

CLOSING SUBMISSION

VEHICLES FOR HIRE
2018 INTERIM APPLICATION

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**Manitoba
Public Insurance**

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1 INTRODUCTION

- 1 *The Local Vehicles for Hire Act* comes into force on February 28, 2018 and allows for a new class of vehicles for hire in addition to existing taxicab/livery services.
- 2 As the provider of compulsory vehicle insurance in Manitoba, MPI must have Rates for Service in place for new vehicles for hire, and for the existing classes of vehicles for hire, for March 1, 2018.
- 3 MPI has developed an insurance rating model that achieves the following key outcomes:
 - Complies with the compulsory and universal nature of Manitoba’s Basic insurance program, principles and legislation
 - Provides for oversight and approval of rates associated with the model by the PUB, to the benefit of public interest
 - Flexible and straightforward to enable vehicle for hire participation
 - Achieves equity and fairness for all vehicles for hire
 - Ensures that the premium paid is commensurate to risk in accordance with accepted actuarial practice, and PUB approved rate-making methodologies
 - Allows the experience of each group to be tracked independently to facilitate future rates driven by experience, thereby preventing cross subsidization within the vehicle for hire pool and between other vehicle classes
 - Addresses the requirements for Transportation Network Companies (“TNCs”) consistent with Basic’s principles and legislative and regulatory framework
- 4 MPI therefore submits that approval of the following, effective March 1st, 2018, is appropriate:
 - Interim vehicles for hire Rates for Service for both the 2017/18 and 2018/19 insurance year based on rates approved in PUB Orders 162/16 and 130/17 respectively.
 - Allowing vehicle premium discounts for vehicles for hire.

- Waiving service fees for change of insurance for vehicles for hire.
- Allowing MPI to refund or collect any variance between interim and final approved vehicles for hire Rates for Service with the final rates being determined through the 2019 General Rate Application (GRA).

2 INTERIM APPLICATION DUE TO COMPRESSED IMPLEMENTATION TIMELINE

5 Given the adequate alternative remedy available in the 2019 GRA, and the proposal to true up any variance between interim and final approved vehicles for hire rates, MPI submits that there is no prejudice to intervenors or interested parties as a result of this interim application.

2.1 Full Testing During the 2019 GRA

6 As part of the 2019 GRA, MPI will include an application for 2017/18 and 2018/19 rates for service, as well as 2019/20 vehicles for hire Rates for Service.

7 MPI submits that including 2017/18 and 2018/19 Rates for Service in the 2019 GRA will allow all intervenors, interested parties and the public at large to fully test the Rates for Service during the 2019 GRA. Parties with standing will be able to challenge the evidence and bring their case to the PUB for determination of final vehicles for hire Rates for Service. The PUB's final determination on 2017/18 and 2018/19 rates would be contained in the 2019 GRA Order.

2.2 Variance Between Interim and Final Rates Refunded or Collected on a Customer Account Basis

8 MPI proposes that any variance between interim and final approved vehicle for hire rates be rebated or collected on a customer by customer basis. This way, there would be no risk to customers of paying higher than required rates, nor would there be any risk to MPI associated with charging inadequate rates.

9 If there is a variance between interim and final rates, MPI will identify all vehicles for hire customers and initiate a re-rating of the insurance policy. This will complete a new insurance rating calculation process and the new approved rates will be used to determine the appropriate insurance premium that should have been collected.

- 10 Whether the variance results in an increase or reduction in premium, MPI submits that the associated balance should be applied to the respective customer account so that each customer benefits from or is responsible for, any change in premium.

3 TIME BAND MODEL ACHIEVES KEY OBJECTIVES

- 11 MPI evaluated several rating models considering the compulsory nature of Basic, and the intent to limit cross-subsidization between vehicles for hire and the rest of Basic. MPI submits that the 'time band' model is:
- a) Flexible and Straightforward
 - b) Fair and Equitable
 - c) Compliant with Manitoba's legislative scheme

3.1 Flexible and Straightforward

- 12 The time band model allows all vehicles for hire customers to have the option to purchase 1, 2, 3, or all 4 time bands. At 4 time bands, a vehicle for hire has the maximum flexibility to operate at any time, 24 hours a day, seven days a week.
- 13 Each time band is designed to accommodate the hours of operation that vehicles for hire drivers might prefer, while balancing the increased level of exposure from operation between the four time bands. The selection of time bands is flexible, so customers can tailor their operating periods and related insurance costs to fit their desired vehicles for hire participation level.
- 14 The time bands were selected such that each additional time band equates to approximately 25% additional claims exposure. However, for rating purposes only the number of time bands selected is relevant, rather than the specific time bands selected. The relative rate by level will eventually be adjusted based on actual claims experience.
- 15 Consistent pricing of the time bands makes the model straightforward. Having a different rate for each individual time band would create 15 different possible

combinations a customer would have to assess in making their buying decision. It could also potentially lead to misunderstanding about why one time band is more or less costly than another time band. Therefore, by having the same cost of coverage for each individual time band, MPI has made it easier for customers to understand the model and to make buying decisions.

3.2 Fair and Equitable

- 16 The proposed rate model applies consistently to TNCs, taxicabs and limousines, and other formerly x-plated vehicles for hire. Any vehicles for hire driver can choose the time band(s) that reflect the hours they wish to operate as a vehicles for hire and all vehicles for hire will be subject to the same DSR incentives and deductible.

3.2.1 No New Registration Class and No More X-Plates

- 17 No new registration class, stickers, or plates will be created for vehicles for hire and MPI will discontinue the registration classes used for existing taxis, limousines and liveries. Therefore, MPI submits that all vehicles for hire will be treated consistently.

3.2.2 Consistent Coverage

- 18 All vehicles for hire will have Basic insurance coverage consistent with Basic's all-purpose passenger vehicle coverage.
- 19 All vehicles for hire will have a \$500 deductible, reducing the current \$600 deductible for taxis and limousines by \$100. This reductions is further supported on the reasonable expectation that there will be reduced loss exposure for taxis and limousines as a result of competition from Passenger vehicles for hire, and based on the new incentives created for safe driving behaviour by extending vehicle premium discount eligibility to the taxicab pool.

- 20 Comprehensive no-fault bodily injury coverage will continue to apply to Manitobans injured in motor vehicle accidents and to non-Manitoban passengers in Manitoba registered vehicles, injured in motor vehicle accidents in Manitoba - including those involving vehicles for hire.

3.2.3 The Model will Accommodate Different Municipal Regulations

- 21 *The Local Vehicles For Hire Act* determines that only the City of Winnipeg is specifically required to establish by-laws to regulate vehicles for hire. However, each municipality in Manitoba is responsible for regulating vehicles for hire within municipal boundaries and so there may be a range of regulatory frameworks throughout Manitoba. As a result, many variations of municipal regulatory frameworks may emerge over time.
- 22 MPI anticipates that the proposed model will be flexible enough to accommodate different municipal regulatory frameworks.
- 23 Since each municipality is responsible for regulating vehicles for hire, stakeholders should seek to work with municipalities on issues of accessibility, safety and eligibility.

3.3 Model is Compliant with Manitoba's Basic Insurance Program, Principles and Legislation

- 24 Legislation requires Manitobans to register vehicles and purchase Basic insurance which includes Personal Injury Plan Protection benefits, third party liability and all perils physical damage coverage.

3.3.1 Private Insurance Models not Appropriate

- 25 Currently in Canada, only Alberta, Ontario and Quebec allow ridesharing (vehicles for hire) for compensation. Insurance for ridesharing vehicles in these jurisdictions is

provided by either individual endorsement or a blanket policy with the particular TNC. In all three jurisdictions, automobile insurance is sold privately and, subject to limited accident benefits¹ (injury), third party liability coverage and tort action. First party physical damage coverage is optional in all three jurisdictions.

- 26 The universal compulsory nature of Basic does not contemplate, nor does the legislation permit, that Basic compulsory insurance coverage may become secondary, based on temporary (or part time) change in vehicle use from a passenger vehicle to a vehicles for hire. Basic coverage remains constant in all cases, and the only change is in the rate charged, reflecting the use, type and territory of the vehicle. Vehicles for Hire is a new use and it is appropriate that Basic rates are to be set for that type/use.
- 27 Use of an umbrella policy with a TNC or individual endorsement are not applicable nor appropriate to replace compulsory coverage provided under the Basic program. Providing Basic insurance to TNC's through an umbrella policy also creates the risk that individual operators would not incur their true incremental cost of insurance, as they will under MPI's proposed model that accounts for vehicle type and driver safety. In addition, the use of an umbrella policy would not be fair and equitable to existing vehicles for hire, such as taxis and limos.

3.3.2 Per-Kilometer Model Does Not Fit Manitoba

- 28 Based on a high level assessment of publicly available information, MPI identified the following concerns with a kilometer based model:
- A monthly charge per driver per kilometer is not necessarily actuarially sound for individual driver risks.
 - Vehicles for Hire (VFH) drivers may not face the true incremental cost of insurance.

¹ With exception of Quebec, which has pure no-fault injury coverage

- This model, if applied in the context of Manitoba's legislative framework, would not be fair or equitable to existing vehicles for hire (taxis and limos), and could result in cross subsidization between Basic and the VFH pool.

29 MPI therefore determined and submits that the model proposed in this interim application is most appropriate for Manitoba.

3.3.3 Oversight and Approval by the PUB Serves the Public Interest

30 Alternative insurance models used in other jurisdictions would, if adopted in Manitoba, result in coverage outside of the Basic Insurance. Premiums charged for vehicles for hire insurance would consequently be outside the jurisdiction of the PUB. MPI submits that it would not be in the public interest to intentionally design compulsory insurance coverage for passenger vehicle operations that is outside of the Basic model and outside of regulatory oversight.

3.4 Supporting the Transition

31 To facilitate the transition to this new vehicles for hire insurance framework, MPI will waive the fee for Manitobans to change insurance use to vehicle for hire and the fee to change time bands. MPI will pay the broker a flat fee compensation for each transaction, in accordance with MPI's current contractual obligations.

32 MPI will monitor this aspect to ensure that it continues to provide value and may present alternate approaches in future GRAs.

4 ACTUARIALLY BASED RATES

4.1 Consistency and Fairness Achieved by Using Existing Basic Rates

- 33 MPI established vehicles for hire rates for service in accordance with existing Basic rates to accommodate vehicles for hire insurance use in a way that is consistent and equitable based on prior rates experience.
- 34 Given that vehicles for hire have never before operated in Manitoba, there is no loss experience. To best capture anticipated differences in loss experience and coverage, MPI used a 'percentage increase' method to establish initial rates for Passenger vehicles for hire with the rates based on the percentage difference between All Purpose and Passenger vehicles for hire rates used in other jurisdictions. Experience-based rate adjustments will be used to maintain rates that are equitable as experience is gained with vehicles for hire insurance use. MPI submits that this is the best method to determine rates when there is no existing loss experience.
- 35 A new vehicles for hire insurance use will be created so that claims experience can be tracked separately from the private passenger vehicle pool. Doing so ensures that the loss experience for vehicles for hire will not be subsidized by other vehicle classes.

4.2 Rates for Taxicab Limousines and Accessible Vehicles for Hire

- 36 The proposed rates for Taxicab, Limousine, and Accessible Vehicles for Hire (VFH) classes are based on the existing rates for these classes with an adjustment to account for the introduction of time bands, Driver Safety Rating (DSR), and competition from Passenger VFH. Specifically:
- An assumed reduction in loss exposure for Taxi VFH and Limousine VFH due to a loss in market share

- An assumed reduction is loss exposure from the introduction of DSR vehicle premium discounts
- Assumed variable exposure from the selection of time bands

37 MPI recognizes that these adjustments require varying levels of judgment; however, MPI believes these adjustments are required to produce best estimate rates using the available information. MPI believes the rates for these classes, on an overall basis, are reasonably close to the eventual experienced based rates under the new VFH model.

38 Going forward, as experience data becomes available (i.e. in the 2020 GRA), the proposed rates for Taxi, Limousine, and Accessible VFH will all be adjusted based on actual claims experience utilizing the existing PUB approved rate making methodology. This process ensures that at least 10% of the weight will be given to experience in the rate relativity calculation in each GRA.

4.3 Rates for Passenger Vehicles for Hire (VFH)

39 For Passenger VFH, MPI recognizes that there is no historical claims experience for this rating classification. It is also uncertain how many vehicle units will exist in this rating category.

40 MPI judgmentally applied a 'load' to these actuarially-based rates to account for the assumed increase in exposure from varying levels of VFH exposure. MPI believes these adjustments are required to produce best estimate rates based on the available information, and that it is reasonable to assume an increase in exposure over All Purpose use for Passenger VFH because:

- Intuitively a vehicle would be expected to have higher loss exposure if the vehicle is spending more time on the road as a VFH.
- A jurisdictional scan supported the notion that an additional charge of approximately 20% over All Purpose use was determined to be reasonable in other jurisdictions.

- 41 Going forward, the proposed rates for Passenger VFH will be adjusted based on actual claims experience utilizing the existing PUB approved rate making methodology. This means applying the approved Basic ratemaking methodology for adjusting vehicle group relativities, which would give at least 10% weight to the Passenger VFH experience in each rate application.
- 42 However, if experienced based rates are observed to be significantly different from the initial rates, MPI *may* come forward with a special rating adjustment that falls outside the approved ratemaking methodology.

4.4 Vehicles for Hire (VFH) Insurance Use Will Form a New Pool

- 43 The primary means of limiting cross subsidization between vehicles for hire, and the rest of Basic, is through the creation of a new pool to track the vehicles for hire claims experience.
- 44 MPI will collect the same information on VFH policy claims as it does for all other policies. The claims experience for VFH classes will be tracked separately, through the use of an additional field in the Enterprise Data Warehouse. These separately tracked claims will form the 'VFH pool' that will be used to set actuarially sound rates for VFH policies. Once a customer is a VFH policy holder, all claims under that policy will fall into the VFH pool, and be isolated from the rest of Basic's customers.

4.5 Applying the Driver Safety Rating (DSR) will Encourage Safe Driving

- 45 All individual vehicles for hire customers will be eligible for a Driver Safety Rating ("DSR") vehicle premium discount. This means that individual customers who choose to be passenger VFH drivers will not lose their DSR discount and DSR vehicle premium discounts will become available to individual customers that own and insure taxis, limousines, and other formerly 'x-plated' vehicles.

- 46 MPI submits that this is consistent with the goal of establishing fair and equitable rates across the vehicles for hire pool. This has the added advantage of enhancing the incentive for all vehicles for hire drivers to drive safely, move up the DSR scale, and increase the vehicle premium discount.

5 FINANCIAL IMPACTS TO MPI

47 The proposed rates for the Vehicles for Hire classifications are intended to 'break even' (i.e. 0% profit), and therefore, result in no material changes to the Corporation's overall financial forecast. The various impacts of the VFH proposal are expected to be offset by factors explained below, but there is no data available at this time, to perform analysis.

5.1 Driver Safety Rating (DSR) Vehicle Premium Discounts Offset by Improved Loss Experience

48 Under MPI's VFH rating model, all VFH policies will be eligible for DSR vehicle premium discounts. As explained above, this allows existing passenger vehicle policy holders to carry their DSR Vehicle premium discounts forward to the VFH insurance use, while opening up the vehicle premium discount to existing taxicabs, limousines and other formerly x-plated vehicles owned and insured by individual customers.

49 The reduced vehicle premium revenue is expected to be offset by reduced loss exposure through increased incentive to drive safer. MPI will adjust rates to reflect actual loss experience as it develops.

5.2 Reduced Deductible for Taxis and Limousines Offset by Improved Loss Experience

50 MPI has assumed that there will be an as yet undetermined reduction in loss exposure for taxis and limousines as a result of competition from Passenger vehicles for hire and stronger incentives for safe driving as a result of having access to vehicle premium discounting; *and* that this reduction in exposure will offset the impact of decreasing the deductible from \$600 to \$500. Further, the deductible change for taxis and limousines is intended to create fairness and equity across all types of vehicles for hire.

- 51 MPI believes that the assumption of reduced market share / exposure is reasonable and required to produce best estimate rates. However, data to support this assumption is not yet available. Rates will be adjusted in future applications to reflect the actual claims experience.

5.3 Other Financial Impacts

- 52 MPI anticipates that some taxis and limousines may reduce their insurance costs, by selecting fewer than four (4) time bands, which will result in decreased revenue. As well, MPI expects that new passenger VFH policies will be sold resulting in additional revenue. At this time, MPI is unable to forecast how many new policies might be sold, or how many taxi and limousines will pursue narrowed windows of coverage.
- 53 While these policies are priced to break even, the impact to pro forma financial statements will be in offsetting directions.

5.4 Implementation Costs

- 54 MPI's Board of Directors approved the projected costs for amending the Autopac On-Line (AOL) and Claims Administration & Reporting System (CARS) systems for new Vehicles for Hire insurance of approximately \$525,000². The projected corporate costs for the VFH project will be treated as expenses, will minimally impact the years 2017/18 and 2018/19, and will be captured in Insertions of Work. The estimated Basic impact for the years 2017/18 and 2018/19 are \$256,000 and \$140,000 respectively.
- 55 The estimated Information Technology (IT) costs, which are outlined in part (b), were not included in the Statement of Operations as filed in *Compliance Filing to Board Order 130/17*.

² CAC (MPI) 10 Figure 1

6 TNC CONCERNS ADDRESSED

- 56 No TNC was granted standing in this interim application, and therefore there are no TNC submissions on the evidentiary record in this proceeding.
- 57 The legislation does not permit for basic compulsory coverage to be suspended based on a vehicle's particular use at a particular time. The non-evidentiary submission of UBER raised concerns in terms of needing to rely on their operators to be properly insured. MPI understands this concern, and has offered to provide contingent and excess coverage for rideshare operations through a special risk commercial umbrella policy. This will ensure that the TNC providers are never put at risk from a financial or reputational liability perspective if one of their operators is in a collision while providing for-hire services outside of the self-declared time bands or by failing to carry the minimum third party liability (TPL) insurance coverage limit that may be required by the TNC provider. However, this approach will respond to losses only on a contingent basis, and not primary in cases of losses while operating on the platform.
- 58 This is MPI's way of addressing the concerns of UBER without violating the principles, legislative and regulatory frameworks established for the Basic compulsory insurance program in Manitoba.