

REBUTTAL EVIDENCE  
2020 GENERAL RATE APPLICATION  
October 4, 2019

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**Manitoba  
Public Insurance**

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## 1. Introduction

In what follows MPI provides rebuttal evidence to the Pre-filed testimony of the Insurance Brokers Association of Manitoba, the evidence of Dr. Simpson and Ms. Sherry, and the evidence of Mr. Todd.

## 2. Rebuttal to the Evidence of Dr. Simpson and Ms. Sherry

The evidence of Dr. Simpson and Ms. Sherry, *Protecting Consumers Against Risk: How Far Should it Go?*, addresses some issues that have been canvassed in past General Rate Applications. These will be addressed in turn as follows:

1. The risks facing Basic have not increased by changing the measurement of the risks
2. MCT is the appropriate measure of capital adequacy for Basic, and the P&C industry standard has been modified to reflect the Basic monopoly

### 2.1 Risks Facing Basic do not Increase with a Change in Measurement

*Dr. Simpson and Ms. Sherry state:*

*The proposed rate setting procedure under the CMP with the 100% MCT capital target represents (i) a significant change in procedure regarding the target level or range of capital for Basic Insurance and the associated Rate Stabilization Reserve (RSR) and (ii) **a significant increase in the level of risk against which MPI ratepayers will be protected without evidence of increasing downside risk to MPI and to rates.***<sup>1</sup>[Emphasis Added]

The 'downside risk' facing Basic has not increased. Risks at the 1-in-100 probability level have existed in the past, just as they exist today, and in the future. The

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<sup>1</sup> 2020 GRA. CAC Exhibit 12-1 "Protecting Consumers Against Risk: How Far Should It Go?" Simpson, Wayne; Sherry, Andrea. p.2

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1 measurement of the risks has changed, and the level of protection afforded by the  
2 RSR has increased to reflect the change in measurement.

## 2.2 MCT is the appropriate measurement of capital adequacy for Basic

3 Dr. Simpson and Ms. Sherry state:

4 *While the MCT is recognized by the Office of the Superintendent of*  
5 *Financial Institutions (OSFI) for private casualty insurers in a*  
6 *competitive insurance industry to prevent insolvency, it was unclear,*  
7 *at least to stakeholders, **how this applied to a public crown***  
8 ***corporation with a monopoly over Basic Insurance.** The concerns*  
9 *regarding the applicability of the MCT included the difference between*  
10 *a private company and a public crown corporation and how to account*  
11 *for that difference in the risk profile and in the MCT percentage level*  
12 *flowing from that risk profile that a public crown corporation should*  
13 *maintain<sup>2</sup> [Emphasis added]*

14 In this, and past GRA's MPI has made the following points on this recurring theme:

- 15 1. The MCT test is the P&C insurance industry standard.<sup>3</sup>
- 16 2. The 100% MCT target is not arbitrary. MCT is a ratio of capital available over  
17 capital required. The 100% target means that capital available **equals** capital  
18 required. At 100% MCT, Basic is holding no more and no less than is required  
19 by the MCT test.<sup>4</sup>
- 20 3. The capital target for MPI is lower than all private insurers in Canada and  
21 consistent with those of the other public insurers in Canada. Although, MPI  
22 notes that SGI has recently increased its capital target to 140% MCT<sup>5</sup>.

<sup>2</sup> 2020 GRA. CAC Exhibit 12-1 "Protecting Consumers Against Risk: How Far Should It Go?" Simpson, Wayne; Sherry, Andrea.p.3

<sup>3</sup> <http://www.osfi-bsif.gc.ca/Eng/Docs/mct2018.pdf>

<sup>4</sup> Please see 2018 GRA, RSR.4.5.2.3

<sup>5</sup> [https://www.sgi.sk.ca/documents/625510/626999/3371\\_SGI\\_Auto\\_Fund+ 2018-19\\_Annual\\_Report\\_WEB.pdf/57d381a7-b40b-43b7-90ba-645eccb3a2dd](https://www.sgi.sk.ca/documents/625510/626999/3371_SGI_Auto_Fund+ 2018-19_Annual_Report_WEB.pdf/57d381a7-b40b-43b7-90ba-645eccb3a2dd), P.12

- 1 4. Private insurers are required to maintain at least a 50% 'cushion' over 100%.  
2 OSFI describes the supervisory capital target as follows:

3 *OSFI has established an industry-wide supervisory target capital ratio*  
4 *(supervisory target) of 150% that provides a cushion above the*  
5 *minimum requirement and facilitates OSFI's early intervention process.*  
6 *The supervisory target provides additional capacity to absorb*  
7 *unexpected losses and addresses capital needs through on-going*  
8 *market access*<sup>6</sup>

9 MPI's capital target does not include this 'cushion'.

- 10 5. Without question, Basic faces the risks that are quantified by the MCT test.  
11 MPI's rebuttal evidence<sup>7</sup> in the 2019 GRA reproduced the testimony of Ms.  
12 Sherry from the 2018 GRA, wherein she confirmed that many of the risks  
13 measured, such as insurance risk, market risk, credit risk, etc, are risks facing  
14 Basic. Those risks that Basic does not face are not reflected in the MCT's  
15 "capital required".<sup>8</sup>

- 16 6. While the Dynamic Capital Adequacy Test (DCAT) may be used to test the  
17 adequacy of MPI's projected financial results against a number of adverse  
18 scenarios, it is, relative to the Minimum Capital Test (MCT), limited in its ability  
19 to fully capture the extent of all adverse scenarios impacting property and  
20 casualty insurers in Canada.<sup>9</sup>

### 3. Rebuttal to the evidence of Mr. Todd

21 Mr. Todd's Evidence, *An Assessment of the Capital Management Plan of Manitoba*  
22 *Public Insurance for the 2020/21 General Rate Application Based on Generally*  
23 *Accepted Regulatory Principles*, is generally not contested by MPI. However, it is

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<sup>6</sup> <http://www.osfi-bsif.gc.ca/Eng/Docs/mct2018.pdf>, section 1.2.1

<sup>7</sup> 2019 GRA, MPI Exhibit 20, Rebuttal Evidence, section 2.3 - The Minimum Capital Test Assess the Risks Facing Basic. p.7.

<sup>8</sup> Please see the 2019 GRA, Part VI RSR 4.5.2 for an extensive discussion of the appropriateness of MCT for determination of Basic capital adequacy.

<sup>9</sup> CAC(MPI) 2-15

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1 prudent to note that generally Accepted Regulatory Principles are not codified by an  
2 organization, or industry body. They evolve through independent decisions of  
3 regulators, and can vary across the country<sup>10</sup>, and through time.

#### 4. Rebuttal to Pre-Filed Testimony of the Insurance Brokers of Manitoba

4 MPI offers the following clarifications related to:

- 5 1. Denials of coverage under Basic;
- 6 2. Basic Commissions as a percentage of overall expenses;
- 7 3. Allocations of Driver's License commissions and flat fees;
- 8 4. MPI's familiarity with its products; and
- 9 5. Further details on transactions and payments across service delivery channels.

##### 4.1 Denial of Coverage Under Basic

10 In response to CAC (IBAM) 1-2(c), IBAM refers to a complex product sold to a  
11 customer through a direct online sales channel, whose claim was denied for improper  
12 coverage. While all claims are considered on a case by case basis, it is frequently the  
13 case that MPI will charge customers the difference in premium should they make a  
14 claim and unknowingly have the wrong coverage, as opposed to outright denial of  
15 coverage. As an example, a pizza delivery driver insured under all purpose, would be  
16 assessed the costs of a common carrier policy, in the event a claim investigation  
17 determines the driver was unaware of the insurance requirement. Although each case  
18 is assessed on its merits, the example of Ms. Winterhelt is not a common occurrence  
19 in Manitoba.

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<sup>10</sup> For instance the stand-alone principle is applied at times, such as in Alberta Utilities Commission Generic Cost of Capital Decision 22570-D01-2018.

## 4.2 Correcting the Expression of Basic Commissions as a Percent of Overall Expenses

Page 5 of the IBAM pre-filed testimony states:

*The commissions paid by MPI to brokers for Basic Autopac insurance only accounts for approximately 2.4% of the overall expenses contained in MPI's annual operating budget.<sup>9</sup>*

MPI notes that this is not a fair comparison, as Basic Commissions are being compared to total corporate costs. If however, one were to isolate Basic Commissions, and compare against Basic total costs, the percentage is 3.6%<sup>11</sup>.

The \$44.5 million in Basic Commissions still represents a material portion of Basic's revenue requirement that has not been actively canvassed in recent years.

## 4.3 Clarification on Driver and Vehicle Licensing (DVL) Cost Allocation

Footnote 9 at page 5 of the IBAM pre-filed testimony states:

*IBAM is seeking clarification through the PUB process as to where revenues for DVL and Flat Fee services are entered. If revenues are accounted for outside of the Basic premiums (for example: Manitoba Infrastructure), it will question why commission/flat fee costs are tied to Basic premiums.*

While DVL is not directly relevant to Basic rate application, MPI can provide some insight to the question posed.

For instance, the cost of a Driver's License has two components, an Driver License charge of \$20, which is remitted directly to government, on which no commission or flat fee is payable. The base driver premium on the Driver's License is \$45, and goes up or down based on the driver's Driver Safety Rating (DSR). Commissions are paid

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<sup>11</sup> From Part V Pro Formas PF-1, Commissions in 2021 are \$44.481 million, and Total Claims Costs, plus Total Expenses are \$1,238.2 million, or  $44.481/1238.2=3.6\%$

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1 on this portion of the Driver's License, and allocated per the table provided in IBAM  
2 (MPI) 2-14.

#### 4.4 MPI is the Authority on its Products

3 Page 5 of the IBAM's pre-filed testimony states:

4 *Brokers are also subject to regulation and trained to assess and*  
5 *consult with customers with respect to their coverages. This includes,*  
6 *but is not limited to, consultation and advice with respect to vehicle*  
7 *classification and coverages offered in the Basic and Extension Autopac*  
8 *packages.*

9 And in response to CAC (IBAM) 1-1, states:

10 *The provision of advice and information relating to insurance needs*  
11 *and other services by MPI employees is not ideal for consumers and -*  
12 *in light of the current regulatory environment - reinforces the need to*  
13 *have auto insurance sold through licensed insurance brokers*

14 As IBAM confirms in response to MPI (IBAM) 1-6, MPI provides training material on  
15 products, services, procedures, and security requirements through MPI's "Partner  
16 Portal. MPI's 'Brokers Online' Portal provides brokers with policy, procedure and  
17 support material. Further MPI's call center employs 32 FTEs dedicated to assisting  
18 brokers and front line Service Centre staff with all types of product and service  
19 enquiries, and an additional 5 Broker Services Administrators who provide support to  
20 brokers on any topic related to running a brokerage, including product or process  
21 enquiries, commissions, adjustments, security, hardware, software. Additionally, the  
22 32 Call Centre FTE go through an extensive 5 week training program. Brokers are  
23 required to take the four day 'Intro to Autopac' course. Not only is MPI qualified to sell  
24 its own insurance products, it is indeed the authority on those products.

25 Further, MPI's front line service center staff currently sell Basic and Extension products  
26 to customers (who visit a service center for that reason).

27 Page 12 of IBAM's pre-filed testimony states:



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1 *IBAM and its member brokers believe that consumers will enjoy a*  
2 *much better level of service delivered through the small business local*  
3 *broker as opposed to government.<sup>12</sup>*

4 However, IBAM points to isolated incidents as evidence of MPI's lackluster customer  
5 service. With respect to higher than normal call volumes, the MPI call center was  
6 experiencing usually higher caller volumes, as a result of a small number of individuals  
7 attempting to book Class 1 driver testing – one individual was calling 200 times per  
8 day. Please refer to IBAM (MPI) 2-6 for details on how MPI monitors its customer  
9 service metrics.

#### 4.5 Further Insight to Transactions Volumes at Broker Offices

10 Page 15 of the IBAM pre-filed testimony states:

11 *IBAM broker members estimate that close to 90% of reassessments*  
12 *are done in person with a broker. It may be that the 6% figure cited*  
13 *by MPI represents the number of policies that are changed by*  
14 *consumers (for example, different coverage, payment method, vehicle*  
15 *change, etc.). A "clean reassessment" should therefore be expected 94%*  
16 *of the time;<sup>13</sup>*

17 While IBAM's response to CAC (IBAM) 1-17 merely expressed a 'view' that the vast  
18 majority of re-assessments are done in person, MPI can offer further insight into the  
19 data.

20 In response to IBAM (MPI) 2-23(c), MPI provided the following Figure 1(below)  
21 indicating that 6-7% of Re-Assessment Transactions are completed at a Broker.  
22 IBAM's inference was correct, that a re-assessment "Transaction" is defined as a  
23 customer initiating a change in coverage at the time of re-assessment (in years 2-5 of  
24 the policy), which currently can only be done in person at a Broker, or MPI. The  
25 "Automated Transactions" are those re-assessment notices that are generated

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<sup>12</sup> P.12

<sup>13</sup> P.15

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1 automatically each year, and sent to customers notifying them of the cost to continue  
2 their policy with the same coverages.

**Figure 1 - IBAM (MPI) 2-23(c) Figure 3 Reassessment Transactions**

Line No.		2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
1	Counts									
2	Broker	6,869	108,019	112,824	112,495	106,266	109,696	111,527	109,125	108,190
3	MPI	218	1,525	1,745	1,791	1,938	2,135	2,436	2,313	2,664
4	Automated	227,901	1,490,060	1,554,705	1,602,543	1,554,578	1,528,345	1,611,424	1,673,643	1,706,309
5	Total	234,988	1,599,604	1,669,274	1,716,829	1,662,782	1,640,176	1,725,387	1,785,081	1,817,163
6	% Broker	3%	7%	7%	7%	6%	7%	6%	6%	6%

3

4 A "Transaction" is not however, the same as making a payment on a re-assessment.  
5 IBAM's second inference, that 94% of "clean re-assessments" are performed at broker  
6 offices, is not correct. The following outlines the extent of the conclusions that can be  
7 drawn from analysis of MPI's systems data.

8 Figure 2 below shows the count of payments, by payment channel for re-assessments.  
9 This table demonstrates the number of payments made when customers visit a broker  
10 versus using alternate payment methods.

**Figure 2 Payments by Channel**

Line No.	Payment Type	1 - Broker Office	2 - MPI Internal (includes Service Centres)	3 - MPI Batch	4 - E-Payment	5 - Online Credit Card Payment	Grand Total
1	12-pay	54,128	3,018	278,902	-	-	336,048
2	4Pay Initial	59,310	1,195	1,019	8,176	3,874	73,574
3	Full Payment	706,014	25,152	3,815	61,779	82,500	879,260
4	Deferred Pay	1,655	23	24	57	45	1,804
5	Total	821,107	29,388	283,760	70,012	86,419	1,290,686
6	Total %	64%	2%	22%	5%	7%	100%

11

12 The types of payment options available to customers are as follows:

- 13 1. Broker Office: Customer presents in person at a Broker office to make a  
14 payment.

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- 1           2. MPI Internal: Customer presents in person at a Service Center to make a  
2           payment.
- 3           3. MPI Batch: Automated payment through monthly Bank Debit (MPI pulls the  
4           payment from a customer account).
- 5           4. E-Payment: Customer makes a payment through a Bank's online bill payment  
6           function, where MPI is set up as a "Payee" (Customer pushes the payment to  
7           MPI).
- 8           5. Online Credit Card Payment: payments made through MPI's website for annual  
9           or quarterly installments.

10           As can be clearly seen from Figure 2, 64% of payments are processed through Broker  
11           offices. Note however that the total of 821,107 Driver and Policy payments does not  
12           mean "individual customers" entering a Broker office. A single customer visit can  
13           result in multiple distinct payments.

14           Customer traffic to Broker offices is captured in the table provided in response to CAC  
15           (MPI) 1-1(t), reproduced below as Figure 3. In 2018 in-person renewals and re-  
16           assessments totaled 487,919 visits, or 22% of combined renewals and re-  
17           assessments. Note however, that this also does not capture instances where  
18           customers visited a broker solely to make a payment.

19           The data that can be extracted from MPI's systems are therefore unable to precisely  
20           track the number of customer visits to a broker office, but it can be narrowed down to  
21           between 487 thousand and 821 thousand visits, representing at most 63% of  
22           payments, or at least 22% of renewal and re-assessment transactions.

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**Figure 3 - CAC (MPI) 1-1(t) Figure 3 Basic Insurance Vehicle and Licence Renewals & Reassessments**

Line No.	Sum of Volume Row Labels	Column Labels	2014	2015	2016	2017	2018	Grand Total
1	Broker		493,779	529,762	515,580	459,619	487,919	2,486,659
2	MPI		37,691	42,946	45,349	42,838	45,355	214,179
3	Automated		1,560,445	1,534,297	1,617,851	1,680,137	1,712,471	8,105,201
4	<b>Grand Total</b>		<b>2,091,915</b>	<b>2,107,005</b>	<b>2,178,780</b>	<b>2,182,594</b>	<b>2,245,745</b>	<b>10,806,039</b>
5	Sum of Volume	Column Labels						
6	Row Labels		2014	2015	2016	2017	2018	Grand Total
7	Broker		24%	25%	24%	21%	22%	23%
8	MPI		2%	2%	2%	2%	2%	2%
9	Automated		75%	73%	74%	77%	76%	75%
10	<b>Grand Total</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>