

2020 General Rate Application Closing Remarks

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October 24th, 2019



Agenda

1. Summary of Request
2. Further Review of Overall Rate Indication
3. Proposed Capital Management Plan
4. Increasing Transparency and Fiscal Prudence
5. Road Safety
6. Driver Safety Rating
7. Improving the GRA Process
8. Conclusion



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Summary of Request

- -0.6% Overall Rate Indication (no CMP, interest rate forecast September 30, 2019)
- Rates in effect for 13-month period
- Proposed Capital Management Plan
- Discontinuance of anti-theft discount for newly insured vehicles
- No changes to driver premiums/vehicle discounts through DSR
- No changes to Fleet rebates and surcharges



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Further Review of Overall Rate Indication

Topics for Discussion

- a. Drivers/Impact
- b. Revenues/Expenses
- c. Change in Fiscal Year End
- d. Rate Stabilization Reserve
- e. Investments
- f. Motorcycles
- g. Extension



Drivers/Impact



Drivers behind 2020/21 Rate Change

2020/21 Basic Rate Indication

Required Rate*	+3.3%
Vehicle Upgrade	-2.5%
Vehicle Volume	+0.7%
Reverse Capital Maintenance Provision	-2.1%
AAP/Breakeven Required Rate Change	-0.6%

*Required rate increased by 3.3% from 2019 GRA:

- Claims Costs (including Claims Expense) = +1.8%
- Decrease in Interest Rates = +1.3%
- Reinsurance Costs = +0.3%
- All Other Expenses = +0.2%
- Service Fee and Driver Premium Revenues = -0.3%



0.6% Vehicle Premium Rate Decrease

Major Class	Current Average Rate	Indicated Average Rate	Indicated Rate Change
Private Passenger	\$1,164	\$1,154	-0.9%
Commercial	\$809	\$814	0.7%
Public	\$1,928	\$2,128	10.4%
Motorcycles	\$810	\$851	5.1%
Trailers	\$79	\$75	-5.2%
Off-Road Vehicles	\$8	\$7	-12.5%
Overall	\$890	\$885	-0.6%



Revenues/Expenses



Forecasted Revenues from Basic Premiums

(C\$ 000s)

	<i>For the Years Ended February,</i>					
	2019A	2020P	2021F	2022F	2023F	2024F
Net Premiums Earned						
Motor Vehicles	980,770	1,034,264	1,084,045	1,124,535	1,169,429	1,216,425
Drivers	58,667	68,568	71,268	73,190	75,024	76,693
Reinsurance Ceded	(12,502)	(14,217)	(14,433)	(14,722)	(15,016)	(15,316)
Total Net Premiums Earned	1,026,935	1,088,615	1,140,880	1,183,003	1,229,437	1,277,802
Service Fees & Other Revenues	24,568	26,511	28,211	30,203	32,395	34,804
Total Earned Revenues	1,051,503	1,115,126	1,169,091	1,213,206	1,261,832	1,312,606



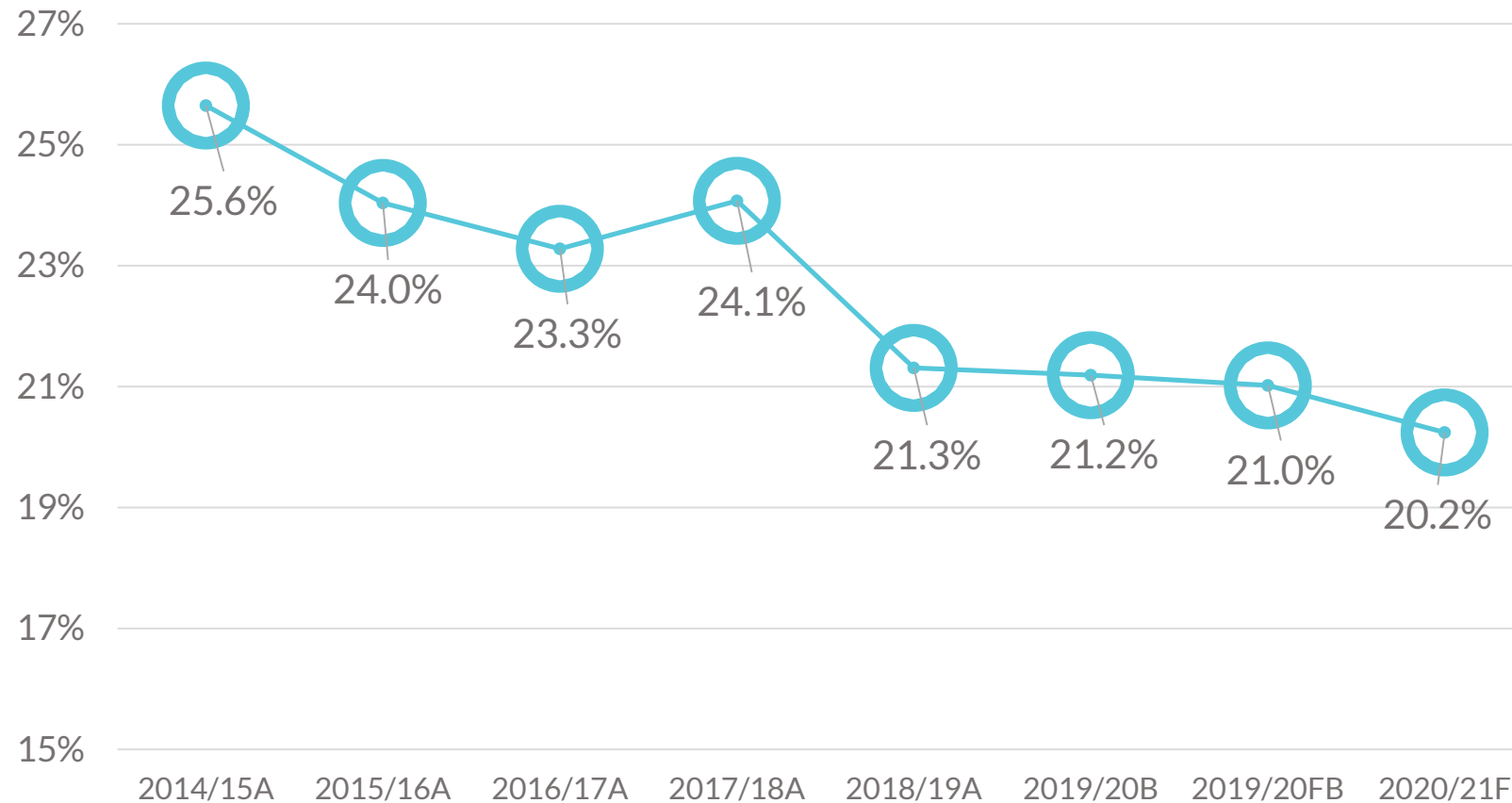
Prudent Fiscal Management (Cont'd)

	2020 GRA Avg. of Rating Yrs	2019 GRA Avg. of Rating Yrs	Change (2020-2019)	Change (Percent)
<i>(C\$ 000s, rounding may affect totals)</i>				
Basic Allocated Corporate Expenses				
Claims Expense	139,001	141,773	(2,772)	-2.0%
Road Safety/Loss Prevention	13,396	12,911	485	3.8%
Operating	74,614	78,156	(3,542)	-4.5%
Regulatory/Appeal	5,330	5,056	274	5.4%
Total Basic Allocated Corporate Expenses	232,340	237,896	(5,556)	-2.3%
Basic Direct Expenses				
Commissions	45,345	45,723	(379)	-0.8%
Premium Taxes	35,458	36,148	(690)	-1.9%
Total Basic Direct Expenses	80,803	81,871	(1,069)	-1.3%
Total Basic Expenses	313,143	319,767	(6,625)	-2.1%



Prudent Fiscal Management (Cont.)

Operating Expenses / NPE



Expenses

Employees

- **Budget FTE Numbers**
- **Vacancy Allowance**

PIPP

- **Weekly Indemnity Claims**
- **Centralized Reserving**



Change in Fiscal Year End



Change in Fiscal Year End

Change in fiscal year-end means that 2020/21 rates will be in effect for a 13-month period from March 1, 2020 to March 31, 2021

Customers renewing their policies in March 2021 will see no change in their premiums over the prior year

Comparing two customers:

Renewal in March		Renewal in April	
March 2020	2020 Rates	April 2020	2020 Rates
March 2021	2020 Rates	April 2021	2021 Rates
March 2022	2021 Rates	April 2022	2022 Rates

Customers with March renewals will be affected by future PUB approved rate changes one year later than they are currently



Rate Stabilization Reserve

To protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from non-recurring events or factors.



Rate Stabilization Reserve

- Transfer of \$60M (Feb 28/19) increased MCT from 37% to 52%
- Significant increase to Basic MCT was expected from new investment strategy
- 87% MCT end of Q1, now essentially at 100% MCT
- Investment income on RSR not included in AAP break even rate
- Retention of RSR investment income has no material impact on overall rate indication



Reserves Regulation

Enacted April, 2019

Regulation Reserve requires MPI to be at 100% going forward

Use of surplus moneys in rate stabilization reserve (section 3)

The corporation may use amounts in the rate stabilization reserve that are in excess of the amount required under clause 2(a) only for the purpose of reducing the rate indication required for the plan of universal compulsory automobile insurance in a subsequent year.



Operating at Minimum Capital

“So whilst we are moving the needle on having more reserves than in the past, we are at the minimum of the minimum capital test, not a dollar more, not a dollar less, and through management action, we are already there.”

(Ben Graham, October 7, 2019)



Investments



Investments

Status of ALM Implementation

Questioning MPI's Risk Appetite

Reducing Interest Rate Risk for Basic Portfolio

Ongoing Benefit of Shadow Portfolios?



Questioning MPI's Risk Appetite

Nominal Liability Benchmark (MPI Portfolios) versus Real Liability Benchmark (Shadow Portfolios)

DR. BYRON WILLIAMS: And sir, if you wanted to look at the shadow portfolio for Basic at the same level of risk as Basic 3, one (1) option would be to move to the right in terms of surplus volatility to four point five (4.5). Would that be fair?

MR. DAVID MAKARCHUK: Yes. I'm not sure where you're going with it, because it's hard to move Basic 5 over there with RRBs.

DR. BYRON WILLIAMS: You -- you would have to change the --

MR. DAVID MAKARCHUK: You would have to shorten your provincials or something weird.

TX. 1439, October 16, 2019



Ongoing Benefits of ALM Study

- Mitigation of interest rate risk
- Avoids further large magnitude net income losses
- De-risking the Basic Claims portfolio decreases the capital required in the MCT calculated
- Segregated portfolios are now “fit for the purpose” (aligned)



Ongoing Benefit of Shadow Portfolios?

- Securities included in shadow portfolios contrary to MPI's investment objective and risk tolerance
- Comparison timeframe of 6-months well outside the recognized industry standard for such a comparison
- Preliminary comparison shows reasonableness of the portfolio selected by the corporation
- Decision-making authority rests with MPI Board of Directors



Comparison – March 1, 2019 to August 31, 2019

Shadow Portfolio – P1 Basic (9.34%)

Shadow Portfolio – P2 Basic Unconstrained (9.14%)

MPI Basic Portfolio (Passive) – **10.17%**

Shadow Portfolio – P3 Pension (7.54%)

Shadow Portfolio – P4 Pension Unconstrained (15.15%)

MPI Basic Portfolio (Passive) – **7.77%**



Motorcycles



Motorcycles

- Manitoba motorcyclists pay among the lowest rates in Canada

Figure BMK- 7 Motorcycle Rates Comparison Charts by Driver Profile (Winnipeg, Calgary, Regina and Toronto)

Line No.	21 year old male claims and conviction free						
1	Jurisdiction	2014	2015	2016	2017	2018	2019
2	Winnipeg	\$1,380	\$1,249	\$1,093	\$1,057	\$1,118	\$1,194
3	Calgary	\$2,247	\$2,427	\$2,427	\$2,427	\$2,427	\$2,218
4	Regina	\$1,929	\$2,134	\$2,134	\$2,134	\$2,134	\$2,134
5	Toronto	\$2,679	\$2,655	\$2,570	\$2,327	\$2,392	\$1,980
6	50 year old male claims and conviction free						
7	Jurisdiction	2014	2015	2016	2017	2018	2019
8	Winnipeg	\$1,098	\$994	\$879	\$850	\$898	\$958
9	Calgary	\$1,053	\$1,053	\$1,053	\$1,053	\$1,053	\$1,626
10	Regina	\$1,724	\$1,906	\$1,906	\$1,906	\$1,906	\$1,906
11	Toronto	\$1,822	\$1,728	\$1,585	\$1,377	\$1,395	\$1,224
12	50 year old male; One at fault claim in the last year and claims and conviction free prior to that						
13	Jurisdiction	2014	2015	2016	2017	2018	2019
14	Winnipeg	\$1,206	\$1,092	\$962	\$931	\$984	\$1,050
15	Calgary	\$1,267	\$1,267	\$1,267	\$1,267	\$1,267	\$1,748
16	Regina	\$1,768	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
17	Toronto	\$4,033	\$4,237	\$4,209	\$3,701	\$3,877	\$3,721

18 The 2018 rates are based on the most commonly registered touring motorcycle in Manitoba, 2013 Harley Davidson FLHX Street Glide, \$500 collision deductible, \$500 comprehensive deductible, \$2 million Third-party liability

19 Previous to 2018, the 2012 Harley Davidson FLHX was the most commonly registered touring motorcycle



Rate Change - Motorcycle Major Class

- Rate change disproportionately affected by changes in the new money yield (NMY) used for ratemaking.
- Significant proportion of loss costs are for long-tail PIPP benefits
- Other drivers of the rate increase – increase in forecasted overall claims costs and low upgrade factor

	Private Passenger	Motorcycles
PIPP % of total loss costs	29%	91%
Required rate change @ NMY of 3.40%	-2.9%	0.2%
Required rate change @ NMY of 2.50%	-0.9%	5.1%
Variance from the change in NMY	2.0%	4.9%



0.6% Vehicle Premium Rate Decrease

Major Class	Current Average Rate	Indicated Average Rate	Indicated Rate Change
Private Passenger	\$1,164	\$1,154	-0.9%
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Extension



Questions No Longer

“Unfortunately, I inherited an organization that in some parts were secretive, and when questions were asked around a black hole of money that sat with Extension, it was difficult for us to defend ourselves because we weren't as transparent as we should have been.”

(Ben Graham, October 7, 2019, page 190)

(Ben Graham – October 7, 2019)



Extension

- PUB had a “look-see” in 2020 GRA
- Prior to \$60M transfer (Feb 2019), Extension MCT at 527%
- CMP makes Extension revenues important to discuss
- Depth of PUB examining of Revenues Expenses
- Insight not oversight



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Proposed Capital Management Plan

Need for one

- **Reserves Regulation serves as the anchor point**
- **April 24, 2019 Mandate letter (engage PUB to implement CMP with MCT Targets)**
- **Method by which PUB ensures MPI compliance with Regulation**

Proposed CMP Make Eminent Good Sense

- **How it works**
 - **More Capital = More Stability and Less Volatility**
- **Transfers**
 - **Discretionary (PUB) vs. Non-Discretionary**
- **Pace of Rebuilds (5 years to help mitigate any build associated volatility)**

No Build Provision Required Notwithstanding Having Achieved 100% MCT



Objective Evaluation by CAC Expert John Todd

- Capital Management Plan addresses two common regulator concerns: avoiding cross-subsidization and limiting anti-competitive activity
- Benefits derived by Extension are offset with capital transfers from Extension to Basic
- Transfers should first be used to ensure Basic capital target is met



Use of Transferred Capital

MR. JOHN TODD: When you get to 210, that 10 percent would be available for transfer.

MR. STEVEN SCARFONE: And then is used to lower the rate indication?

MR. JOHN TODD: Well, as I mentioned in direct, it could be -- it's -- it would flow back to customers. There are different ways you could do that. One (1) -- one (1) way would be to reduce rates. Another way would be to provide a rebate.

MR. STEVEN SCARFONE: And another way might be to achieve a capital target that the monopoly might not be at?

MR. JOHN TODD: If the monopoly is below its target --

MR. STEVEN SCARFONE: Yes.

MR. JOHN TODD: -- that would probably be the first recourse, yes --

MR. STEVEN SCARFONE: Yes.

MR. JOHN TODD: -- which is exactly consistent with MP --

MR. STEVEN SCARFONE: Yes. And that's what the capital management plan contemplates?

MR. JOHN TODD: Exactly.



Capital Management Plan Benefits Customers

- **Excess** Extension Reserves move directly to Basic
 - Capital Transfer at Feb 28, 2019 – \$60.0 M
 - Forecast Capital Transfer at Feb 28, 2020 – \$75.1 M

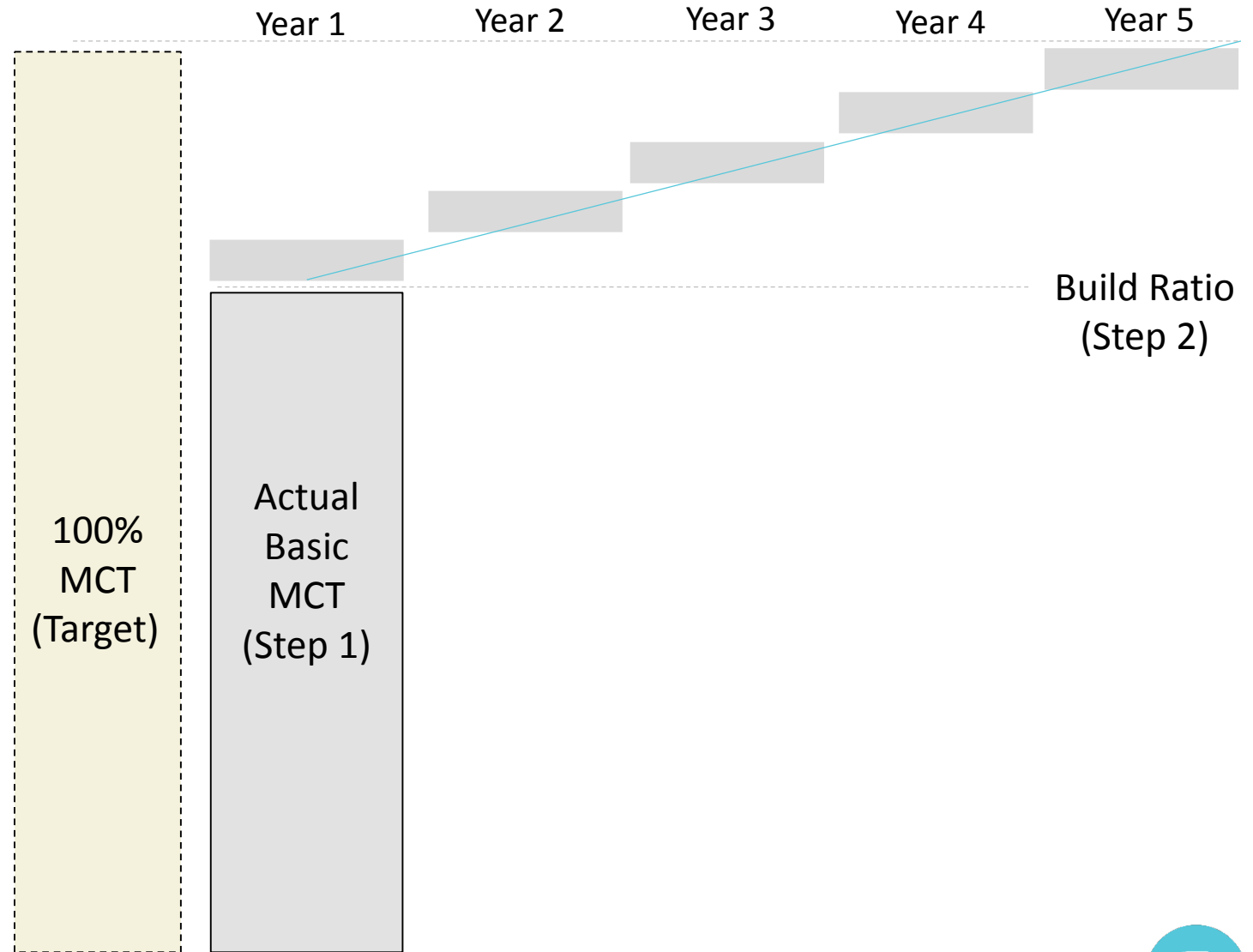
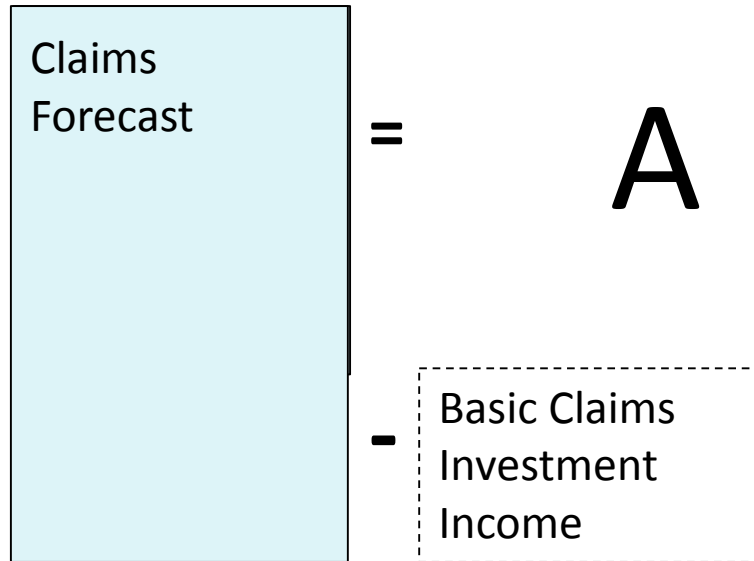
(\$ millions)	2019A	2020P	2021F	2022F	2023F	2024F
Transfer of Excess Extension Reserves	60.0	75.1	42.5	44.5	48.9	48.4

- **Excess** Basic Reserves move directly to Basic Customer

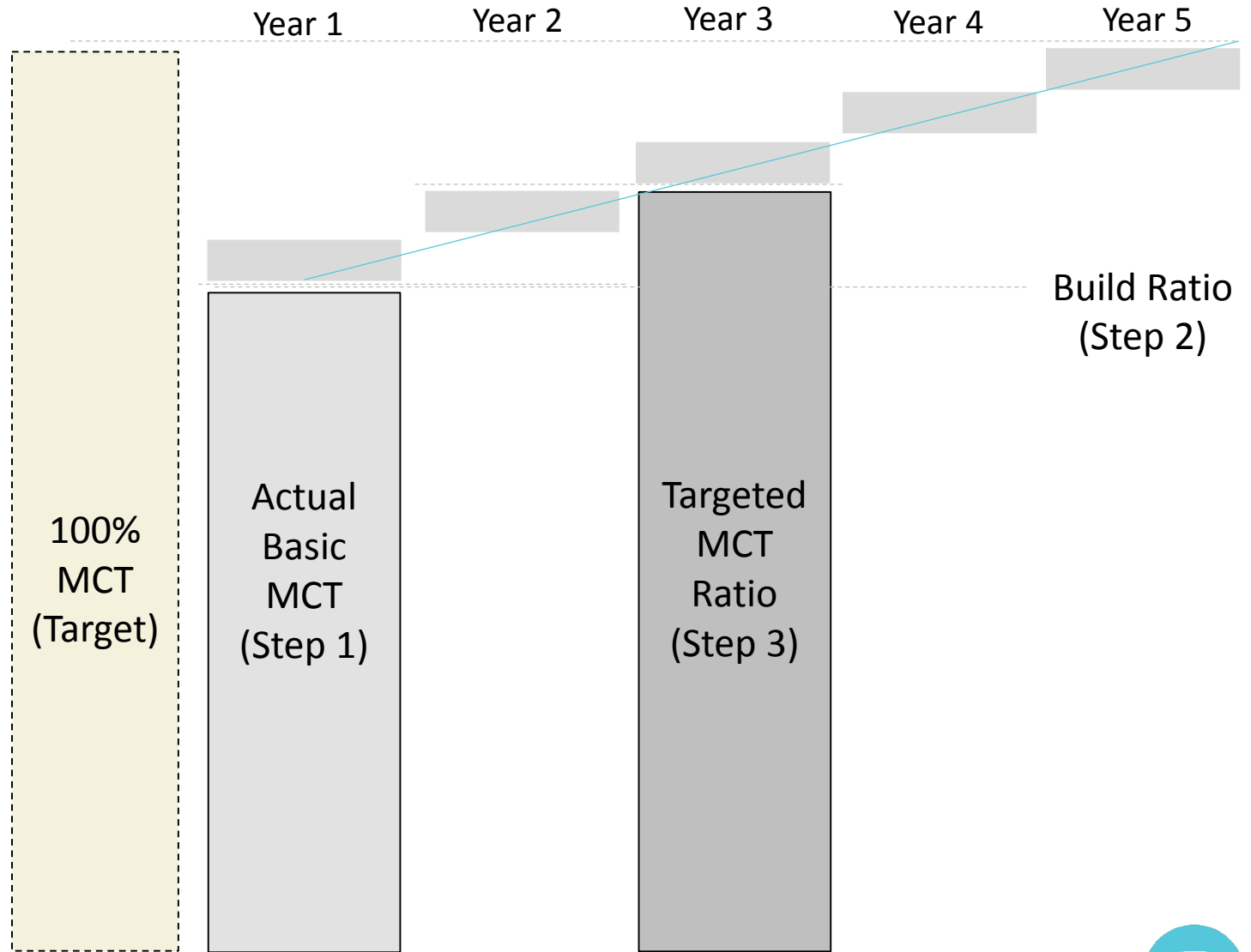
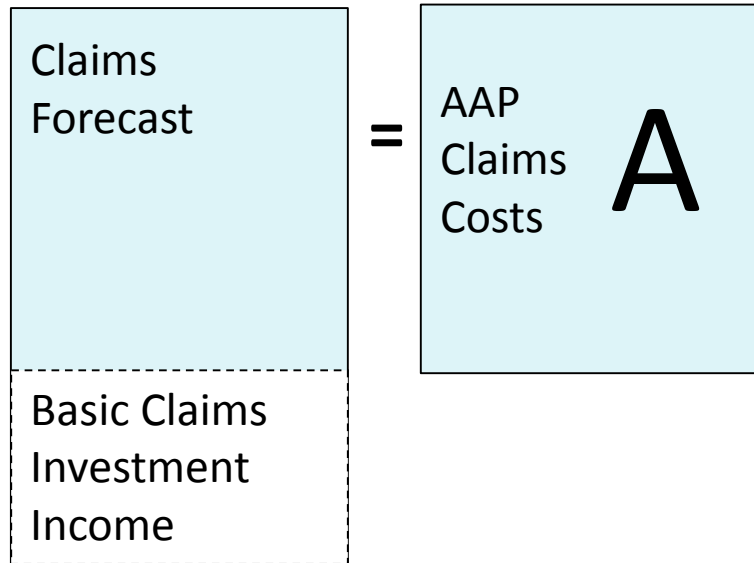
(% MCT at FYE)	2019A	2020P	2021F	2022F	2023F	2024F
Basic MCT	51.5	96.4	98.7	98.9	95.2	103.6



Components of the Rate Request



Components of the Rate Request

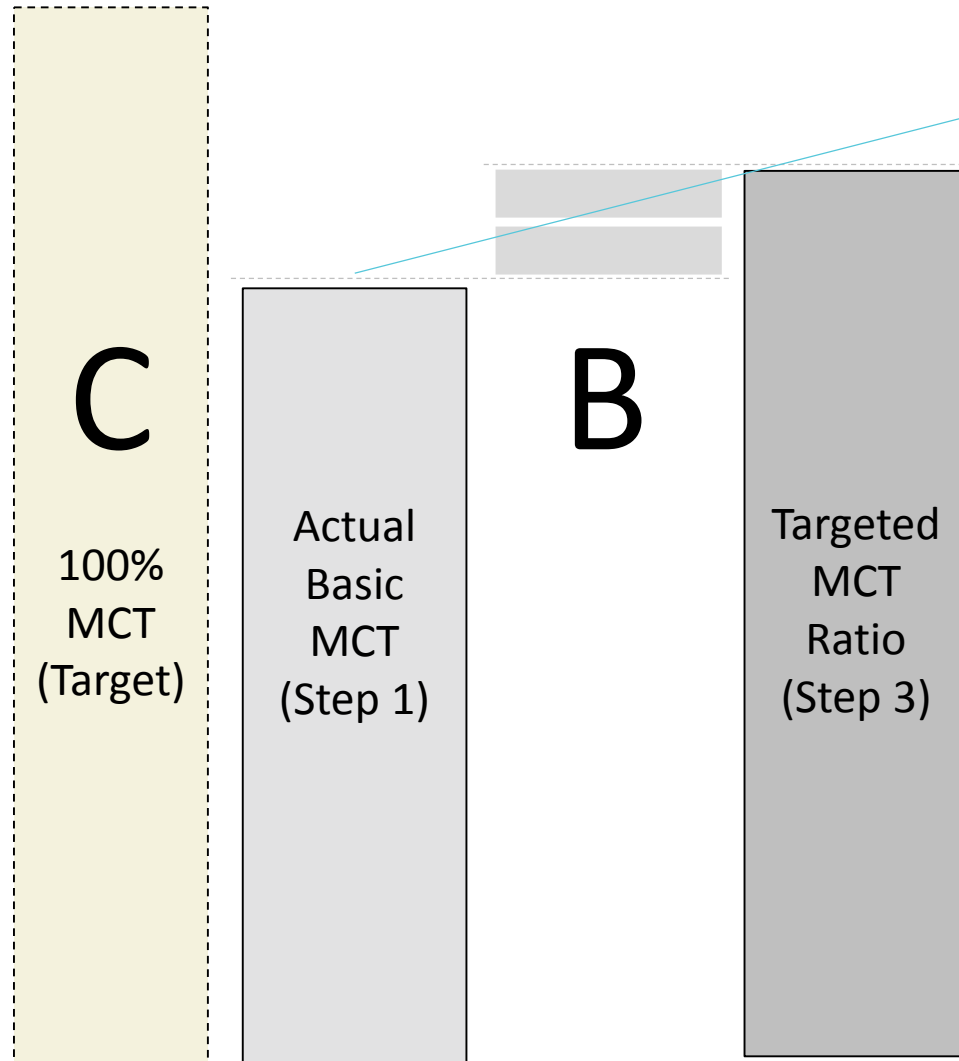
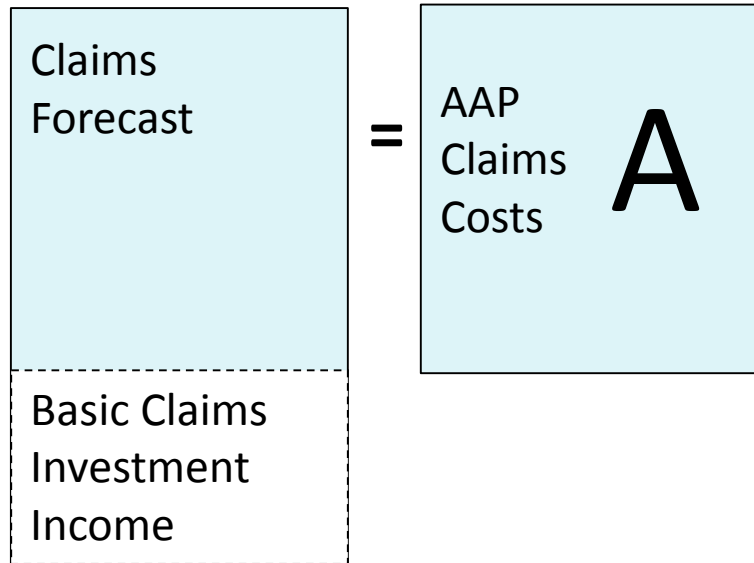


■ Breakeven Rate indication

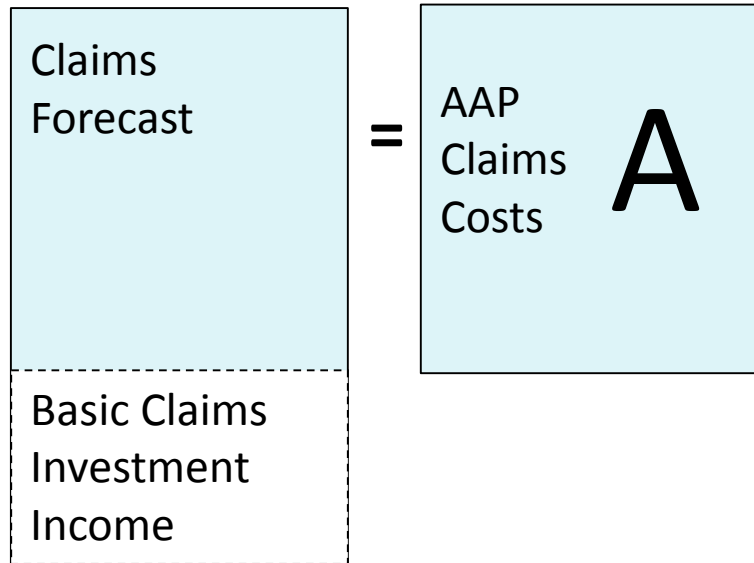
■ Capital Request



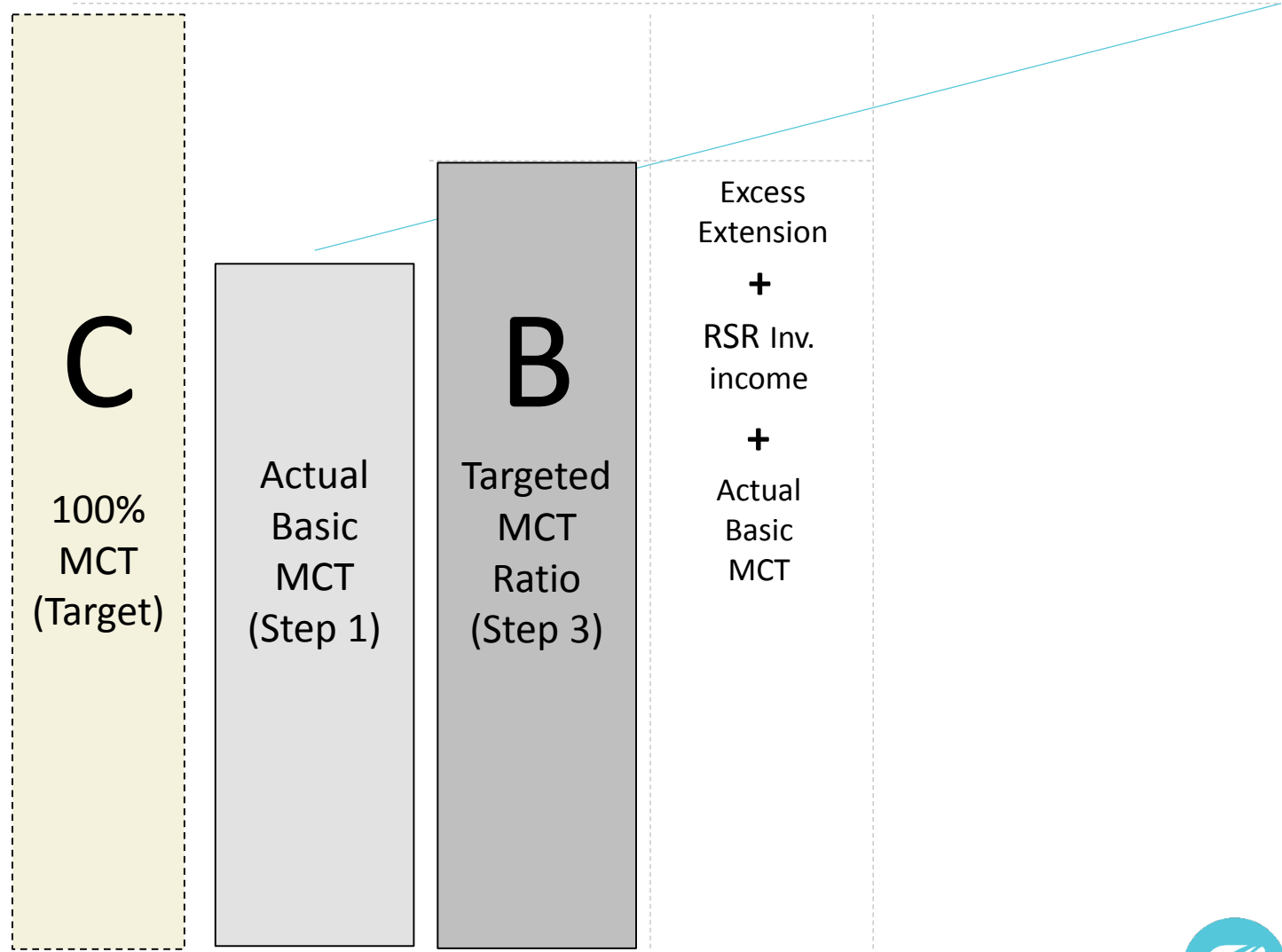
Components of the Rate Request



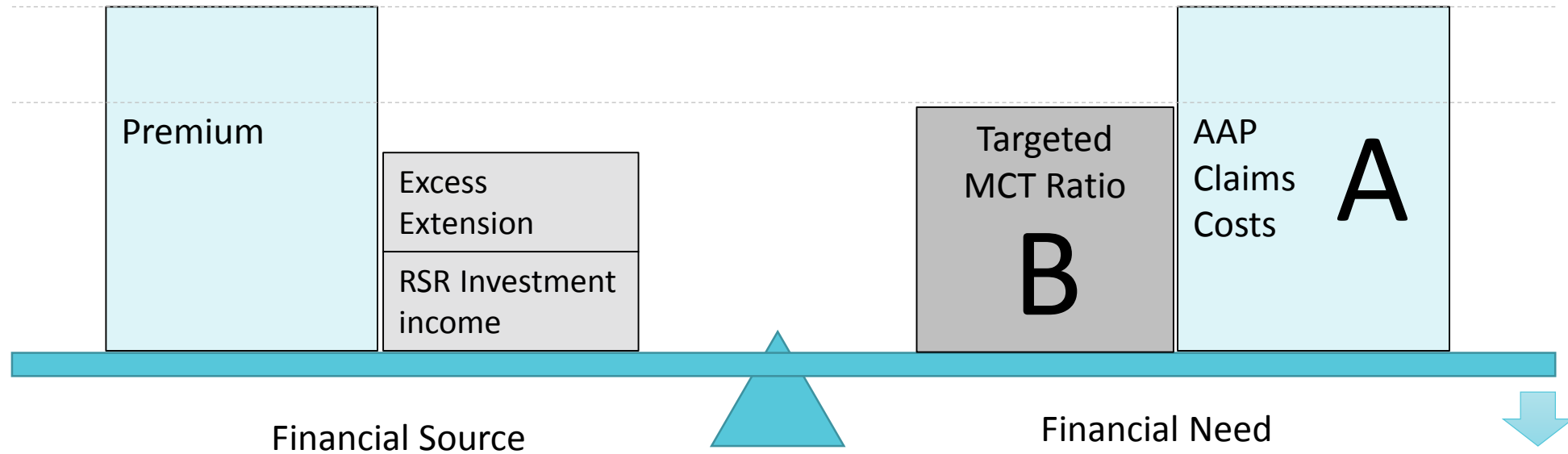
Components of the Rate Request



MCT Forecast Comparison (Step 4)



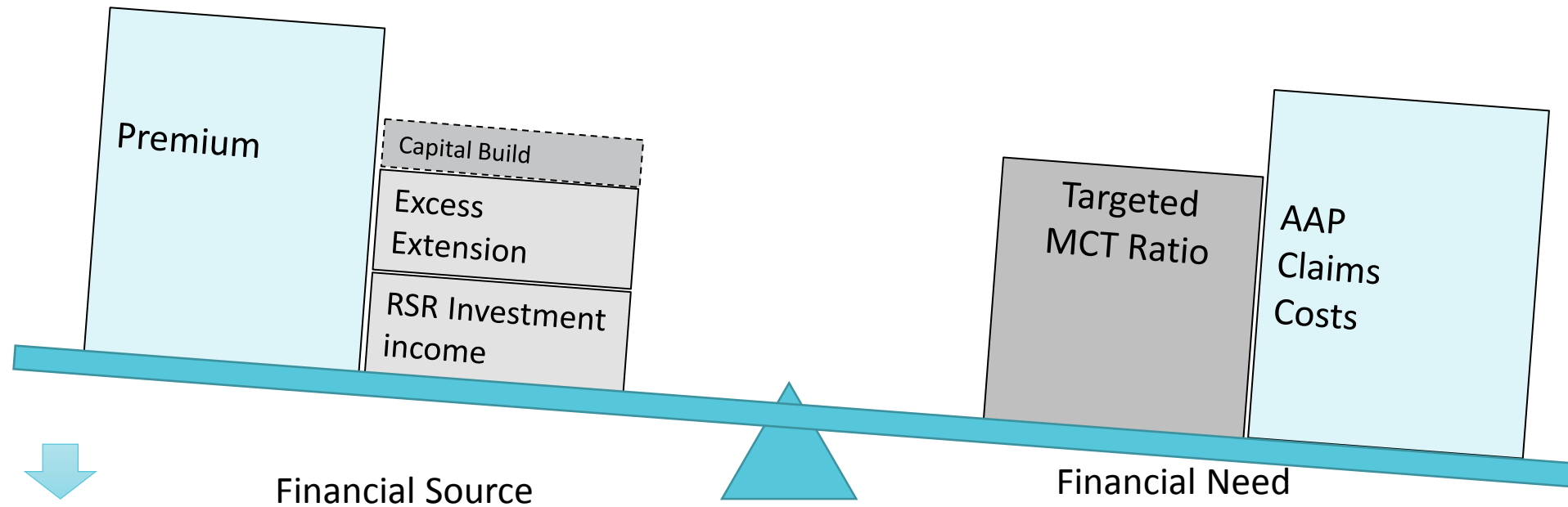
Scenario 1



- Breakeven Rate indication
- Capital Request



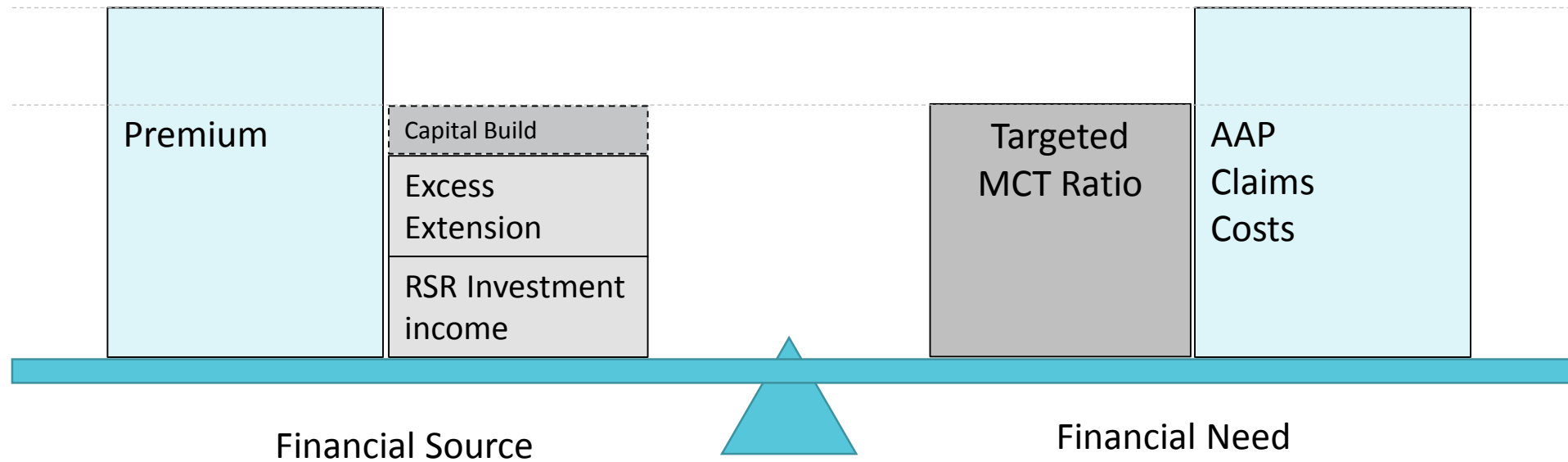
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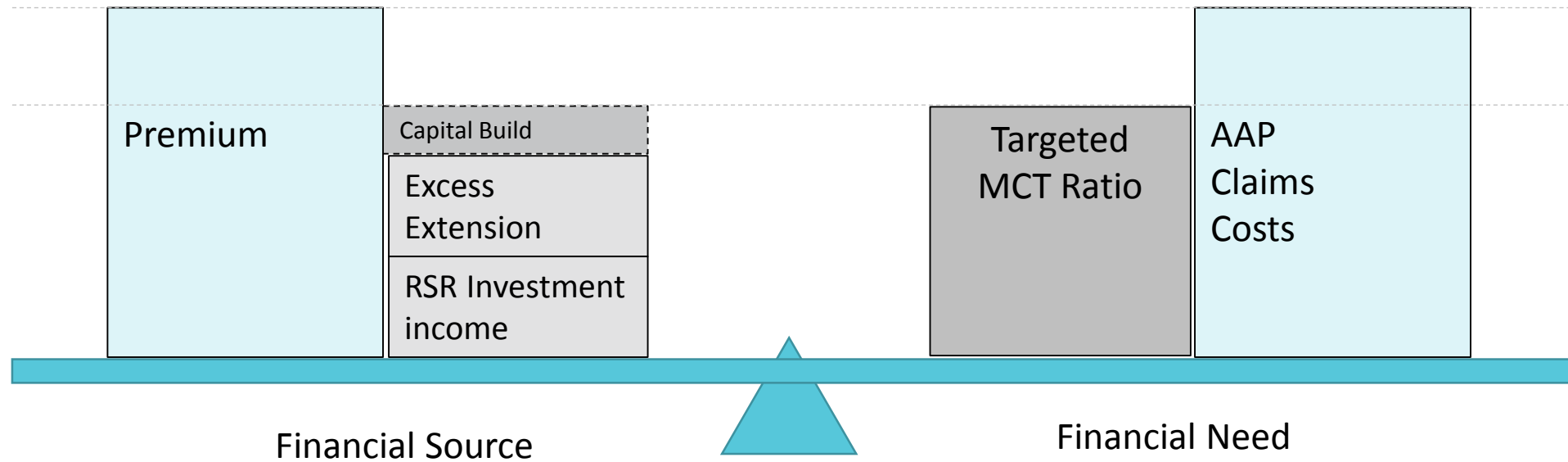
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- Breakeven Rate indication
- Capital Request



Scenario 1

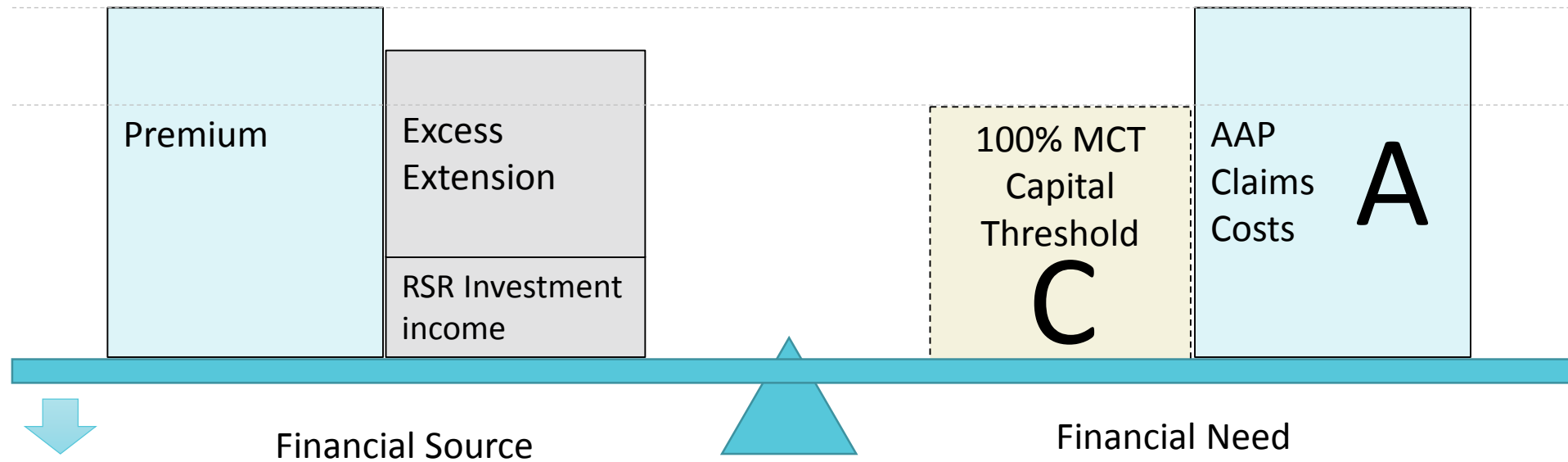


- Breakeven Rate indication
- Capital Request

Overall Rate Indication



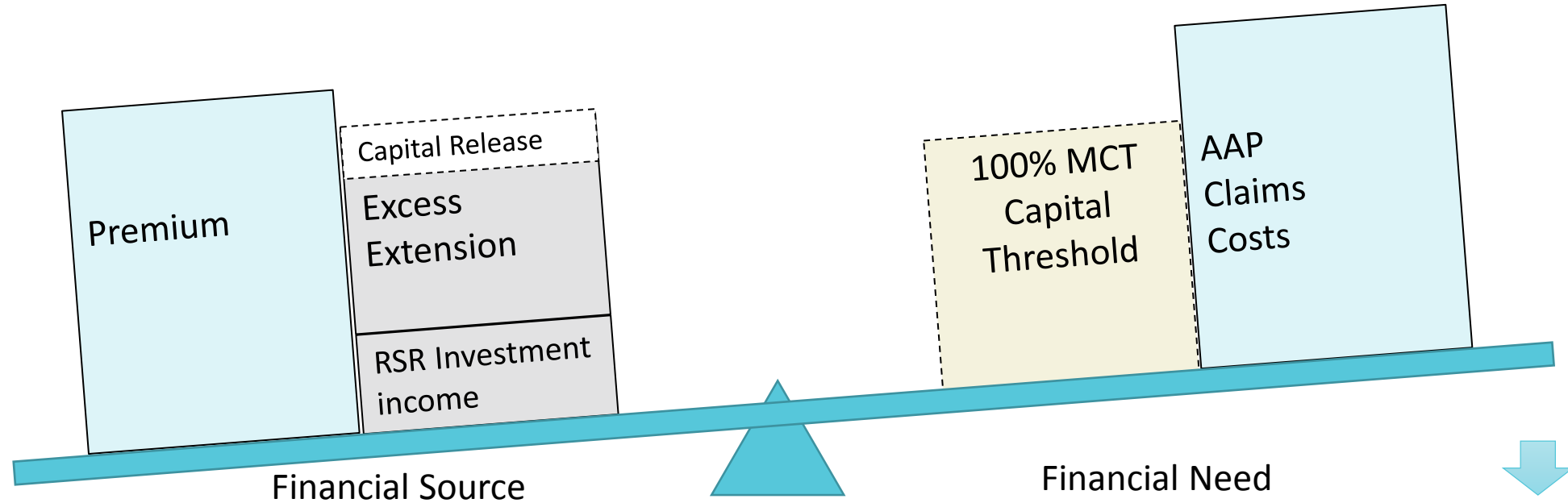
Scenario 2



- Breakeven Rate indication
- Capital Request



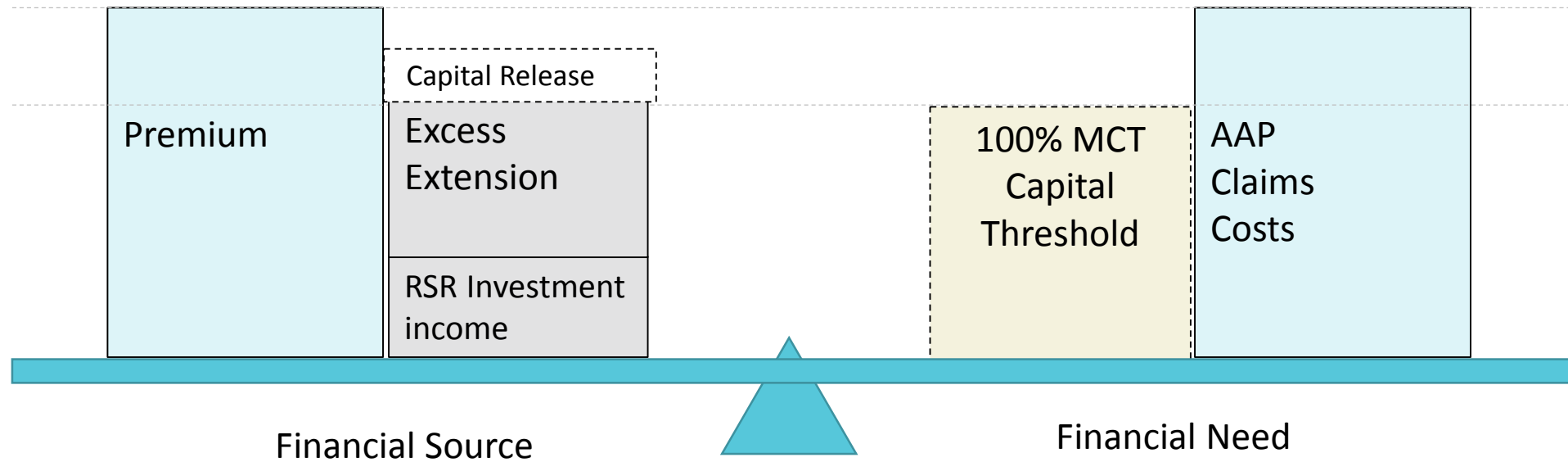
Scenario 2



- Breakeven Rate indication
- Capital Request



Scenario 2



- Breakeven Rate indication
- Capital Request

Overall Rate Indication



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Increasing Transparency and Fiscal Prudence

Topics for Discussion

- a. Project Nova
- b. Service Agreements
- c. Service Delivery



Project Nova



Case for Change: Why modernize legacy systems?

The Legacy Systems Modernization (NOVA) program is the result of assessments performed for MPI by two independent consulting firms (Deloitte and Avasant) who produced recommendations for a “Case for Change” to modernize MPI’s Legacy systems – to address the following key areas:



Technology Risk

Manage Technology Risks via upgrading core technology platforms to modern COTS solutions



Information Security

Secured customer information through enhanced confidentiality, integrity and availability controls.



Customer Self-Service

Enhance Customer Experience by introducing Services to customers via online Customer self- Service channel



Future Business Agility

Allow MPI to become faster / Agile in offering Services to Customers via digital channels and to quickly respond to legislative and regulatory changes



Cost Savings & Efficiency

Replace aging technology, reducing applications life-cycle costs, Support Costs and Operational Efficiencies



Project Nova

a. Disciplined

- **External Consultation to Assess Candidacy and Guidance for Business Case**
- **Use of Agile Methodology**

b. Transparent

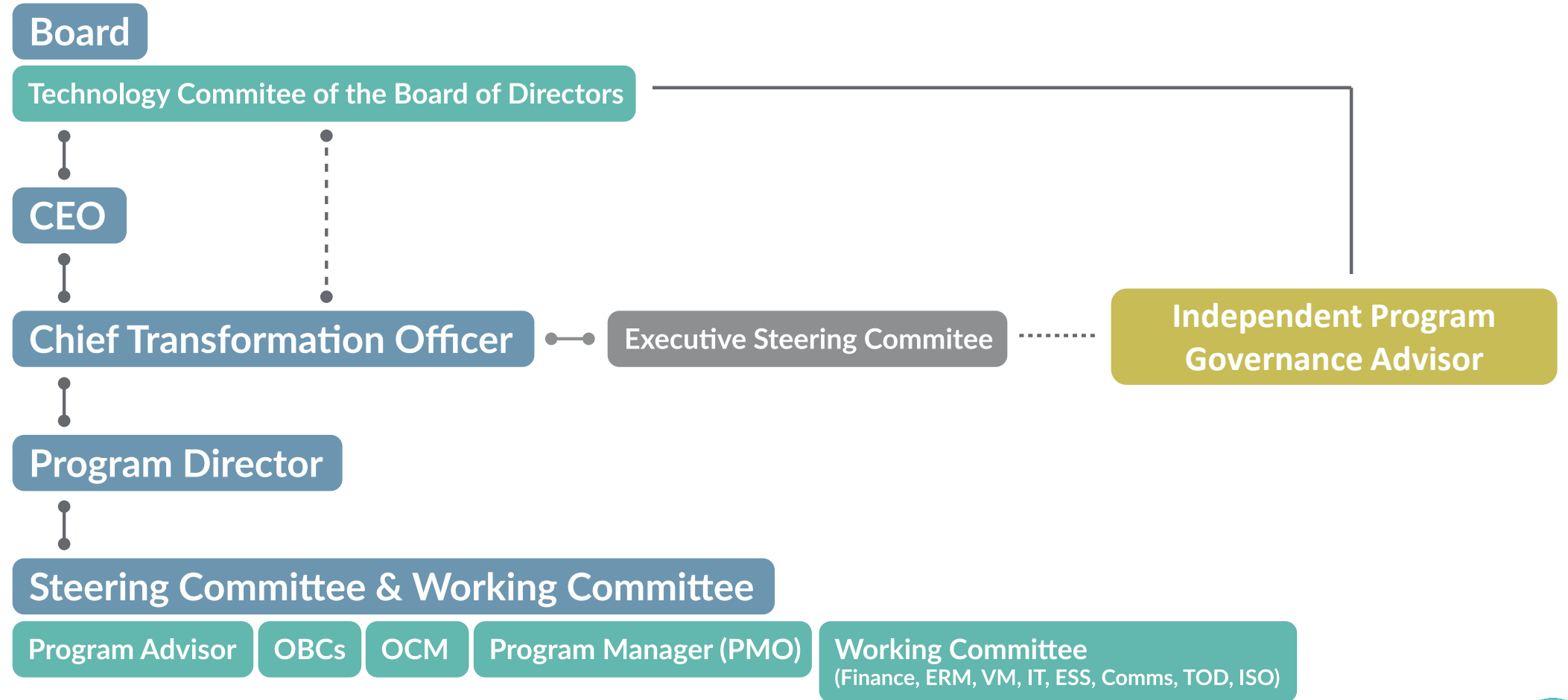
- **Business Case**
- **Interim and Final Reporting**

c. Accountable

- **Sophisticated Governance Structure**
- **Independent Program Governance Advisor**



Nova Governance



Project Nova

Figure IT App 5 - 2 LSM Costs and Benefits Analysis

- MPI expects Nova to reduce ongoing costs and ultimately pay for itself

Line No.	Description	LSM Program (\$M)
1	Full Program Costs/Benefits Summary	
2	CAPEX - One time Capital Costs (includes 25 % contingency)	106.8
3	OPEX - On-going Operational Costs (- Cash flow)	21.3
4	One-time Total Cost Avoidance (+ Cash flow)	13.6
5	On-going annual Cost Savings and New Revenue(+ Cash flow)	41.7
6	15 Year NPV @ 7.5 % Discount Rate	12.7
7	Payback Period	14 Years



Service Agreements



Service Agreements

Topics for Discussion

- a. Existing Agreements

- b. Promoting Competition



Service Agreements

Existing Agreements

- a. MPI and service providers depend on each other
- b. Some agreements do not benefit MPI's core business interests



Service Agreements

Promoting Competition

- a. Anti-competitive behaviour

- b. It is in the best interests of ratepayers that agreements be negotiated fairly



Service Agreements

What the PUB can/should do?

- **Recommend** all future arrangements affecting the compensation of service provider association members comply with the *Competition Act*;
- **Order** MPI to file all such arrangements with the PUB at the first GRA subsequent to their establishment; and
- **Order** MPI to file evidence demonstrating that the compensation arrangements reflect prudent costs, are just and reasonable and are in comply with the *Competition Act*.



Service Delivery



Service Delivery

- a. Management has discretion to make service delivery decisions

- b. MPI views presentation of its future online service delivery model as another example of its increased transparency with PUB

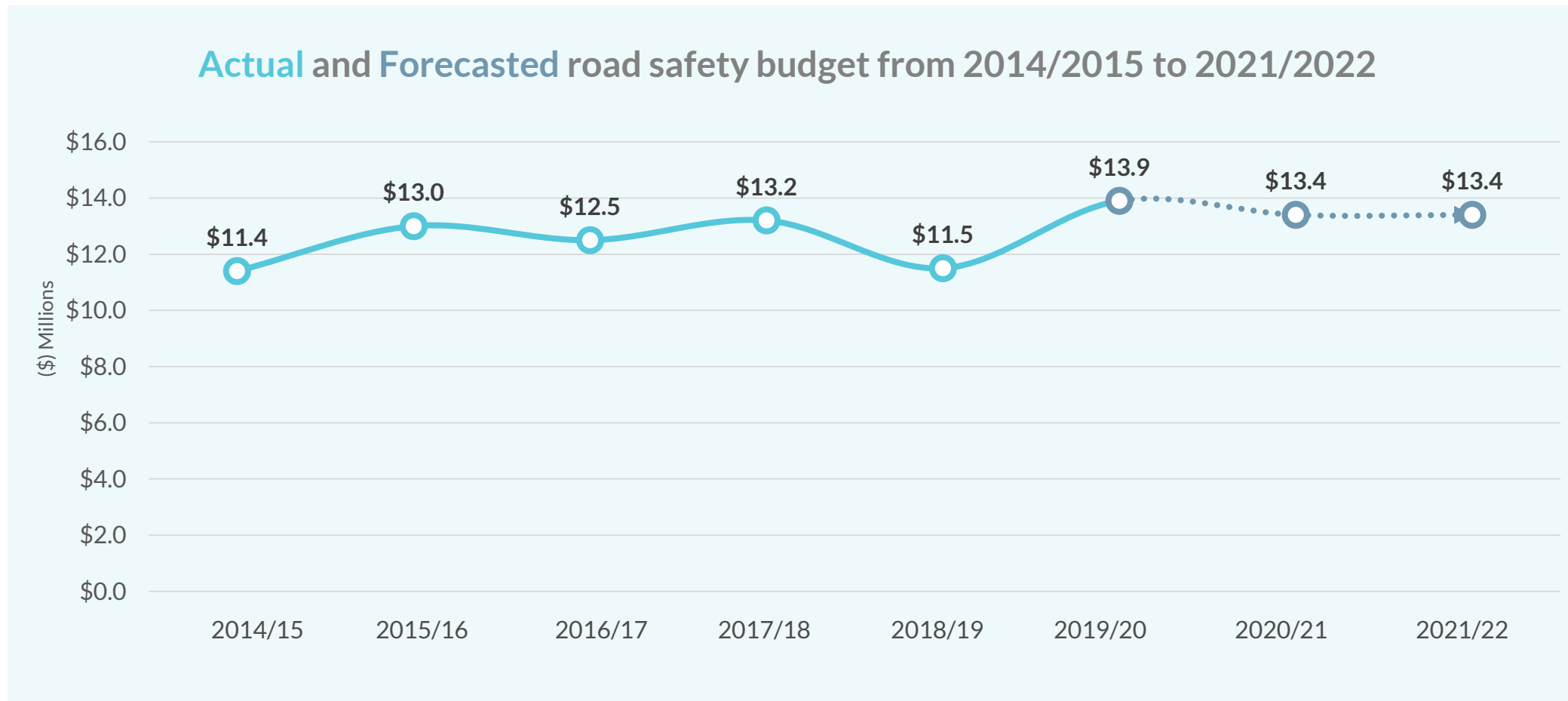


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MPI road safety budget summary



Road Safety in Summary

Progress achieved	In assessment and/or development phase	Future potential opportunities
Driver Z (High School Driver Education)	Driver testing policy – Winnipeg customers to book Class 5 driver testing appointments only in Winnipeg	Telematics
MELT	Class 1 knowledge test requirement – regulation requiring customers to have a Class 5 full licence before booking a Class 1 knowledge test	Passive enforcement tools eg. automated speed cameras
“Save the 100”	Increase collaboration with the City of Winnipeg	Sharing data in MB
Distracted driving offense notices declined	Conduct follow-up roadside survey – prevalence of alcohol and drugs	High risk roadway or Intersection traffic analysis
	Update educational resources – in early years and middle years schools with a focus on young vulnerable road users (i.e. pedestrians and cyclists)	



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Public Consultation Conclusions

1. Manitobans chose the current **Registered Owner Model** as their preferred model for setting vehicle and driver premiums.
2. Manitobans do not view any single model as “perfect”.
3. Overall, Manitobans say that good driving should be rewarded with lower premiums, and that paying the right price (what they consider to be fair) is of paramount concern.



Pricing Models Being Explored

Currently, MPI is conducting a pricing examination of the following models:

- The current Registered Owner Model
- The Primary Driver Model
- The Driver Premium Model

This information is to be available in the 2021 GRA.



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Improving the GRA Process

- What information does the PUB need to make decisions?
 - **10,000+ pages of evidence presented**
 - **2 rounds of information requests (801 specific questions answered)**
 - **39 undertakings given**
 - **104 exhibits filed**
 - **3 week oral hearing**
- What is the best way to get required information to the PUB?
- MPI written submission on topic with suggestions



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