

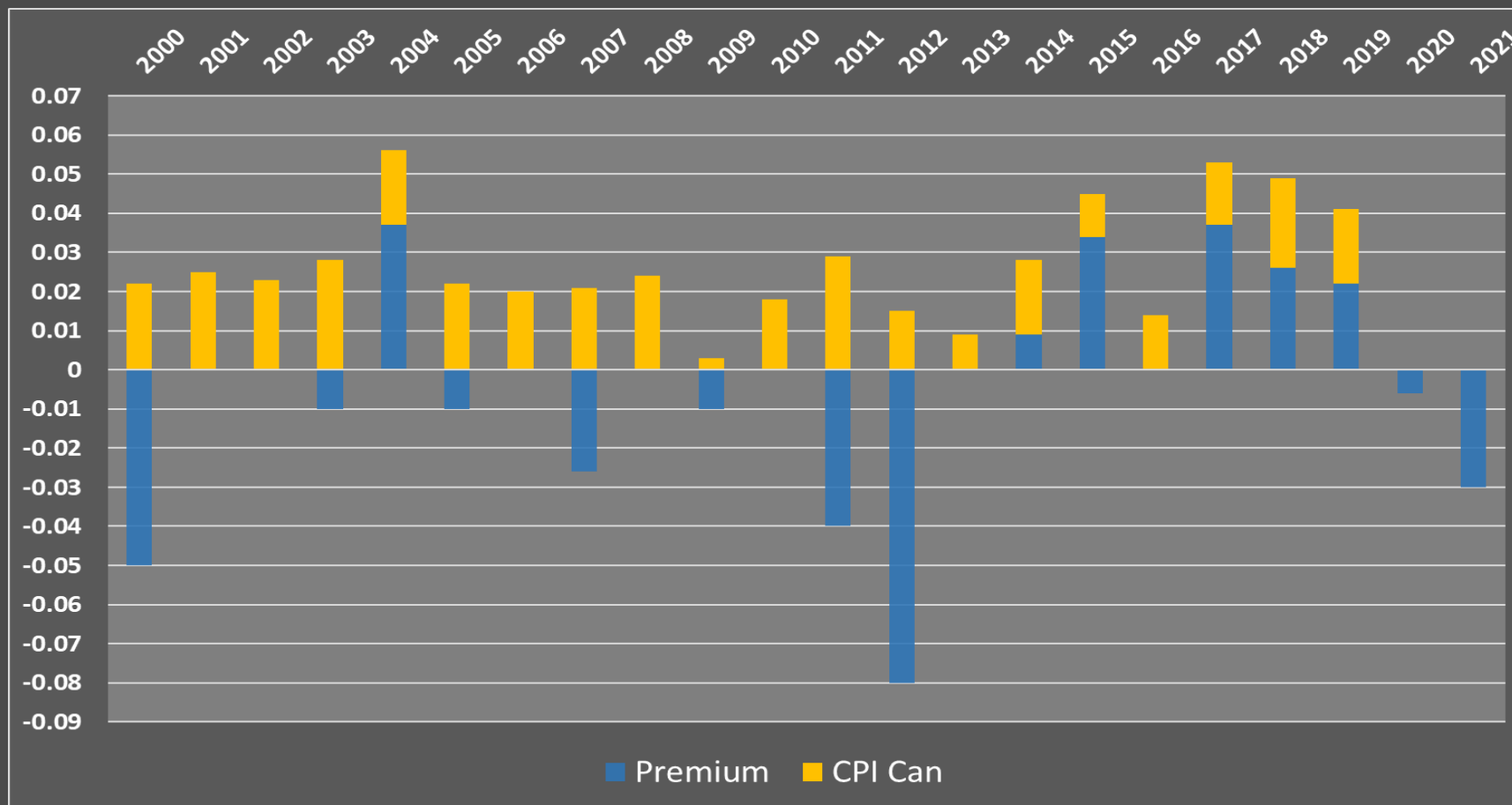
# Public Utilities Board Presentation

Manitoba Public Insurance  
GRA 2021-22

October 19, 2020



# MPI Annual Premium Rates



- Premiums at or below 0%, sixteen (16) times since 2000

# Affordability for at Fault Insureds?

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- \$750 deductible for lower income households may be prohibitive for at fault insureds
  - Food prices & debt loads up; pandemic a present factor in affordability
  - Income distribution varies by geographic area
- Increased risk
  - At fault insureds forgoing or delaying repairs
  - Damaged vehicles being driven on Manitoba roads
  - Unpaid claims for MPI
  - Increased Total Losses where Actual Cash Values hovers just above \$750
  - Lower claim volumes → decreased revenue → long term sustainability?
- SGI offers a deductible payment plan. Is this an option for MB?

# Collision Repair Shops' Can't Absorb Extra Costs Caused by Changes in Deductible Price

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- -3% premium rate reduction primarily results from the increase of the deductible from \$500 to \$750
- Increased deductible increases operating expenses for companies providing collision repair services
- Merchant Service Fees increase from 50% with the change from \$500 to \$750 and 100% for on the change from \$100 to \$200
- Collision repair facilities located in lower income communities or whose customer base typically do not buy Extension products would be disproportionately affected

# Deductible Change on Merchant Fees Paid

	CAL ELE	CAN HS ELEC	CAN PHS ELEC	ELE INF NAT	ELEC CR NAT
Interchange rate	0.015304	0.021504	0.021504	0.017004	0.015104
Per Transaction from \$100 to \$200	1.53	2.15	2.15	1.70	1.51
\$ Change in Merchant fee on 10 claims	15.30	21.50	21.50	17.00	15.10
Per Transaction from \$300 to \$500	3.06	4.30	4.30	3.40	3.02
\$ Change in Merchant fee on 10 claims	30.61	43.01	43.01	34.01	30.21
Per Transaction from \$500 to \$750	3.83	5.38	5.38	4.25	3.78
\$ Change in Merchant fee on 10 claims	38.26	53.76	53.76	42.51	37.76

- On 100 claims operating costs increase between \$385.60 to \$573.76 with Basic deductible at \$750 from \$500

# Maximum Insured Values Limit

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- At \$70 K the present value of the new MIV is \$5,500 less than in 1998
- The new limit works for most basic models, but nearly every vehicle has options. Many popular vehicle models will require Extension to be adequately insured for loss
  - 2020 Ford F150 Lariat (\$32,339 - \$85,329) base model \$47,849 within MIV limit; with loaded with options would need Extension
  - 2020 Chevrolet Silverado base \$50,168 within MIV limit; High Country starts at \$63,895 & with 6.6 l Duramax turbodiesel V8 takes the cost to \$73,645
- Total Loss frequency potentially to increase
- Increased out-of-pocket costs for insured wanting complete, proper repairs
- More out-of-pocket payments = higher merchant fees

# Jeep Wrangler Sahara

\$48,095 (base model)



2020

\$20,998

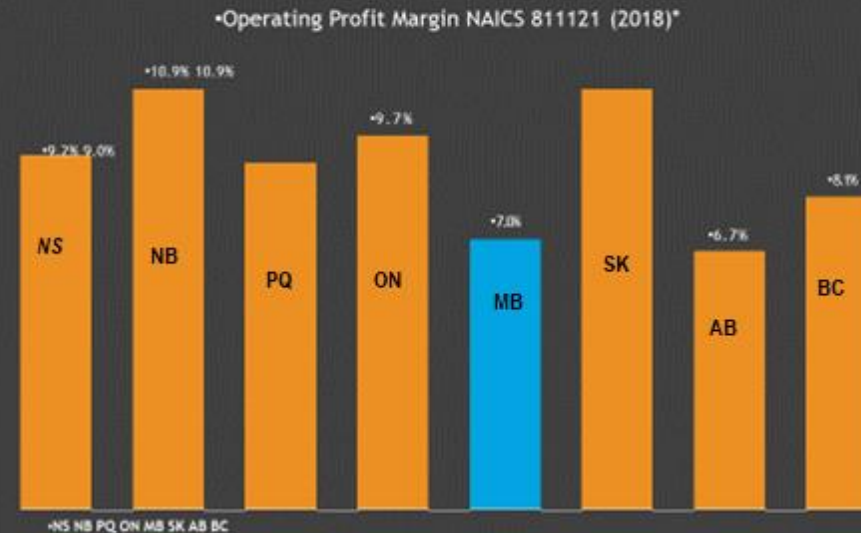


2009

- 2020 vehicles are more expensive on average by 29% compared to the same vehicle in 2009; greater margin on used
- Inflation not only factor in price differential – construction, engineering, electronics, connectivity

# Net Profit Lowest Quartile in Canada 2007-18

•As of 2018, Manitoba's autobody shops lagged other provinces in profitability



- Manitoba has one of the lowest operating profit margins in the country for auto repair businesses, exceeding the profitability of only Alberta.
- In 2007 Manitoba had the second lowest Operation Profit Margin in Canada. In 2018 the Manitoba is the third lowest in Canada.

\*Analysis only includes those provinces with over 150 autobody repair shops in the sample size for data integrity purposes  
Sources: Stats Canada, NAICS 811121 Automotive body, paint and interior repair and maintenance - Financial Performance Data

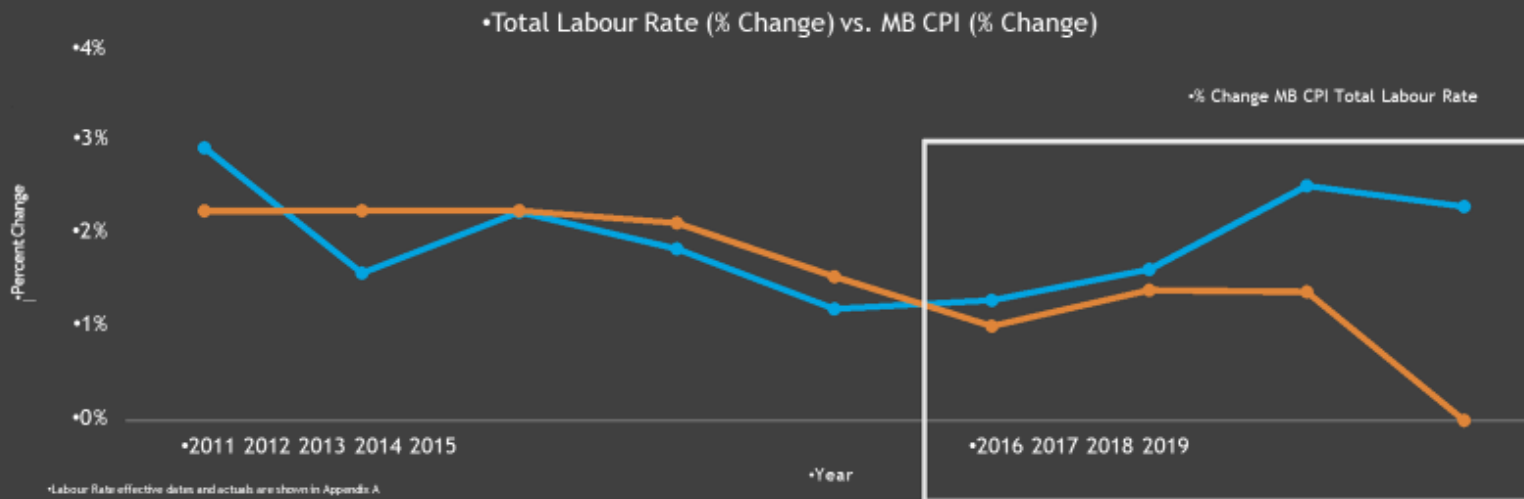
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# Effect of Flat Labour Rate

•Operators' purchasing power has decreased as CPI outpaces labour rates



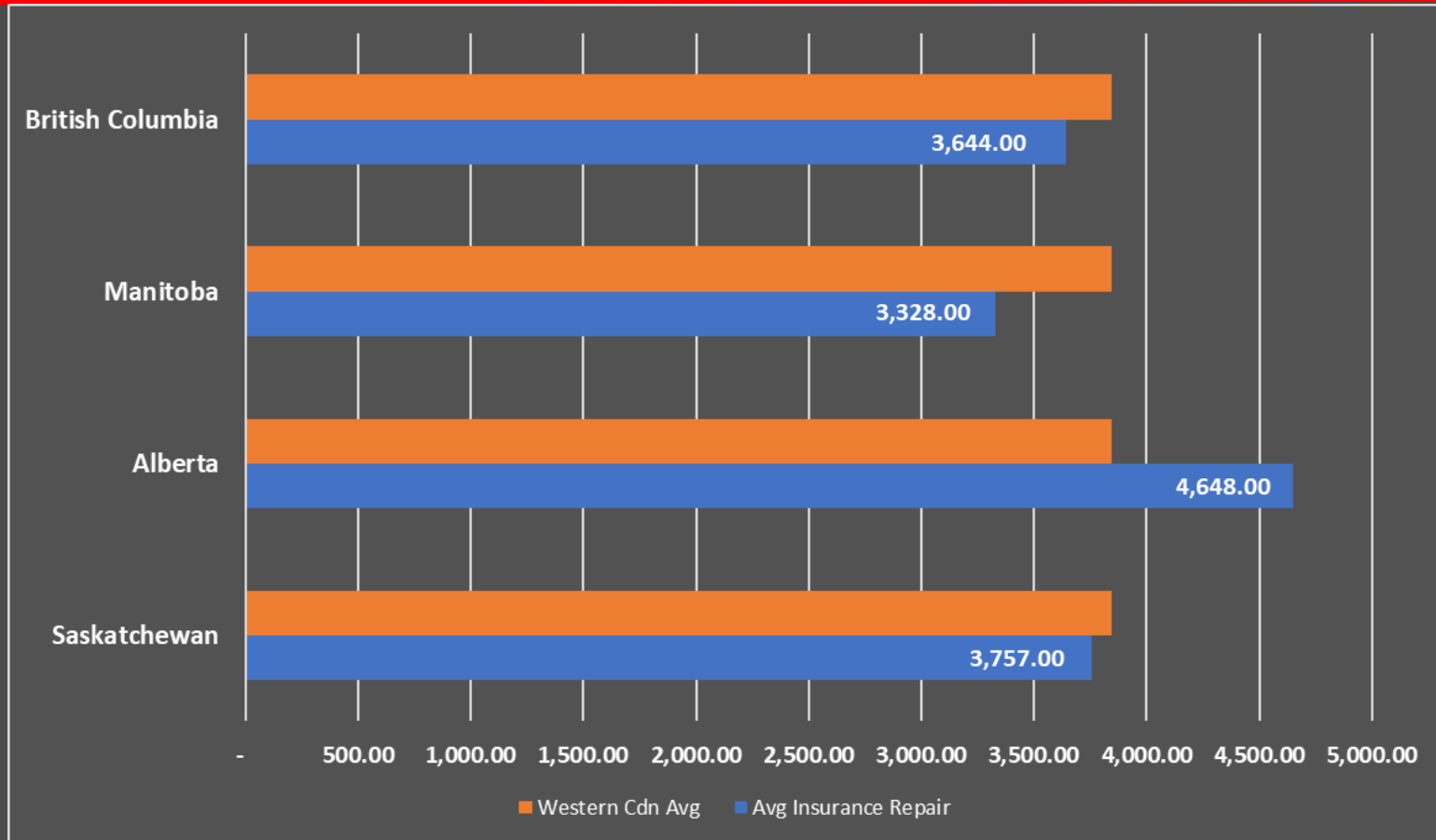
- Since 2016, the annual percentage change in labour rate has fallen below the percentage change in CPI.
- In 2019 the labour rate percent change was 0% and the CPI percent change was 2.3%.
- The labour rate is used to cover various costs such as certifications and overhead, not just wages.
- The graph indicates that from 2016 to 2019 prices were increasing at a higher level than the labour rate paid to auto body shops. This indicates the auto body shop's buying power is decreasing.
- Since 2016, the discrepancy between these two metrics has resulted in the labour rate lagging MB CPI by over 4.1%.

Sources: Statista, Consumer Price Index in Manitoba from 2000 to 2019

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# Lowest Severity in Western Canada



ATA/MMDA Provincial Benchmark  
Auto House Technologies October 16, 2019

# Manitoba Severity is 50% Below National Average

	2015 Q4	2016 Q4	2017 Q4	2018 Q1	4-Year Avg
Average Canadian Appraisal Value	3,880.00	4,141.00	4,229.00	4,124.00	4,093.50
MPI Ultimate Severity	2,503.00	2,709.00	2,822.00	2,954.00	2,747.00
\$ Difference	(1,377.00)	(1,432.00)	(1,407.00)	(1,170.00)	(1,3465..00)
<b>% Difference</b>	<b>-55.0%</b>	<b>-52.9%</b>	<b>-50.6%</b>	<b>-39.6%</b>	<b>-49%</b>

Canadian Appraisal Severity

Source: Mitchell Trends Report Q1 2018, Volume 18(1), Mitchell Trends Report p 27; Q2 2018, Volume 18(2), p 28

# Severity vs Labour & Material Rates

- Excessive attention by MPI on rates, shifts the focus from the real issue of severity
- Manitoba severity is consistently below national and Western Canadian averages (lowest quartile)
- Despite reported labour & material rates being in the top quartile – how is this possible?



# Brink of Insolvency

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- 20.9% (1 in 5) collision repair shops in Manitoba are not profitable (Statistics Canada - Small business profiles, 2018)
- An enormous investment in tools, training & infrastructure is needed to remain in the collision repair business and to do repairs correctly
- To be there in the future for service and to warranty issues shops need a reasonable profit margin

# Factors Leading to Insolvency

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- MPI's estimating policies & compliance rules are pushing shops towards insolvency through labour hour and other reductions
- Physical Damage Reengineering Project further eroded profitability
- Excessive attention by MPI on driving down its operational costs without due attention to the needs for a healthy and sustainable industry is affecting shops' ability to keep up with training & equipment requirements
- Fewer shops, more consolidation jeopardizes MPI's distribution channels as shops in smaller markets, the North and remote communities cannot support the needed investments on low profit margins

# Is Desperation Anti-Competitive Behavior?

- Threat to curtail MPI's distribution channel by withdrawing from LVVA
- Cited as example of anti-competition
- Considering
  - Disproportionate effect of cost reduction felt in North
  - Vacancies 12+ months to fill
  - Full employment,
  - lack of skilled labour
  - stiff competition (Mining)
  - Long waits for Northerners due to short staffing
  - vehicles transported to southern townships for repairs
  - Inattention by MPI to issues eroded bottom lines further



# Annual Business Plan

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- Industry subscribes to MPI's Mission
  - exceptional coverage and service,
  - affordable rates, safer roads, and effective public auto insurance.
- Industry has a major role with helping MPI fulfill its promise
- Fulfilling this promise means investment in
  - human resources, training & safety
  - equipment
  - communications and IT systems
  - capital infrastructure,
- Dependent on reasonable rates of return commensurate with the risks of operating a business in today's economy.



# Exponential Increase in Technician Training

- In 1965 a technician needed to understand 5,000 pages of technical text to fix any automobile on the road.
- In 2020 the same technician needs to decipher 500,000 pages



# Exponential \$ Increase in Equipment & Supplies



# Internal Investment by MPI

- Sharp Contract to cost cutting in external environment
- MPI wages surpass National Industrial Wage Average by 24%
- Journey persons in shops earn less than MPI equivalent position (estimator, SRA, supervisors etc. ) – fall below National Industrial Wage Average
- MPI wage rate scale begins at the top hourly earnings rates for private sector

11	Hourly	32.0031	33.1227	34.2834	35.4846	36.7249	38.0111
	Biweekly	2,320.23	2,401.39	2,485.54	2,572.64	2,662.55	2,755.80
	Annual	60,326	62,436	64,624	66,889	69,226	71,651

- Recruitment & retention of skilled personnel difficult

# Future LVAA & Rate Card

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- Business plan speaks to setting a rate card
- Term is almost exclusively reserved for application in private insurance (PI)
- PI Rates are set for shops enrolled in the insurance co. Direct Repair Program.
- Partnering collision repair shops agree to accept the discounted rates & estimating policies
- Insurance company, in turn direct work to shops
- MPI is unable to direct work
- For upcoming LVAA discussions, Industry proposes use of third party
- Guides against bias or hint of anti-competition

# Conclusion

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- Open communications and claims transparency including severity are necessary to restoring healthy relations
- Having been designated as an essential service, collision repair facilities represented through ATA and/or MMDA are genuine in wanting to fulfill both ratepayer and MPI needs.
- Private sector needs a health bottom line to fulfill MPI Mission and consumer needs