

MANITOBA PUBLIC INSURANCE
2020 GENERAL RATE APPLICATION
Intervener Information Requests to
Insurance Brokers Association of Manitoba (IBAM)
September 27, 2019

MPI (IBAM) 1-1

Part and Chapter:	IBAM Pre-Filed Testimony	Page No.:	Page 6
PUB Approved Issue No:	Issue No. 9, Cost of operations and cost containment measures		
Topic:	Consumer Protection		
Sub Topic:			

Preamble to IR:

IBAM's pre-filed testimony states:

"IBAM and its members maintain that broker involvement is necessary to protect consumers"

Question:

- a) Please identify all jurisdictions in Canada where consumers can purchase insurance through direct channels.
- b) For each jurisdiction noted in part (a), please indicate if and how consumers who purchase from direct channels are at risk, and what steps have been taken by the relevant regulatory authorities to mitigate those risks.

Rationale for Question:

To understand the statement that consumers require protection when purchasing insurance from any other source other than a broker.

RESPONSE:

- a. MPI's GRA is concerned with the sale and provision of *Basic* auto insurance in Manitoba, a public auto jurisdiction. IBAM can confirm that ***no other public auto insurer in Canada has implemented a direct to consumer model.***

To the contrary, as part of the recently signed eight (8) Year *IBABC-ICBC Accord*, ICBC has provided the following assurances to the existing broker channel in British Columbia:

"The broker is the sole distributor of Autoplan. The three parties recognize a need to be responsive to changing customer expectations on how a complex insurance product can be delivered in a cost-effective manner while at the same time ensuring that the customer has the right coverage for their unique circumstances"; and

*"ICBC will give its brokers an unqualified guarantee that **the broker will remain the sole distributor** of Autoplan over the horizon covered by this Strategic Accord."*

[emphasis added]

Similarly, the SGI/Autofund in Saskatchewan has provided the following assurances to the existing broker channel in Saskatchewan:

*"SGI recognizes that the current motor license issuing environment, including broker issuers, issuer-only offices, and SGI branches, will continue to be service providers of Auto Fund products and services in Saskatchewan. **SGI also recognizes that issuers will continue to be the sole providers of Auto Fund products and those transactions delivered online via MySGI.**" [emphasis added]*

In the event that MPI was to implement a direct-to-consumer business model for the sale of *Basic* insurance in a government controlled monopoly, it would seemingly be an "outlier" with respect to its peers in Saskatchewan and British Columbia.

Insofar as the Province of Manitoba is concerned, direct to consumer models are not prevalent among market share leaders. In fact, the majority of carriers are fully committed to a broker-only model in Manitoba. In addition, Wawanesa, Red River Mutual, Portage Mutual and Wynward are all headquartered in the City of Winnipeg; each have committed to a broker-based model (as opposed to a direct to consumer model). Based on the foregoing, it is evident that all of these Manitoba-based companies see the inherent value and cost effectiveness of distributing their products through the current broker channel.

Moreover, Wawanesa recently abandoned their direct to consumer strategy in Quebec in favour of a broker-based model. A recent article in *Canadian Underwriter Magazine*¹ referred to Wawanesa's attempt to provide direct services to residents of Quebec and its subsequent decision to abandon same. The article went on to state that Ms. Carol Jardine, President of the Canadian property and casualty operations of Wawanesa, spoke to insurance brokers at a Toronto Region lunch in January. At that time, she was quoted as saying:

"Anyone who thinks it's easy to do direct insurance is extremely naïve... I have been in this business for over 40 years... The one thing I know is that brokers look after their

¹ See: <https://www.canadianunderwriter.ca/insurance/what-could-stop-direct-writers-from-eating-your-lunch-1004165299/>

customers better than the directs. Brokers know what their customers need and want, and brokers will provide the value that a customer requires, which is choice."

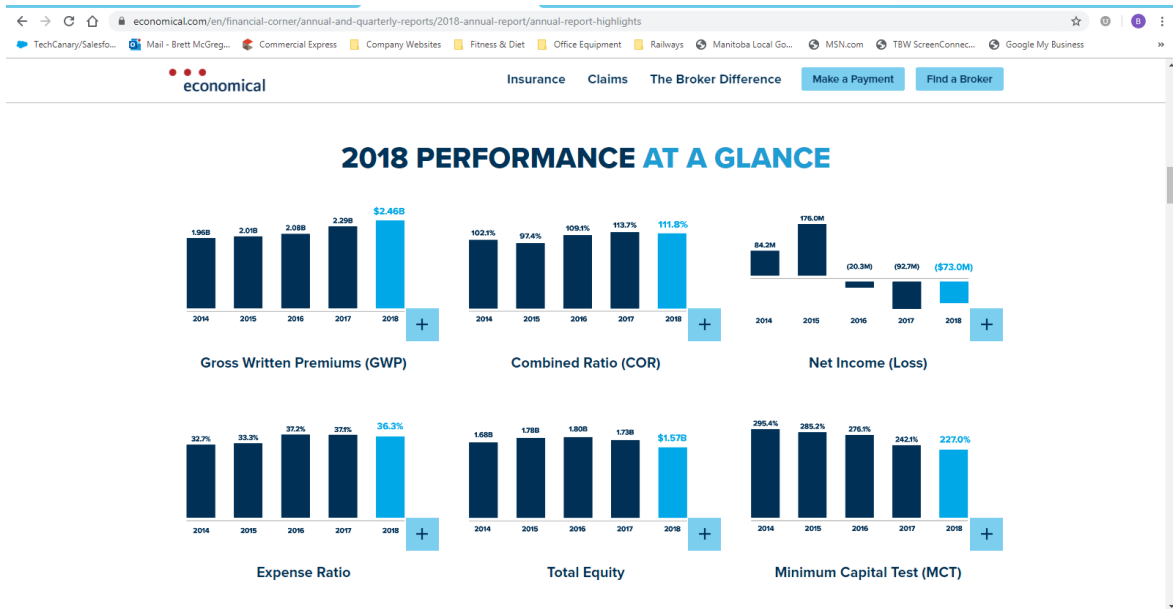
[emphasis added]

As set out above, the other public auto insurance jurisdictions (namely Saskatchewan and British Columbia) are alive to this fact and have fully committed to broker-based models. In doing so, both SGI and ICBC have indicated that brokers are to be the "sole providers" of their products. IBAM maintains that Manitoba should follow a similar route.

The risks associated with pursuing a direct to consumer / online insurance model are evident. For example,² Sonnet Insurance launched in 2016. Its parent company's (Economical's) financial performance has significantly suffered since. In just three (3) years since starting Sonnet, Economical went from a profit of \$176 Million [combined ratio of ninety-seven point four percent (97.4%)] and MCT of two-hundred eighty five point two percent (285.2%) to a loss of \$73 Million [combined ratio of one hundred eleven point eight percent (111.8%)] and MCT of two hundred twenty-seven percent (227.0%):³

² As set out in response to CAC (IBAM) 1-1.

³ See: <https://www.economical.com/en/financial-corner/annual-and-quarterly-reports/2018-annual-report/annual-report-highlights>



In terms of protecting consumers and stability of the auto insurance product, the experience at Sonnet tells a compelling story about consumer protection. In fact, Sonnet recently filed for a **fifty point three percent (50.3%)** annual rate increase in New Brunswick.⁴ In Q2 2019, Sonnet also requested and was approved for a **twenty point four percent (20.4%)** annual rate increase in Ontario.⁵

In light of the above, IBAM believes that direct to consumer sales without the involvement of the broker channel should *not* be viewed as an aspirational business model for MPI. After decades of relative stability

⁴ See *CBC.ca* article titled "Be Warned: New Brunswick Auto Insurance Rates Are Set to Soar in 2020" at: <https://www.cbc.ca/news/canada/new-brunswick/nb-insurance-rates-soar-consumer-advocate-1.5270814>

⁵ See "Auto Insurance Rates in Ontario Rise for the Seventh-Straight Quarter" at: <https://www.lowestrates.ca/blog/auto/ontario-auto-insurance-second-quarter-FSCO-2019>

and success, IBAM questions why MPI is considering a radical change to its current business model. Given the relative success that MPI has had, and given the significant losses incurred by Wawanesa (in Quebec) and Sonnet / Economical in direct to consumer sales, the obvious question that must be asked is: "*why change it?*" As stated by Ms. Jardine:

"Anyone who thinks it's easy to do direct insurance is extremely naïve... brokers look after their customers better than the directs. Brokers know what their customers need and want, and brokers will provide the value that a customer requires, which is choice."⁶

[emphasis added]

To be clear, IBAM is not opposed to an online business model. However, MPI going direct to consumer introduces risks to all stakeholders. Although brokers understand and appreciate the need to offer services online (in fact, some brokers already offer non-MPI insurance products online), it believes that it should be offered via the existing broker channel (as in Saskatchewan and British Columbia).

b. In Manitoba, the Insurance Council of Manitoba ("**ICM**") - and its related regulations governing the sale of insurance products in Manitoba - do not place any minimum education and training requirements on the employees of MPI for the sale of *Basic* insurance. In fact, the sale of *Basic* insurance is exempt from the provisions of the *Insurance Act* by way of the *Manitoba Public Insurance Corporation Act*.⁷ The provision of advice

⁶ See: <https://www.canadianunderwriter.ca/insurance/what-could-stop-direct-writers-from-eating-your-lunch-1004165299/>

⁷ See section 30 of the *Manitoba Public Insurance Act*.

and information relating to insurance needs and other services by MPI employees is not ideal for consumers and - in light of the current regulatory environment - reinforces the need to have auto insurance sold through licensed insurance brokers. On that note, licensed insurance brokers in Manitoba are subject to minimum requirements for obtaining licensing, criminal record checks, annual requirements for continuing education, ethics guidelines, and maintaining errors & omissions insurance. A significant amount of consumer protection is provided by the regulations governing the licensing of insurance brokers in Manitoba.

According to its website, Sonnet currently has licensed insurance customer service representatives who provide services to consumers:

"We built an industry-leading contact centre from the ground up. Our fully licensed insurance agents are real people here to help you" [emphasis added].⁸

Further, recruitment advertisements for Sonnet's call centre employees in Ontario state, in part:⁹

"You may already possess a Property and Casualty (P&C) agent license(s) or are willing to pursue it with paid training. You also must be willing to keep up with your annual licensing requirements either through continuing education or CIP courses."

Finally, recruitment advertisements for Sonnet's call centre employees in Quebec state, in part: *"Must possess AMF license."*¹⁰

⁸ See: www.sonnet.ca/about-us

⁹ Available via Sonnet's LinkedIn.

¹⁰ Available via Sonnet's LinkedIn.

MPI (IBAM) 1-2

Part and Chapter:	IBAM Pre-Filed Testimony	Page No.:	Page 11
PUB Approved Issue No:	Issue No.9, Cost of operations and cost containment measures		
Topic:	Service Delivery Model		
Sub Topic:			

Preamble to IR:

IBAM's pre-filed testimony states:

"However, a direct-to-consumer model will obviously necessitate the involvement of government / MPI employees in the provision of advice and counsel with respect to complex financial products."

Direct to customer models such as Belair Direct and Sonnet Insurance currently provide advice for "complex financial products" in the online transaction process by explaining terms, building scenarios, reflective questioning, providing information and offering surveys to collect valuable information without direct human interactions.

Question:

- a) Please explain what factors would prevent MPI from achieving similar results.

Rationale for Question:

To understand the assertion MPI employees will be involved in the provision of advice.

RESPONSE:

Sonnet and Belair Direct operate exclusively in lines of business that are competitive and open, which contrasts greatly to the government monopoly on *Basic* auto insurance that we have in Manitoba.

Any time an insurance transaction takes place direct to consumer / without the services of a broker, the consumer is at risk. Brokers bring choice, advice and advocacy to an insurance transaction. Brokers work for and on behalf of the consumer, direct transactions with insurers take place with employees (or systems) who work for the insurer, not for the customer. To reinforce this point, on its website Belair Direct states, in part:

"Our contact centres are staffed by licensed insurance agents who are salaried. Our agents represent belairdirect exclusively."¹¹

[emphasis added]

Based on internal research and interviews,¹² fewer than four (4) in ten (10) MPI clients [thirty-eight percent (38%)] admit they have a good

¹¹ See <https://www.belairdirect.com/en/about-belairdirect.html>

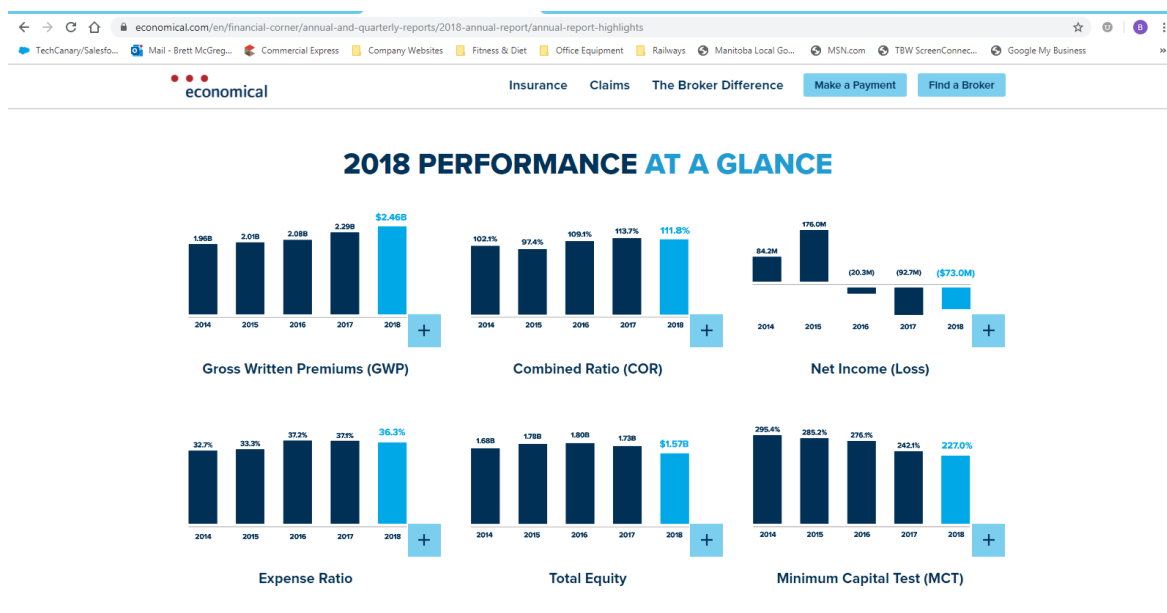
¹² IBAM expects to obtain additional research in the coming weeks. It may provide any additional research that is relevant to the matters at hand.

understanding of how the various vehicle insurance classifications operate. Even smaller numbers of these consumers indicate they have a solid grasp of the meaning and implications of third-party liability coverage [only twenty-six percent (26%) feel they have a good understanding of this].

Importantly, those who often seek counsel from their brokers were significantly more likely than those who never have these interactions to report higher levels of comprehension of both vehicle policy classifications and third-party liability, indicating brokers are offering an important educational role in terms of enhancing consumer comprehension of these policy components.

Moreover, as set out above, Sonnet Insurance launched in 2016; Economical's financial performance has significantly suffered since. In just three (3) years since starting Sonnet, Economical went from a profit of \$176 Million [combined ratio of ninety-seven point four percent (97.4%)] and MCT of two-hundred eighty five point two percent (285.2%) to a loss of \$73 Million [combined ratio of one hundred eleven point eight percent (111.8%)] and MCT of two hundred twenty-seven percent (227.0%):¹³

¹³ See: <https://www.economical.com/en/financial-corner/annual-and-quarterly-reports/2018-annual-report/annual-report-highlights>



In terms of protecting consumers and stability of the auto insurance product, the experience at Sonnet tells a compelling story about consumer protection. Sonnet recently filed for a **fifty point three percent (50.3%)** annual rate increase in New Brunswick.¹⁴ In Q2 2019, Sonnet also requested and was approved for a **twenty point four percent (20.4%)** annual rate increase in Ontario.¹⁵

In light of the above, IBAM believes that Sonnet should not be viewed as an aspirational business model for MPI.

¹⁴ See *CBC.ca* article titled "Be Warned: New Brunswick Auto Insurance Rates Are Set to Soar in 2020" at: <https://www.cbc.ca/news/canada/new-brunswick/nb-insurance-rates-soar-consumer-advocate-1.5270814>

¹⁵ See "Auto Insurance Rates in Ontario Rise for the Seventh-Straight Quarter" at: <https://www.lowestrates.ca/blog/auto/ontario-auto-insurance-second-quarter-FSCO-2019>

An online consumer purchase option for MPI completed through brokers would allow for some of the capital expenditure, advertising, maintenance and labour cost to be shouldered by brokers - rather than solely by the taxpayer - and allow the consumer protection offered by brokers to remain intact in an online purchase environment.

Through qualitative research and interviews with five (5) insurers [three (3) direct and two (2) broker + direct models],¹⁶ IBAM has learned that the experience of direct writers is that eighty percent (80%) to ninety percent (90%) of consumers fall "out of the box" and do not complete transactions online. All five (5) companies indicated a rate of over eighty percent (80%) and two (2) of the five (5) indicated rates over ninety percent (90%). That is, customers favour speaking with a live person before binding their coverages.

This would explain the need for licensed agents in call centres as seen in 1-1 b. above. In a direct model with a projected fifty percent (50%) market share,¹⁷ the role of the call centre will increase dramatically, as will related operating costs at MPI.

At the end of the day, IBAM is of the view that customers are best protected and serviced through the broker channel.

¹⁶ IBAM expects to obtain additional research in the coming weeks. It may provide any additional research that is relevant to the matters at hand.

¹⁷ See: "*The Future of MPI's Customer Service Delivery Model Operating Model Analysis*" (2020 GRA Information Requests Round 1, CAC (MPI) 1-1(r), Appendix 14, pg. 27.

MPI (IBAM) 1-3

Part and Chapter:	IBAM Pre-Filed Testimony	Page No.:	Page 12
PUB Approved Issue No:	Issue No.9, Cost of operations and cost containment measures		
Topic:	Service Delivery Model		
Sub Topic:			

Preamble to IR:

IBAM's pre-filed testimony states:

"The vast majority of consumers who purchase insurance online will call MPI before they buy. This has been the experience of other online insurance providers."

Question:

- a) Please provide the source study for experience of other online insurance providers.
- b) Please quantify "vast majority" in the context of MPI's customers. Please describe all assumptions used in the applying the results of the study provided in (a) to MPI's customers.
- c) Please explain if this trend is expected to change over time.

Rationale for Question:

To understand the underlying premise of this statement.

RESPONSE:

- a. Please see response in 1-2 above.

- b. Please see response in 1-2 above.

- c. IBAM has no reason to believe auto insurance products will become less complex over time.

MPI (IBAM) 1-4

Part and Chapter:	IBAM Pre-Filed Testimony	Page No.:	Page 21
PUB Approved Issue No:	Issue No.9, Cost of operations and cost containment measures		
Topic:	Service Delivery Model		
Sub Topic:			

Preamble to IR:

IBAM's pre-filed testimony states:

"Any direct-to-consumer model carries the potential to force lay-offs or small business shutdowns, thus impacting the access Manitobans have to a local insurance professional... This will negatively impact the quality of life of Manitobans."

Question:

- a) Please provide the percentage and dollar amount of total annual broker revenue derived from Autopac transactions over each of the past three years. Figures aggregated across the industry will suffice.
- b) Please indicate what proportion of brokerages in Manitoba would shut down if Autopac commission revenue decreased by 5%, 10%, 25%, and 50% from current levels.

- c) How many Manitoba insurance brokers shut down as other P&C insurers offering home, health, or business insurance adopt direct to customer models?
- d) Please elaborate on and quantify the 'quality of life' indicators that will be negatively impacted. In the context of Basic insurance, please describe how these,

Rationale for Question:

To understand the basis for the claims made.

RESPONSE:

- a. IBAM does not collect this data. Percentages vary among brokerages.
- b. IBAM has not run a sensitivity analysis in this regard. As it is currently, brokers in Manitoba are the lowest paid in the country. In a direct model with MPI's projected fifty percent (50%) market share,¹⁸ the impact on brokerages would be severe. There would be business failures and several hundred jobs lost in the small business sector [there are approximately twenty-six hundred (2,600) people employed by brokers in the Province of Manitoba]. As indicated elsewhere, consumers will continue to require point of sale and post-sale service and presumably - at least for fifty percent (50%) of the

¹⁸ See: "*The Future of MPI's Customer Service Delivery Model Operating Model Analysis*"; 2020 GRA Information Requests Round 1, CAC (MPI) 1-1(r), Appendix 14, pg. 27.

market based on MPI's assumptions - this responsibility would fall to MPI call centre employees.

- c. This is not overly relevant and in a hypothetical sense is dependent on a number of factors. As set out in MPI 1-1 above, the majority of carriers are fully committed to a broker-only model in Manitoba. In addition, Wawanesa, Red River Mutual, Portage Mutual and Wynward are all headquartered in the City of Winnipeg; each have committed to a broker-based model (as opposed to a direct to consumer model). Based on the foregoing, it is evident that all of these Manitoba-based companies see the inherent value and cost effectiveness of distributing their products through the current broker channel.

As also set out in MPI 1-1 above, Wawanesa has abandoned its direct to consumer strategy in Quebec. In the words of Ms. Carol Jardine, President of the Canadian property and casualty operations of Wawanesa:

"Anyone who thinks it's easy to do direct insurance is extremely naïve... I have been in this business for over 40 years... The one thing I know is that brokers look after their customers better than the directs. Brokers know what their customers need and want, and brokers will provide the value that a customer requires, which is choice."

[emphasis added]

- d. As stated throughout, brokers are not opposed to an online model; IBAM and its members welcome this evolution. In fact, many brokers in the Province of Manitoba already offer (non-MPI) services online.

The terms "*online*" and "*direct*" are often conflated. Throughout this GRA process, IBAM has set out concerns with respect to the risks posed to all stakeholders by a government-run / online direct to consumer model.

Brokers are in full agreement that innovation and convenience can improve the quality of life of Manitobans. However, brokers are concerned about the negative impacts and risks of a direct online model which have been identified in earlier responses and include (non-exhaustive):

- The overall risk to a relatively stable and cost-effective auto insurance environment;
- The loss of consumer protection;
- A degradation in customer service;
- A limitation on choice in the marketplace, notably for *Extension* coverages;
- A loss of a local insurance (of any kind) option which removes choice of provider and forces inconvenience on customers;
- Increased market power of MPI and involvement of government in the daily lives of Manitobans;
- An inability for small business to reasonably compete with a \$1.3 billion crown corporation;
- Escalating costs at MPI;
- Insolvencies in the small business sector;

- Professional job losses in the small business sector;
- Impacts on regional economic development; and
- Impacts on local charities, community initiatives (athletic clubs/teams, town fairs, rodeos, capital campaigns, etc.).

MPI (IBAM) 1-5

Part and Chapter:	IBAM Pre-Filed Testimony	Page No.:	Page 13
PUB Approved Issue No:	Issue No.9, Cost of operations and cost containment measures		
Topic:	Service Delivery Model		
Sub Topic:			

Preamble to IR:

IBAM's pre-filed testimony states:

"The implementation and growth of any government implemented direct to consumer online model further limits choice in the overall value chain for auto insurance in Manitoba"

Question:

- a) Please elaborate and clarify what is meant by the "overall value-chain"?
- b) Please elaborate and clarify how providing an additional online option for customers to freely adopt, would limit choice in the overall value chain for auto insurance.

Rationale for Question:

To understand how more options would create limitations.

RESPONSE:

- a. For greater clarity, this could be rephrased as: *“The implementation and growth of any government implemented direct to consumer online model further limits choice in the ‘industry as a whole’ for auto insurance in Manitoba.”*
- b. Brokers are not opposed to an online model; IBAM and its members welcome this evolution. In fact, many brokers in the Province of Manitoba already offer (non-MPI) services online. The terms *“online”* and *“direct”* are often conflated. Throughout this GRA process IBAM has indicated concerns with respect to the risks posed to all stakeholders by a government online direct to consumer model.

Commissions paid on *Basic* auto insurance are currently the lowest in the country. MPI’s *“base scenario”* in *“The Future of MPI’s Customer Service Delivery Model Operating Model Analysis”*¹⁹ indicates an online uptake assumption of fifty percent (50%). *Ceteris Paribus*,²⁰ if this were to transpire, IBAM projects that the impact to the broker channel would be severe. Some brokerages would be prime candidates for business failure. Manitobans in these affected communities would no longer have a local option for insurance, auto or otherwise. In many communities, there would no longer be a local choice for local service provider. A direct to consumer model limits choice.

¹⁹ See *2020 GRA Information Requests Round 1*, CAC (MPI) 1-1(r), Appendix 14, pg. 27.

²⁰ All things being equal.

Moreover, the *Extension* market is envisioned to be competitive. MPI currently enjoys a ninety-five percent (95%) market share on *Extension* coverage in the Province of Manitoba. It is unreasonable to expect MPI call centre employees to inform customers of *Extension* coverage options outside of their own organization. Currently the MPI website under "*Optional Coverage*"²¹ does *not* mention the existence of options outside of MPI for consumers to consider (at least that IBAM could find). This is natural and to be expected. Similarly, the websites of Belair Direct and Sonnet do not provide information to consumers about products available from competing insurers. Again, it is unreasonable to expect MPI call centre employees to inform customers of coverage options outside of their own organization.

Providing *Basic* auto insurance through a direct to consumer MPI online option also reduces choice because it reduces the likelihood that customers are attending a broker to fully evaluate their insurance needs and being matched with *Extension* products from companies other than MPI. Given the aforementioned fifty-percent (50%) uptake assumption being made by MPI,²² the impact of this would be significant.

²¹ See:

<https://www.mpi.mb.ca/Pages/Insurance.aspx?sct=Optional%20Coverage>

²² See *2020 GRA Information Requests Round 1*, CAC (MPI) 1-1(r), Appendix 14, pg. 27.

MPI (IBAM) 1-6

Part and Chapter:	IBAM Pre-Filed Testimony	Page No.:	Page 11
PUB Approved Issue No:	Issue No.9, Cost of operations and cost containment measures		
Topic:	Service Delivery Model		
Sub Topic:			

Preamble to IR:

IBAM's pre-filed testimony states:

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

Question:

- a) Please confirm that MPI provides training to brokers, on MPI products, services, procedures, and security requirements, through the "Partner Portal".
- b) Please confirm that MPI maintains the "Brokers Online" web portal to provide policy, procedure, and support material to brokers.
- c. Please confirm that MPI maintains call center resources dedicated to answering broker questions on Basic, Extension and DVA transactions, products and services.

- d. Please confirm that MPI has dedicated Broker Services Administrators who provide support to Brokers on topics related to running a brokerage, including product or process enquiries, commissions, adjustments, security, hardware, and software requirements.

Rationale for Question:

To clarify MPI's role in broker operations.

RESPONSE:

- a. b. c. d. IBAM confirms that all the above exist.

MPI (IBAM) 1-7

Part and Chapter:	IBAM Pre-Filed Testimony	Page No.:	Page 11
PUB Approved Issue No:	Issue No.9, Cost of operations and cost containment measures		
Topic:	Consumer Protection		
Sub Topic:			

Preamble to IR:

IBAM's pre-filed testimony states:

*"Licensed professional brokers are necessary across all platforms to help inform and protect consumers in their Autopac purchasing decisions. This becomes more pronounced in an online world where consumers **often** self-select their coverages with little understanding of the implications of those choices." [emphasis added]*

Question:

- a) Please provide the reference or source material for the assertion that customers select coverages with little understanding of the implications.
- b. Please quantify the term "often", i.e. what percentage of purchase decisions are made with little understanding of the implications.

Rationale for Question:

To understand the basis for claim.

RESPONSE:

a. & b. Brokers interact with consumers each day when selling MPI products, and readily explain coverages and verify usage of vehicles to MPI clients. Brokers have reported that they observe that clients often do not have a thorough understanding of vehicle registration, license classification and its implications, or basic insurance principles.

Based on research and interviews,²³ fewer than four (4) in ten (10) MPI clients [thirty-eight percent (38%)] admit they have a good understanding of how the various vehicle insurance classifications operate. Even smaller numbers of these consumers indicate they have a solid grasp of the meaning and implications of third-party liability coverage [only twenty-six percent (26%) feel they have a good understanding of this].

Importantly, those who often seek counsel from their brokers were significantly more likely than those who never have these interactions to report higher levels of comprehension of both vehicle policy classifications and third-party liability, indicating brokers are offering an important

²³ IBAM expects to obtain additional research in the coming weeks. It may provide any additional research that is relevant to the matters at hand.

educational role in terms of enhancing consumer comprehension of these policy components.

MPI (IBAM) 1-8

Part and Chapter:	IBAM Pre-Filed Testimony	Page No.:	Page 12
PUB Approved Issue No:	Issue No.9, Cost of operations and cost containment measures		
Topic:	Fair Practices		
Sub Topic:			

Preamble to IR:

IBAM's pre-filed testimony states:

"An online direct model will also likely further marginalize competitors in the Extension lines. It is questionable whether MPI will inform consumers that they have options other than MPI beyond their Basic coverage, further limiting choice in the marketplace."

Question:

- a) Please explain why it is questionable that MPI will inform consumers that they have options other than MPI beyond their Basic Coverage?

Rationale for Question:

To understand the basis for the claim.

RESPONSE:

MPI currently enjoys a ninety-five percent (95%) market share in *Extension* coverage. It is unreasonable to expect MPI call centre employees to inform customers of *Extension* coverage options outside of their own organization.

Currently the MPI website under "*Optional Coverage*"²⁴ does *not* mention the existence of options outside of MPI for consumers to consider (at least that IBAM could find). This is natural and to be expected. Similarly, the websites of Belair Direct and Sonnet do not provide information to consumers about products available from competing insurers.

Again, it is unreasonable to expect MPI call centre employees to inform customers of coverage options outside of their own organization.

²⁴ See: <https://www.mpi.mb.ca/Pages/Insurance.aspx?sct=Optional%20Coverage>

MPI (IBAM) 1-9

Part and Chapter:	IBAM Pre-Filed Testimony	Page No.:	Page 21
PUB Approved Issue No:	Issue No.9, Cost of operations and cost containment measures		
Topic:	Consumer protection		
Sub Topic:			

Preamble to IR:

IBAM's pre-filed testimony states:

"Depending on the implementation details of any direct model, many consumers may reduce their coverages to a minimum cost option which could negatively impact Extension revenue, MCT ratios, and rates and also increase the number of underinsured drivers."

Question:

- a) Please provide the source report supporting the claim that direct to customer sales results in reduced coverages.
- b) Please describe all assumptions used in the applying the results of the study provided in (a) to MPI's customers.
- c) Please quantify the term "many", i.e. what percentage of customers.
- d) Please quantify the term "may", i.e. with what likelihood.

Rationale for Question:

To understand the basis for the claim.

RESPONSE:

- a) MPI tabled the following document in response to IBAM IR 2-4: *"Agents of the Future: The Evolution of Property and Casualty Insurance Distribution"*. While IBAM disagrees with most of the assertions in this report and in its application to the Manitoba marketplace, the report does state (at page 8):

*"The flood of price-centric marketing for auto insurance has conditioned **many** consumers to focus on price as their primary buying factor."*

This report indicates that for "many" consumers, price is their "primary buying factor". This suggests that many consumers will simply buy based on the lowest price, which would likely result in an increase in the number of underinsured motorists on our roads. Given MPI's assumption of a fifty percent (50%) uptake rate under a direct to consumer online model,²⁵ there could also be material decreases in premiums and an impact on other financial metrics.

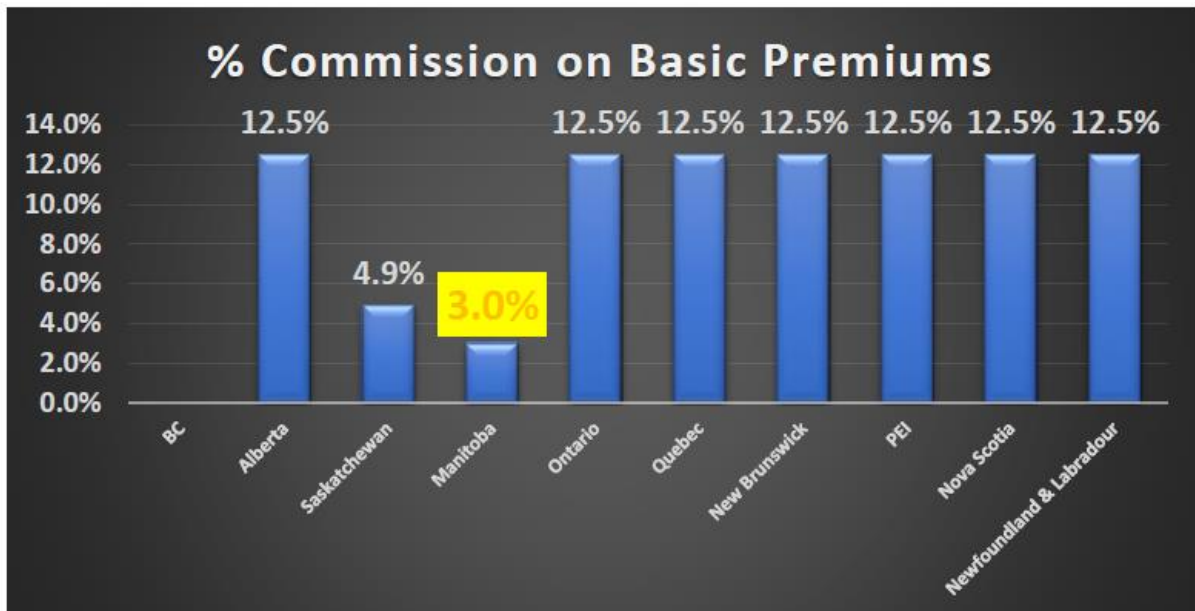
²⁵ See: *"The Future of MPI's Customer Service Delivery Model Operating Model Analysis"* [2020 GRA Information Requests Round 1, CAC (MPI) 1-1(r), Appendix 14, pg. 27].

MPI (IBAM) 1-10

Part and Chapter:	IBAM Pre-Filed Testimony	Page No.:	Page 22
PUB Approved Issue No:	Issue No.9, Cost of operations and cost containment measures		
Topic:	Service Delivery Model		
Sub Topic:			

Preamble to IR:

IBAM’s Pre-Filed testimony contains the following figure:



Question:

a) Please indicate the sources of the information contained in the above figure.

b) Please define the nature of the products for which the commission is being earned, for each of the jurisdictions listed in the figure (i.e. Auto vs other P&C lines, basic minimum vs optional extension add-ons, etc).

Rationale for Question:

To establish if the fairness of the comparison in the chart.

RESPONSE:

In Manitoba, broker compensation is outlined in the *Agent's Commissions Regulation 93/209* under the *Manitoba Public Insurance Corporation Act*.

British Columbia (ICBC) uses a one hundred percent (100%) fee-based model for *Basic* auto insurance; commissions are not measurable. Moreover, *Basic* auto insurance in British Columbia does not include *any* collision coverage. As a result, the extreme majority of consumers have *Extension* coverages and a more useful comparative would be to compare % *Basic + Extension* commissions to *Basic + Extension* premiums. The *ICBC 2018/19 Annual Report* indicates commissions of \$490,400,000 and premiums of \$6.079 billion [or commissions of eight point one percent (8.1%)]. This is compared to Manitoba's five point five percent (5.5%) when *Basic* commissions area blended with *Extension* commissions (as set out above, *Basic* commission in Manitoba is set at three percent (3.0%)]

In Saskatchewan, the *2019 AutoFund Annual Report* indicates Issuer Fees of \$47,089,000 against premiums of \$956,472,000 [or four point nine percent (4.9%)].

In private markets, twelve point five percent (12.5%) on auto is the general standard and has been confirmed in numerous discussions and emails with both brokers and sister broker associations. For example, emails from *Regroupement des cabinets de courtage d'assurance du Québec* ("**RCCAQ**") and *Insurance Brokers Association of Ontario* ("**IBAO**") in response to IBAM's request for this information in 2018 stated:

"From: *Éric Manseau*
Sent: *August 27, 2018 9:53 AM*
To: *Grant Wainikka*
Subject: *RE: Auto Commissions in Quebec?*

Hi Grant. It's 12,5% for brokers !

*Éric
Eric Manseau
Directeur Général
Regroupement des cabinets de courtage d'assurance du Québec*

.....

From: *Colin Simpson*
Sent: *August 24, 2018 6:32 AM*
To: *Grant Wainikka*
Subject: *Re: Auto commission/compensation and scenarios...*
Hey Grant
Apologies for not getting back to you sooner on this.

Generally, the average Commission is 12.5% for personal Auto and 20% for commercial auto.

*Colin Simpson
Chief Eexecutive Officer
Insurance Brokers Association of Ontario""*

[emphasis added]

In addition, from time to time, this information is in the media. For example, in an article titled *"Do you know how much commission you're paying your insurance broker"*, *The Globe and Mail* referred to a disclosure statement that had been provided by a brokerage on each of the nineteen (19) companies it works with. The article stated, in part:

"The statement lists the commission the brokerage receives for each of the 19 companies it works with. Annual commissions for auto insurance range from 10 to 12.5 per cent, although a few firms pay up to 13.5 per cent..."²⁶

[emphasis added]

- b. The numbers above are not a blended number that incorporate any other lines of business, and only reflect auto-commission on *Basic* insurance.

²⁶ See article at <https://www.theglobeandmail.com/globe-investor/personal-finance/household-finances/do-you-know-how-much-commission-youre-paying-your-insurance-broker/article34053301/>