

# MANITOBA PUBLIC INSURANCE

2021 GENERAL RATE APPLICATION

Round 1 Information Requests

Confidential Questions - Public Responses

August 5, 2020

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Coalition of Manitoba Motorcycles Groups



MANITOBA  
PUBLIC INSURANCE

**CMMG (MPI) CI 1-1 - Confidential**

<b>Part and Chapter:</b>		<b>Page No.:</b>	
<b>PUB Approved Issue No:</b>			
<b>Topic:</b>			
<b>Sub Topic:</b>			

**Preamble to IR:**

Benefits identified include “A reduction in claims frequency” and “Downward trending (over 10 years) of at-fault serious injury and fatality collisions by drivers aged 15-24.”

**Question:**

How are these benefits reflected in the claims costs for motorcycles?

**Rationale for Question:**

Copy and paste IR rationale for question from Interveners and PUB here.

**RESPONSE:**

MPI does not expect to realize the benefits outlined in the High School Drivers Education (HSDE) business case until a significant number of students have experienced and completed the new Driver Z curriculum program. Once they complete the program, MPI will monitor the future claims experiences of these students.

Any changes in the loss experience for motorcycles will be gradually reflected in the rates for motorcycles. The MPI ratemaking methodology is provided in Ratemaking. MPI applies this methodology consistently and to all vehicles.

**CMMG (MPI) CI 1-2 - Confidential**

<b>Part and Chapter:</b>	<b>Part IV – IT Appendix 4</b>	<b>Page No.:</b>	<b>15</b>
<b>PUB Approved Issue No:</b>	<b>10</b>		
<b>Topic:</b>	<b>Current IT Strategic Plan and IT Expenses and Projects, including Project Nova and other initiatives planned for or ongoing in the rating years</b>		
<b>Sub Topic:</b>			

**Preamble to IR:**

Bill 7 – Immediate Roadside Prohibitions, was introduced in October 2018.

**Question:**

- a) What impact has Bill 7 had on losses?
- b) Where losses have improved, how has that been reflected in the claims costs for motorcycles?

**Rationale for Question:**

Copy and paste IR rationale for question from Interveners and PUB here.

**RESPONSE:**

- a) Though administrative penalties are one component of a suite of legislated impaired driving countermeasures which help reduce losses, MPI cannot isolate the results of this specific legislation change (which was recently proclaimed into force on December 16, 2019) from all other factors that help to reduce losses (for example, public messaging campaigns, or existing criminal or provincial sanctions related to impaired driving).

- b) To the extent that the loss experience for motorcycles changes, this will gradually be reflected in the rates for motorcycles. The ratemaking methodology employed by MPI is provided in Part VI Ratemaking, and is consistently applied to all vehicles.

**CMMG (MPI) CI 1-3 - Confidential**

<b>Part and Chapter:</b>	<b>Part VII – Risk Management Framework</b>	<b>Page No.:</b>	
<b>PUB Approved Issue No:</b>	<b>16</b>		
<b>Topic:</b>	<b>Risk Assessment and Risk Management</b>		
<b>Sub Topic:</b>			

**Preamble to IR:**

The Corporation outlines its level of Risk Appetite in a 'Risk Appetite Statement' by its Board of Directors. The Corporation notes under Investment Risk sub (d) that it has "No appetite for equity exposure in the Basic Claims portfolio."

Last year CMMG put forward the proposition that the Corporation should explore the use of equities in their investments specifically for long tailed liabilities, similarly to other jurisdictions, to assist with the rate volatility that is being experienced by the motorcycle class. The use of equities could assist to reduce the impact of interest rates for long tailed claim liabilities.

**Question:**

How does the Corporation reconcile its position of having "no appetite" for equity exposure for the Basic claims portfolio, with the significant impact that interest rates have had on the motorcycle class both last year and this year?

**Rationale for Question:**

To determine rationale for risk appetite, and its impact on the motorcycle class.

**RESPONSE:**

In its 2021 GRA, MPI stated that it does not support the idea of creating a special backing portfolio for motorcycle claims liabilities. However, MPI recognized that a reasonable consideration would be to apply interest rates at points on the yield curve that correspond to the duration of the liabilities for discounting purposes. Such an approach would provide a more appropriate discount rate for policy cash flows. The Motorcycle Class has a very large composition of Personal Injury Protection Plan claims that have a very long tail and, as a result, are more impacted by long-term interest rates. As of today, the yield curve is significantly flat and so there would be no substantial benefit in using that approach in the near term. MPI also stated in the application that it will consider making the change in the 2022 GRA, after a more thorough impact assessment is complete for all vehicles.

The volatility of equity assets is uncorrelated to the change in the present value of the claims liabilities, while changes in the market value of the fixed income portfolio are highly correlated to changes in the present value of the claims liabilities. Given the long duration and significant sensitivity to interest rate changes of these liabilities, fixed income assets provide a better alignment to these claims liabilities risk profile than equity assets, and interest rate risk is better managed by closely matching the discount rates to the duration of the liabilities.

**CMMG (MPI) CI 1-4 - Confidential**

<b>Part and Chapter:</b>	<b>Part IV – Value Management</b>	<b>Page No.:</b>	<b>74</b>
<b>PUB Approved Issue No:</b>	<b>19</b>		
<b>Topic:</b>	<b>Impact of the changes to Basic coverage and deductibles enacted on May 7, 2020</b>		
<b>Sub Topic:</b>			

**Preamble to IR:**

The Corporation has moved forward with product modernization initiatives including an increase in the basic deductible for major vehicle classes. The Corporation has outlined 4 objectives in relation to the basic and extension deductible increase which include “mitigation of the rising cost of claims’ and ‘stabilization of rates’.

**Question:**

- a) What is the Corporation’s understanding of the main factor resulting in the rising costs of claims?
- b) What will an increase in motorcycle deductibles do to reduce rate volatility experiences by the motorcycle class as a result of changing interest rates?

**Rationale for Question:**

To understand the rationale behind increased deductibles

**RESPONSE:**

- a) The Basic deductible has remained at \$500 since 1997. With almost 25 years since the last deductible change, there has been significant increases in the cost of claims simply as a result of physical damage cost inflation. For example, 2%

annual inflation would imply a 60%+ increase in the average physical damage claim cost over this period, while 4% annual inflation would imply a 160%+ increase. Without any modification to the deductible level over time for inflation, MPI is essentially providing more coverage every year while trying to maintain rate changes close to 0%. Such an approach is not sustainable over the long term. In the future, MPI intends to modify coverage levels once certain inflationary thresholds are reached.

- b) Since only a small portion of motorcycle claims costs relate to physical damage, the change in the deductible will have a very minor impact on Basic motorcycle rates or the volatility of motorcycle rates. There is of course no deductible for claimants making use of the Personal Injury Protection Plan.