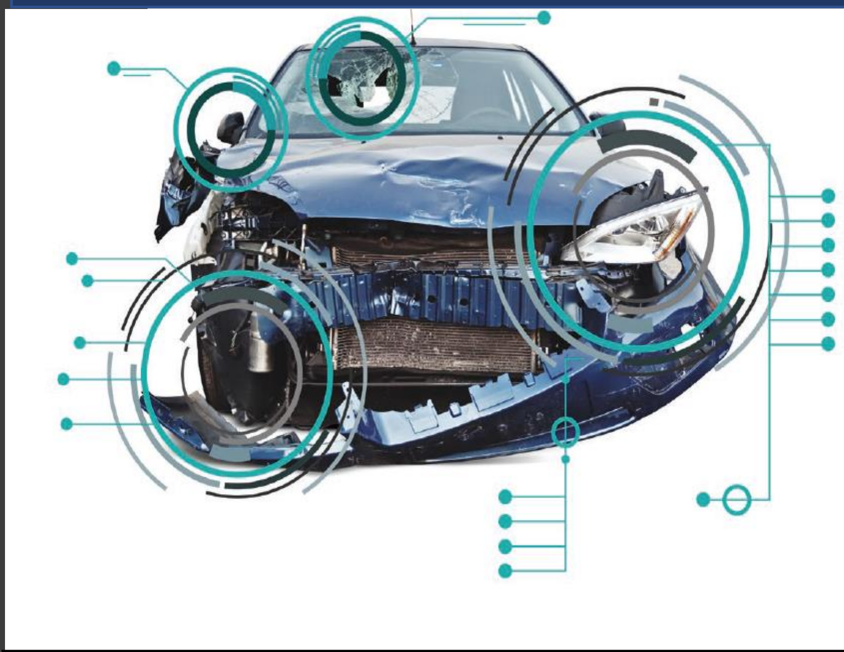
Public Utilities Board

Presentation



Manitoba Public Insurance GRA 2021-22

10/19/2020

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Background

Since its inception in the 1930's the Automotive Trades Association of Manitoba (ATA) exists to "promote and further the interests of members regularity engaged in the automotive repair industry to the general public "and later amended to include "civic, or government bodies." The Association's membership represents broad sectors of the automotive industry and includes manufacturers, distributors, recyclers as well as collision repairers. The collision repairer constituency consists of members from large banner national corporations to small independents and other corporate structures in between.

As a service partner of MPI and as direct service providers to rate payers, the ATA through its members has intricate experience and knowledge about the success of the service provider-insurer-rate payer network. The future of affordable premiums, deductibles and other MPI deliverables rests in having strong, trusted, and functioning interdependencies between all parties within the network.

The ATA understands the mandate of the Public Utilities Board is to set just and reasonable rates that are in the public interest wherein the public interest is defined as balancing the impact of rate increases on consumers with the fiscal health of the Utility. Within this context, the ATA further understands the PUB has jurisdiction to review the expenditures of MPI from the perspective of a prudence review as it might relate to service partner labour, material and other rates.

On the matter of issuing directives to MPI about the provision of services to the public, including agreements with service providers, the ATA acknowledges the PUB may be without jurisdiction in these matters. Nonetheless, the ATA contends the Board must be satisfied appropriate matters are considered and informed decisions made where the public interest is directly affected by the service providers with whom MPI holds agreements.

Respecting anti-competition, the ATA upholds the need for transparency involving all compensation including hours and/or price for services and commodities whenever these are established by either or both parties outside the respective service agreement(s) thus, helping prevent possible breach of the Competition Act.

To this end, this presentation into the 2021-22 GRA application by MPI will address within the context of the approved Issues List, the following:

- Modernization of Basic Autopac Coverage (PUB Issue #1 Requested vehicle rate and any changes to other fees and discounts)

- Automotive Repair Industry Sustainability & implications for MPI distribution channels (PUB Issue #9 Cost of Operations and containment measures)

- Service Agreements, Rate Cards & Legislative Changes (PUB Issue #5 Annual Business Plan)

Impact of Proposed Modernization of Basic Autopac Coverage

Basic Autopac Premiums

With the speed in which the world is changing ATA understands and supports in principle many of the proposals set forth protecting the fundamentals of Basic auto insurance. For the Automotive Collision Repair Industry any changes to Basic or Extension where business incur **additional cost without new offsetting revenue or an equivalent decrease in body shop operating cost will pose additional hardship on many operators and increase risk of insolvency for others**. The minus 3% rate reduction primarily results from the increase of the deductible from $500 to $750[1] and directly affects the operating expenses of collision repair shops since the deductible, unless paid in cash, is subject to merchant fees.

In the past two decades, auto insurance premiums were set at or below zero percent sixteen times despite inflation and the reality of new and used vehicle prices outpacing inflation as do the costs of repair. In real terms for 2020, vehicles are more expensive by an average of 29% compared to the same vehicle in 2009 and used vehicle prices were reported to have increased by a greater margin. Yet, premiums continue to lag true values necessitating that the residual costs be absorbed by at fault insureds and service providers.

For "a balance between price and coverage" to exist, also needed is a balance between coverage and the repair price.

Extension Product Changes

The proposed changes in Basic and Extension-reduced deductible options has implications for both the at fault insured and on repair providers. Province-wide, the $200 deductible option is reported most popular with a customer uptake of 73%. Income distribution, however, varies significantly within the province and also within city limits thus in certain neighbourhoods, rural, northern and remote communities where household incomes might be lower, basic ($500) will typically be the most popular choice followed by the next lowest buy down option of $300.

In communities where household incomes are lower, collision repair shops situated in such communities may be affected to a larger degree than shops located in more affluent communities for at least two reasons: affordability of the deductible itself and merchant fees.

On affordability, the cost of the basic deductible might be prohibitive especially with the rising costs of feeding a family and increasing household debt for lower income households and those whose income is affected by the current pandemic. If the vehicle is drivable, there is a greater likelihood the insured may delay the repair or forgo the repair entirely especially if the cash value of the vehicle is also low thus contributing to a decrease in customers, fewer vehicles being repaired, and for MPI increased risk in unpaid claims.

A possible solution to help with mitigating the issue of affordability is for MPI to assist with financing the deductible and betterment by offering a deductible payment program following the example set by Saskatchewan Government Insurance. The current Light Vehicle Accreditation Agreement does include a provision for accredited shops to defer deductibles or offer customers a repayment plan. However, most

[1] 2021 General Rate Application, Part I – Overview p. 5, lines 16-17

shops are no longer able to afford this option with average net profit below all but one province across the country.

Merchant service fees are a significant expense to all businesses and continue to grow with increasing use. Unlike, large scale users of POS systems, low use businesses are ineligible for volume discounts. Regardless, of user type an increase in merchant fees resulting from more higher value deductibles will negatively affect net profit without a corresponding increase in sales to offset.

With the $750 (from $500) deductibles paid on Basic Autopac, merchant fees will increase by 50%. Collision repair shops whose customer base falls in a lower income bracket and/or characteristically do not purchase Extension deductible buy down are at greater risk of being disproportionately affected by the change in deductible value. Table 1 illustrates the effect of the proposed increase in on a shop's operating expense when the deductible is increased from $500 to $750

Table 1: Distribution of Interchange Fees by Deductible Amount & Card Type

Payment Amt	can 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
on $100	1.5304	2.1504	2.1504	1.7004	1.5104
on $200	3.0608	4.3008	4.3008	3.4008	3.0208
on $300	4.5912	6.4512	6.4512	5.1012	4.5312
on $500	7.652	10.752	10.752	8.502	7.552
on $750	11.478	16.128	16.128	12.753	11.328
$ Change in Merchant fee based on 10 claims	38.26	53.76	53.76	42.51	37.76
Percent Change in Merchant fee based on 10 claims	50.0%	50.0%	50.0%	50.0%	50.0%

Maximum Insured Value Limit

MPI's proposed increase to the MIV limit is welcome news as is the commitment to update the limit at earlier intervals; however, given MPI advised the present value of the 1998 MIV limit equates to approximately $75,500 understating the limit by $5,500 reduces the benefit previously provided when the rate was initially set in 1998. Consequently, the probability of Total Loss is also heightened in the absence of an extension policy increasing the limit.

To illustrate, in 1998 most new and used vehicle prices fell within the MIV limit; however, going forward in 2020 under the new MIV limit many comparable models previously covered under the original limit will exceed the new MIV threshold as will several popular newer models and necessitate an extension to ensure the vehicle is covered. Table 2 contains the MFSL price for new vehicles in 1998 & 2020

Table 2 MSLP for New Vehicles in 1998 & 2020[2]

Vehicle	1998	2020 (Base model)	2020 (+ Options)
Honda CRV	26,868	39,876	42,805
Honda CRV Touring		43,126	
Nissan Pathfinder	34,846	46,098	
Nissan Pathfinder Premium		49,698	
Ford F150	22,726	30,839	
Ford F150 XLT		35,269	
Ford F150 Lariat		47,849	61,759
Ford \King Ranch		69,199	
Ford Platinum		70,049	
Toyota Corolla	13,498	23,709	
Toyota Camry	21,489	30,769	
Toyota Rav4	16,518	32,479	
Toyota Highlander		45,789	
Toyota Highlander hybrid		47,789	
Highlander fully loaded		48,289	
Chev Silverado 1500	15.942	37,604	
Chevy Silverado HD		50,168	64,623
Chevy Tahoe	31,458	92,413	

Cost of Operations and Containment Measures on the Health of the Collision Repair Industry in Manitoba

Effect of Reductions in Costs on Net Profit in Collision Repair Shops

The predominant focus within this 2021-22 GRA and previous rate applications is on driving costs down to target lower insurance rates has seemingly occurred without due attention to the infrastructure and processes needed by repairers to deliver on their commitment to the Mission embraced by MPI.

In Manitoba, operating revenue and wages have been relatively flat over the past two decades while other cost of goods sold, and operating expenses continued to increase. Between 2005 and 2021 the labour rate paid to the industry by MPI increased an average of 1.97% and is slightly above the Manitoba CPI average.

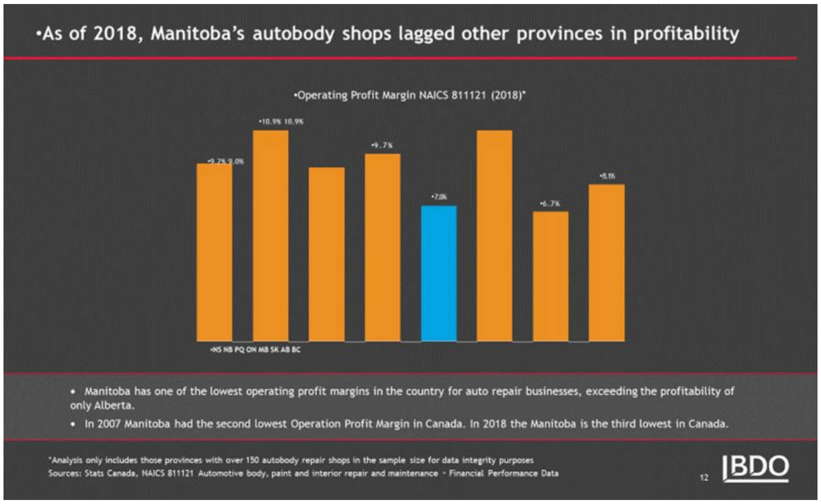
The effect of these flattened rates on operating revenue is reflected in the financial performance tables for Automotive Repair prepared by Statistics Canada[3] where the average net profit for collision repair

[2] 1998 Vehicle Prices, Automotive Showcase, The Winnipeg Free Press Feb 20, 1998 pp. 65-67, 71
1998 Vehicle Prices, Automotive Showcase, The Winnipeg Free Press Sept 11, 1998 pp. 48, 52
1998 Vehicle Prices, Automotive Showcase, The Winnipeg Free Press Oct 9, 1998 p. 76-77
1998 Vehicle Prices, Automotive Showcase, The Winnipeg Free Press Dec 4, 1998 p. 61

[3] Financial Performance Indicators for Canadian Business, Small Firms – Canada, Statistics Canada, Operating Profit Margin NAICS 8111

operators is second lowest in the country and only behind Alberta (a province beginning its recovery from a 3-year recession). Throughout North America a labour gross profit of 65 percent is a benchmark used by the Industry as an indicator of a healthy and sustainable collision facility that on average, produces net profit in the double digits.

Figure 1: Net Profit Among Collision Repair Shops in Canada, 1998



According to MNP in its Manitoba Collision Repair Industry Study, operating profits were insufficient to support capital investment by operators with revenues under $2 million. Fast forward to 2020 where the present value of $2 million equates to $2.44 million and this observation by MNP remains valid today as it was more than a decade ago with material and labour rates lagging CPI in all but one year throughout the decade.

For the 2020 GRA hearing, MPI representatives presented labour rates for 2018 from seven jurisdictions across Canada. Excluded from this comparative are the other rates for paint and body materials along with average severity. For a complete economic picture, consideration of these other rates and severity is necessary.

Mitchell's Canadian Trends Reports[4] [5]include an Average Appraisal Value for Canadian body shops uploaded from UltraMate depicting insurance-paid loss activity. When compared to Manitoba's severity for claims incurred (CI)[6] a different picture unfolds (Figure 1) where the Canadian average appears to be twice that of Manitoba.

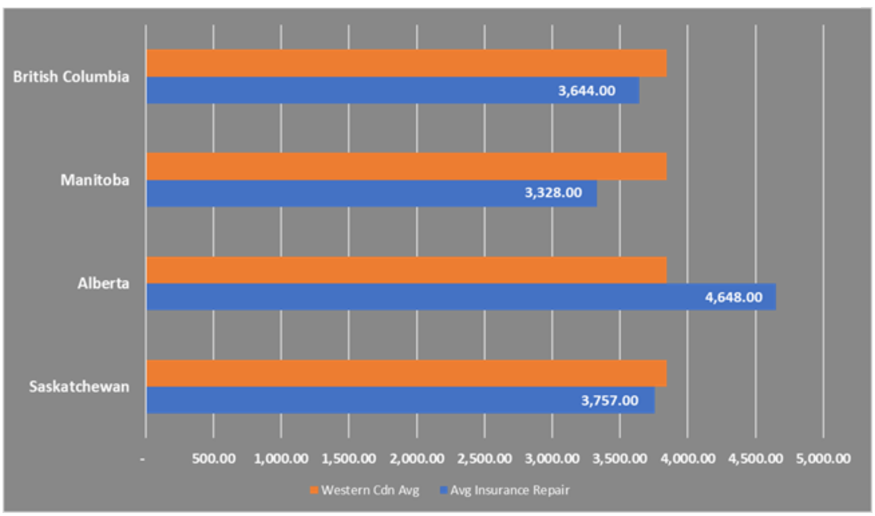
[4] Canadian Appraisal Severity, Mitchell Trends Report Q1 2018, Volume 18(1), p 27
[5] Canadian Appraisal Severity, Mitchell Trends Report Q2 2018, Volume 18(2), p 28
[6] Manitoba Public Insurance 2021-22 GRA, Part V, p. 26

Figure 1: Canadian Average Appraisal Value vs Ultimate Severity

	2015 Q4	2016 Q4	2017 Q4	2018 Q1	4 Yr 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)	(1,346.50)
% Difference	-55.0%	-52.9%	-49.9%	-39.6%	-49%

Compared to other Crowns in Canada, the pattern is similar to the national average though the differential is not as great. Manitoba lags the other Western Provinces when it comes to severity. Thus, for MPI the road to guaranteed cost containment has been its ability to control severity through estimating policy and other compliance rules set up in the estimating software used by Manitoba Shops and paid for by Manitoba Public Insurance. While MPI has always maintained strict discipline over estimating policy its ability to extend its control beyond labour and material rates came about from the implementation of the Physical Damage Engineering Project.

Figure 2: Claim Severity in Western Canada
Source: Auto House Technologies, October 16, 2019



At first handing over the annual subscription costs to MPI to oversee, appeared to be a good deal; however, giving MPI this power proved problematic for the Manitoba Industry as MPI used a loophole to erode claims severity with their own version of standard labour times and part replacement costs allowable under the “not included operation” proviso outlined in the Canadian GMC Procedure Page (P-Pages as commonly referred to). The net effect is profitability erosion for auto body shops that possibly infringes on the Competition Act.

Shop Operations in Northern Manitoba

Collision repair facilities in Northern Manitoba operate under considerably different conditions than shops in Southern Manitoba; hence the continued calls for a tripartite Northern Strategy. On the surface, many issues in Northern Manitoba appear the same as those for shops operating in other regions of Manitoba. Yet, because of the North’s geographical and cultural isolation the issues are magnified by geography, demographics, employment, lack of widespread infrastructure and general economic pressures.

The straw, perhaps, was witnessing viable work being sent to Winnipeg because of insufficient resources to perform the work at hand. With increases in rates paid and a promise to continue engaging with northern communities to proactively identify and work through issues expeditiously, the dispute was resolved.

A lack of understanding of the critical issues coupled with the impact of the LVAA on the cost of business operations led northern shops to serve MPI with notice terminating the LVAA within the prescribed 90 days resulting in this action being called out as anticompetitive in last year's GRA hearing.

While the Northern Strategy is outside the scope of this presentation, its mention is to call attention to the importance of fulfilling expectations for reasonable profitability and wages for people engaged in collision repair work. There does exist a paucity of qualified resources and with technician wages trending below the national industrial wage it is very difficult to attract and retain technician talent in Northern Manitoba where red seal and apprentice vacancies can remain open in excess of 12 months.

Annual Business Plan 2020-21

Need for Strong, Functional Interdependencies between MPI & Service Partners

The annual business plan affords Manitobans an opportunity to better understand what and how MPI plans to fulfill its mandate, mission, and vision. As a service provider to the insured, the ATA subscribes to MPI's corporate mission regarding exceptional coverage and service, affordable rates, safer roads, and effective public auto insurance. **Thus, in upholding this commitment, we would be remiss if we did not reinforce the need for a strong, functional, interdependent network with functional being the operative word.**

To be functional when providing accessible, complete, safe, and proper repairs aligned to original manufacturer specifications, the role collision repairers have within the public insurance network must be considered in several contexts; not simply cost containment. **Fulfilling this promise means investment – in human resources & training; in equipment; in communications and IT systems, in capital infrastructure, and in safety. Yet, such investment is dependent on reasonable rates of return commensurate with the risks of operating a business in today's economy**.

In terms of investment required for a sustainable industry, having lost the $81 DR premium afforded to it in the 2017 Light Vehicle Accreditation Agreement intended to help offset the cost of the seismic technical change,[7] collision repair operators almost entirely absorbed the capital and human resource costs required to repair newer model vehicles in accordance with manufacturer specifications and new training requirements.

Today, to perform a complete, proper, and safe repair aligned with original manufacturer procedures, a technician needs to decipher 500,00 pages of technical text or 100 times more than the 5,000 pages required in 1965[8]. The hours of training and tens of thousands of dollars in cost that went into capital equipment and re-tooling technicians' skillsets directly affected shops' net profits. In the private collision

[7] MPI 2019/20 General Rate Application Hearing, PUB transcript date, March 23, 2028 p 1145, lines 24, 25; p 1146, lines 1 to 8
[8] *The New Repair Network: Collision Repair Will Never Be the Same*. Mitchell Trends Report Volume 18(1), p. 8

repair sector, no funding is available for Educational Assistance Programs and many shops are unable to offer extended health and group life/disability benefits to their employees.

Contrast this with the internal investments made by MPI as reported in the 2020-21 Annual Business Plan and GRA.

- For Human Resources, MPI's Business Plan reflects an increase in Full-Time Employees by 9.5 percent in two years.
- Educational Assistance Plan – While not new, it is ironic that people who actually repair ratepayers' damaged vehicles are not viewed as priority for training financial assistance

- MPI employees represented by MGEU in each of four years beginning in 2016 received a 2 percent general wage increase and/or general wage increases plus market adjustments. The Business Plan notes MGEU-related wages are determined through bargaining and suggests the rates may be influenced by Bill 28 recently overturned by the Manitoba Court of Queen's Bench.

- MGEU labour rates (rate codes 11) for comparable positions in the private collision repair market consistently surpass the average industrial wage by 24.7% where journey persons wages in Manitoba's collision repair shops, (representing 36% to 40% of the negotiated labour rate)[9] fall below the national average industrial wage rate.

Figure 3: MMGEU Wage Rates for Estimator & Comparable Private Sector Collision Repair Jobs

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

New LVAA & Rate Card

The Annual Operating Plan also addresses the challenges of MPI's external environment making mention of a new Light Vehicle Accreditation Agreement and ensuing rate card.

Within the industry the term "rate card" is almost exclusively reserved for application in the private insurance market where the private insurance company sets the rates for shops enrolled in their Direct Repair Program. In turn, partnering collision repair shops agree to accept the discounted rates and estimating policies with the understanding the insurance company will direct claims to the DRP shop.

Open communications and claims transparency including severity, not included operations and other factors influencing compensation are necessary. Having been designated as an essential service, collision repair facilities represented through ATA and/or MMDA are genuine in wanting to fulfill both ratepayer

[9] Starting Wage for a Repair/Refinishing Technician with Certification of Trade is typically $25 per hour. Senior Repair/Refinishing Technicians range from $27 to $29 and contingent on other certifications (I-Car, Brand Manufacturer). Effective rate for flat rate compensation plan may differ

hourly	$27	$28	$29
biweekly	$2,160	$2,240	$2,320
annual	$56,160	$58,240	$60,320

and MPI needs. Thus, the service providers have put forth suggested terms for the LVAA discussion and include a request for assistance from a third party be obtained in the event of a dispute.