice” as she describes would mean Extension capital backs only Extension, but she advocates systematic cross-subsidies.





Ms. Sherry's Actuarial Evidence Contradicts Her Advocacy of Cross-Subsidy

- Ms. Sherry made the following argument in her evidence:
“The money held in the RSR today has been built up over the years by policyholders that are either still going to be insured by MPI in the 2018/19 rating year or are not because of relocation, death or other reasons.” [Ex. CAC- 4, p.3]
- \$176 million of the \$181 million in the RSR (97.2%) was transferred from Extension, not collected on Basic policies. [Rebuttal Evidence, Ex. MPI-3, p.4]
- Ms. Sherry's actuarial opinion would suggest that Extension should fund Extension and Basic should fund Basic:
“Normal, **best practice** to include the investment income on the surplus backing the book that you are pricing for as it is a revenue cash flow to that book.” [Her emphasis.] [Ex. CAC - 23]



Dr. Simpson Agrees With MPI

MR. STEVE SCARFONE: And you're also aware, sir, that the Corporation would like to grow the rate stabilization reserve use -- using investment income from the reserve itself; correct?

DR. WAYNE SIMPSON: I hope that that's what they would do with the money, yes.

[T 1591-2 October 16, 2017]



Efficient and Effective Management – Cost Containment

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Key Messages on Cost Containment

- MPI has taken significant steps to contain operating and claims expenses – seeking out savings throughout the organization.
- Success in containing operating expenses is reflected in benchmark results and the fact that operating expenses.
- Expense reductions and stretch targets have contributed to reducing the rate indication from 7.7% to 2.7% (now 1.95%).
- Board of Directors will continue to be hawkish about cost containment on behalf of Manitobans.





Initiatives Go Beyond Low Hanging Fruit

- “We tried everything we could in terms of limiting the increase...”.
[Mr. T 319]
- “a real stretch”. [Mr. Yien T 324]





Operating and Claims Expense Initiatives

- 1.9% decrease in operating over 2017 GRA (rating years average):
 - Cost Containment is an ongoing priority, evidenced by many actions to reduce operating costs in the Budget;
 - Stretch Target to achieve a flat budget; and
 - Zero base budgeting and review committee.
- Rodent claim strategy reduced costs per claim by: reduced labour costs, loss of use duration times, storage and towing costs, and total loss frequency. [Ex. MPI-11, slide 27]
- Physical Damage Claims stretch target. [Ex. MPI-11, slide 27]



Successes Reflected in Benchmarking

- MPI's operations are efficient, as demonstrated by key benchmarking scores:
 - Benchmarking results continue to show that MPI's business model is successful, and latest benchmarking results are favourable; and
 - Gross Expense Ratios beat the benchmarks, and continue to improve.





Cost Containment Has Contributed to Reduced Rate Indication

Initial forecast indicated:

7.7% required rate increase

Less Management Actions:

1.0% - Rodent Claims Strategy;

0.9% - Physical Damage Claims Stretch Target;

0.8% - Increased Allocation to Corporate Bonds;

1.8% - Increase to DSR Premiums for Demerit Drivers; and

0.5% - Expense Reduction from Management actions (0.5%)

5.0% - Overall Management Action

Results in:

2.7% vehicle premium rate request



Driver Safety Rating

Steve Scarfone



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THE DRIVER SAFETY RATING (DSR) SYSTEM

- In place since 2010 with no changes since inception.
- Proposed changes are unique and creative solution:
 - Serves to reduce the initial 7.7% rate indication by 1.8%;
 - Incentivizes good driving behavior; and
 - Applies only to demerit drivers.





Legislative Purpose of the DSR

- Subsection 2(2) of the Driver Safety Rating System Regulation.
- *The purposes of the driver safety rating system are to rate a person based on the input factors recorded in his or her driver record, or on the absence of input factors in the record over time, for the purpose of determining the premium that the person must pay for a driver's certificate.*
- “input factors” are traffic convictions and at-fault claims.





THE DSR Program

- “good drivers” on the merit side of scale.
- “bad drivers” on the demerit side of scale.
- one full year of accident free/conviction free driving = upward movement and at-fault claims and convictions = downward movement.
- The DSR and the proposed changes employ a “user pays” pricing approach:
 - If a driver engages in poor driving behavior, they pay more; and
 - If a driver does not engage in poor driving behavior they will not pay more and will likely pay less.





DUAL PURPOSE SERVED

- The proposed changes will:
 - Increase road safety;
 - Increase revenue and decrease overall rate indication.
- If all demerit drivers went accident free for one year then MPI would not collect the projected \$17.5 million but would celebrate the reduction in claims, both personal injury and property damage.
- Excerpt from transcript, page 506 (Luke Johnston)
- Excerpt from transcript, page 508 (Peter Yien)





PROPOSED CHANGES TO THE DSR

- No driver on the demerit side with a clean driving experience will pay more than he or she did in the previous year.
 - Excerpt from transcript (Luke Johnston), page 506
- Making driver premiums more reflective of the risk drivers are imposing on the system.
- Best result is one where drivers change their high risk driving behavior and stop imposing additional costs on all Basic customers.





DSR Changes are Statistically Driven

- The proposed changes to the DSR are “a policy decision based on statistical information”. (transcript excerpt 541)
- Convictions not directly related to claims costs but legislated as an “input factor”.
- Drivers with more traffic convictions are riskier drivers and cause more accidents. (transcript excerpt 532)
- The proposed changes are fair and will serve as an effective deterrent.
- Little or no “actuarial credibility” at the low end of the scale. (excerpt from transcript, page 524)
- Suggestion that DSR not statistically driven. (page 527)





Manitobans Support the Proposed Changes of Riskier Drivers Paying More

- Based on polling (annual surveys) the majority of Manitobans the people who exhibit high risk driving behaviors should pay more.
- Undertaking Number 17 (to provide the results of the polling):
 - Do poor drivers pay too little, too much or about right for their vehicle insurance?

	2017	2016	2015	2014
Too little	50%	51%	57%	57%
About right	42%	42%	38%	39%
Too much	8%	7%	5%	4%



DSR WORKS

- MPI, the Public Utilities Board and Intervenors have a shared interest in reducing the social and economic costs associated with collisions.
- Risky driving is a significant contributing factor in collision frequency.
- The DSR incents safer driving and the bonus/malus system works.





DSR will Improve Road Safety for Vulnerable Road Users and Others

- Benefits of the DSR to the Road Safety/Loss Prevention cannot be overstated.
- Mr. Keith was asked by counsel for the CAC to explain from high level perspective the impact of the DSR on collision frequency.
- Transcript p. 926.





DSR Changes Are Fair and Equitable

- The scale provides for financial motivation and allows drivers to move up (or down) depending upon driving behavior.
- The PUB should embrace this opportunity to strengthen the DSR incentives and resist placing too much weight on any misalignment between costs and premiums at one or perhaps two DSR demerit levels.
- The proposed changes are the right thing to do -- lower the rate indication and make our roads safer.
- Statistics maintained by MPI show that claims can be expected to decrease, perhaps dramatically.
- Finally, the proposed changes achieve the policy objectives of the DSR system as set out in the Regulation.

Information Technology

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Information Technology (IT)

1. IT Investments Reduce Risk and Deliver Benefits to Ratepayers.
2. IT Strategic Plan will be driven by Corporate Business Strategy.
3. MPI's Value Management Process is Evolving, Becoming more Formalized.
4. Gartner's IT Assessment is Favourable.





IT Investments Reduce Risk and Deliver Benefits to Ratepayers

- IT Investments driven by four distinct drivers:
 - Strategic Planning;
 - External Events;
 - Societal Changes; and
 - Technical Requirements.





IT Strategic Plan will be driven by Corporate Business Strategy

- MPI will continue to operate under the existing IT Strategic Plan pending MPI's Board of Directors completing their assessment and establishing a new business direction.
- IT Strategic Plan in support of corporate strategic direction.
- Peter Yien on IT strategy and business strategy.
- Currently operating under the 2016 IT Strategy:
 - The Basis for the IT Strategy;
 - Key Drivers for Change (Business Drivers and IT Drivers); and
 - The Corporate Roadmap of Strategic IT Initiatives.





MPI's Value Management Process is Evolving, Becoming more Formalized

- Appropriate Governance Oversight and Accountability: Value Management Process
- Value Management:
 - Business Case Development;
 - Business Case Approval;
 - BTO Project Delivery; and
 - Post Implementation Reviews.
- Value Management is more than just Business Cases (transcript).
- \$500,000 threshold.





Gartner's IT Assessment is Favourable

- IT Benchmark and Scorecard Summary:
 - MPI's IT spend as a percentage of operating expenses has gone up indicating successful IT investment;
 - “Catch-up” Spending has Stabilized;
 - IT Employee and Consultant Counts are Steadily Decreasing;
 - What Martin Geffen had to say...; and
 - MPI Continues to Improve its Maturity, Driving Effectiveness.





BI3



- EY Conducted Post-Implementation Review of BI3.
- EY Concluded that BI3 had met its business objectives.
- EY confirmed BI3 best in class document and claims management
- Productivity Savings of \$9.5 million.
- Duration of closed claims reduced, additional saving of \$35 million.





Physical Damage Re-Engineering Program

- Physical Damage Re-engineering (PDR) Program on track.
- Transforming the Business.
- Evolution of PDR has Preserved the Original Objectives:
 - Gartner found significant strides in completion;
 - Gartner found streamlining of projects;
 - Geffen testified that changes in scope were purposeful; and
 - \$13.6 million annual benefits in perpetuity.
- Overall Program costs consistent despite revisioning.
- Budgetary Re-shuffling not uncommon.
- PDR Program on target to be completed under budget.



Investments

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Investments Key Points

- The Corporate Bond Strategy is, first and foremost, about optimizing the investment to match existing claims liabilities. A secondary benefit is increased yield and lower premiums.
 - Reduction of Initial 7.7% Rate Indication by 0.8%.
- Conditions Precedent to Corporate Bond Strategy:
 - Ministerial Approval;
 - Asset Liability Matching Study;
 - Rate Stabilization Reserve Targets (\$201M and \$438M); and
 - No offset of AAP rates with RSR investment income.
- Interest Rate Forecasting Risk:
 - Compliance filing.





Conditions Precedent to Bond Strategy

- Ministerial Approval:
 - Bond allocation from 3% to 18% by March 1, 2018;
 - Addition of Triple 'B' bonds:
 - Not a permitted class of investments under the FMA; and
 - Other non-permitted investments allowed in the past.
 - Minister's Office supports corporate bond strategy;
 - ADM has confidence in MPI and influence over the Minister
 - Transcript page 1408



Conditions Precedent to Bond Strategy

- Asset Liability Management Study
 - Compliance with PUB Order 162/16 proved difficult;
 - Order given renewed priority to allow completion of ALM for bond strategy and release of 2018 GRA Board Order;
 - Mercer Canada successful vendor;
 - Mercer aware that MPI seeking upper RSR target of \$438M
 - To be completed by November 30, 2017; and
 - Mercer not recommending bond strategy is very unlikely.





Conditions Precedent to Bond Strategy

- RSR Upper (\$438 million) and RSR Lower (\$201 million):
 - MPI requires sufficient capital due to greater risk; and
 - Transcript page 1415.
- MPI requires the assistance of the PUB;
- Require targets to proceed with bond strategy and allow Basic to achieve long-term financial strength; and
- MPI's reasons for making conditional:
 - Yien, transcript page 1339 (tricycle).





Conditions Precedent to Bond Strategy

- No offset of AAP rates with RSR investment income.
- Growing and replenishing total equity essential to strategy.
- If RSR investment income used to reduce rates then RSR will not grow.
- If RSR investment income used to reduce rates expect continued depletion of RSR.
- The chronic drawdown of RSR does not provide the Board of Directors comfort it requires.
- Riskier investments introduce greater volatility to capital reserves meaning a greater bandwidth is required.
- Shielded RSR investment income will render “bad years” more manageable and reduce the risk of rebuilding fees.



Minister of Finance Responsible for MPI Investment Portfolio

- MPI and Department of Finance jointly advise Minister of Finance.
- Minister of Finance ultimately responsible for MPI portfolio.
- PUB has limited jurisdiction concerning the management of MPI investment portfolio.
- Section 14 of the MPIC Act says all MPI property (including money) deemed to belong to the Crown.
- Stetski evidence was that the Crown owns MPI investment portfolio.



Interest Rate Forecasting – Naïve Forecast and Compliance Filing

- MPI proposes that it make use of the naïve forecast this year.
- Forecast in which interest rates today remain the same throughout the forecast period.
- MPI would update the PUB with respect to the actual interest rate on or about November 30, 2017.
- the 10-year Government of Canada rate as published by Bloomberg.
- MPI will concurrently provide an explanation concerning how the updated interest rate might affect the overall indicated premium rate.



November 30, 2017 the most practical and accurately available interest rate

- Allows the PUB the most up to date information available for setting the premium rate and overall rate indication.
- Serves to reduce any variability in interest rates to three months (November 30, 2017 to February 28, 2018).
- Updating interest rate in conjunction with AAP rate setting will minimize interest rate forecasting risk to the greatest extent possible.





Use of the Naïve Forecast

- Preferred over Standard Interest Rate Forecast (SIRF) given inaccurate SIRF performance over the past several years.
- Preferred over SIRF under AAP ratemaking due to the shorter outlook period (forecast for “break-even” ratemaking extended over 2 years, limited to 3 months with compliance filing).
- Naïve forecast the “best estimate” for rate setting purposes under AAP.



Bond Strategy Should be Implemented

- Assumption of greater risk is reasonable in all the circumstances.
- Approval by Minister is expected.
- Will assist in building sufficient capital reserves.
- ALM study ensures due diligence in place.
- Requires RSR lower and upper targets.
- Requires no offset of RSR investment income.

Loss Prevention / Road Safety

Steve Scarfone



**Manitoba
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Loss Prevention/Road Safety

- MPI is one player in a much larger construct when it comes to Road Safety in Manitoba.
- All stakeholders are working together toward a common vision of zero fatalities and serious injuries (using a “Safe Systems” approach).
- The Provincial Road Safety Committee, of which MPI is a co-chair, will work to achieve these objectives.
- MPI has formalized a Loss Prevention Strategy and Framework that guides all of its loss prevention efforts.





Loss Prevention/Road Safety

- MPI remains focused to address the IBM observations.
- Includes development of data dashboards for each of the programs in the loss prevention portfolio.
- Dashboards allow for baselining against which the effectiveness of the programs can be measured.
- The “dashboard data” provides new insight for program managers into how existing programs can be adjusted and new programs developed.
- The data dashboards will be complete in 2017/18.
- An overall scorecard to measure return on investment will be developed thereafter.





Loss Prevention/Road Safety

- MPI has formalized its activities into a 3-year operational plan:
 - 2nd iteration was filed with the PUB this year; and
 - Includes formal frameworks for priority setting, research, program development and program evaluation.





Loss Prevention/Road Safety

- These frameworks (Road Safety Committee, Loss Prevention Strategy, Dashboard and Operational Plan) should provide assurance to the PUB that the investment made by MPI in road safety are appropriate, evidence-based and in keeping with best practices.
- MPI will leverage the frameworks to identify road safety priorities/programs/initiatives it should be pursuing.
- Funding will follow subject to the rigours of MPI's internal value management process (thereby assuring value for money spent), even where not possible to draw direct correlations between investment and reductions in claims and costs.





Loss Prevention/Road Safety

- Input from other Road Safety stakeholders through the External Stakeholder Committee on Loss Prevention.
- The Committee meets regularly and includes representation from all stakeholders here today.
- MPI encourages continued stakeholder participation.
- Objective is for MPI to continue regular and ongoing discussion outside of the rate approval process.
- Road Safety is a year round issue.
- MPI open to considering new initiatives that are cost effective and fall within the corporation's mandate.
- All such suggestion will be considered through established road safety frameworks.

Conclusion and Looking Forward

Matt Ghikas



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Manitobans Win When Basic is Fiscally Sound and Self-Sustaining

- MPI's GRA and requested orders put Basic on a path to achieve long-term rate stability for Manitobans:
 - 1.95% Rate Increase (based on September 30 interest rates) reflects the expected cost of policies written in PY 2018/19;
 - Upper and Lower RSR Levels should be approved as reflecting a reasonable level of capitalization and sufficient bandwidth to promote rate stability;
 - Retaining income on total equity will help to offset the natural decline in MCT level due to business growth;
 - DSR proposal is a logical step to promote safer driving by making the premiums drivers pay more reflective of the risks they are imposing on the system;
 - Updating the interest rate forecast as of November 30 is fair and will reduce interest rate risk.





Looking Towards the Next GRA

- MPI has improved its presentation of information and collaboration, but recognizes there are areas for improvement:
 - E.g., MPI knows it can do a better job of presenting IT projects. Part of the issue this year was not understanding until very late the extent to which parties intended to probe the details of individual IT projects.
- A scoping order well in advance of the oral hearing will help.
- Moving to a model of oral hearing that involves more witnesses and deeper dives will be unwieldy and an institutional challenge for MPI unless the hearing is focussed.
- The hearing focus should reflect the drivers of rates (pie chart).
- Further informal discussion early next year is worthwhile.

*All of which is respectfully
submitted.*

Matt Ghikas & Steve Scarfone for MPI



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