

**Manitoba Public Insurance
2021 General Rate Application**

**Closing Submission
of the
Taxi Coalition**

5 November 2020

1 **TAXI COALITION: SUMMARY OF RECOMMENDATIONS**

2 For matters outlined in the Taxi Coalition’s (TC) application for standing and for matters
3 that emerged through the course of the proceeding, the Taxi Coalition provides its closing
4 submission with 6 key recommendations for the Public Utilities Board’s (PUB)
5 consideration.

6 Briefs detailing the issue, recommendations, and discussion on each recommendation
7 below are contained in the subsequent sections of this submission. It is the submission of
8 the Taxi Coalition that the PUB should:

9 **1. Increase the rates for Passenger VFH by 56%, together with corresponding**
10 **reductions to rates in the Private Passenger Major Class.**

11 A full adjustment to break-even indicated rates is warranted in this
12 circumstance. (See Issue Brief 2)

13 **2. In the alternative, increase rates for Passenger VFH by 40% with the intention**
14 **of considering an appropriate adjustment in the next GRA. Once again, the**
15 **40% increase would have corresponding reductions to rates in the Private**
16 **Passenger Major Class.**

17 The only reasonable level of gradualism for the current rate adjustment is one
18 that permits a subsequent adjustment within the 15% experience adjustment
19 limit, to achieve break-even indicated rates. (See Issue Brief 3)

20 **3. Direct MPI to investigate and in the next GRA report on whether it is**
21 **appropriate to accelerate the reduction in premiums for Taxicab VFH in**
22 **territories 2, 3 and 4.**

23 Variances between raw pure premiums and indicated rates call into question
24 the tradeoffs between accuracy and stability in the general methodology of
25 credibility weighting (see Issue Brief 4)

26 **4. Direct that the following matters be included in the VFH framework review:**
27 **a. Whether MPI requires any regulatory or municipal by-law changes in**
28 **order to collect relevant information for the VFH rate design(s);**
29 **b. Which DSR model(s) best reflect risk and incentives to reduce risk;**
30 **c. Whether the fleet program, or some variation of that program, which**
31 **takes into account the claims experience of multiple vehicles and**
32 **multiple drivers is appropriate for Corporately owned VFH fleets of**
33 **two or more vehicles;**

- 1 d. Whether any one or more of other metrics such as time on the road
2 or kilometers driven or driver risk are appropriate for designing VFH
3 premiums;
4 e. Whether time bands should be adjusted to better reflect the business
5 operations and risk of VFH;
6 f. Collection of and analysis of relevant data in order to better
7 understand the causes of high relativities of VFH, and in particular of
8 Taxicabs, in their major class;
9 g. Analyze and report on whether it continues to be appropriate to have
10 Passenger VFH and Private delivery services like Uber Eats and Skip
11 the Dishes in a different major class than other VFH;
12 h. Analyze and report on the relative probability as between the
13 Passenger VFH and the other VFH that there will be a serious loss
14 claims experience in the future;
15 i. Collect and analyze, if available, relevant data and report at the next
16 GRA on the composition of and characteristics of the Passenger VFH
17 group, including (based on a metric such as per week or per month)
18 time available for fares, number fares taken, time of day (e.g.
19 evenings, weekends..) on the road, and kilometers driven;
20 j. Report on whether and which parts, if any, of the proposed VFH
21 framework require regulatory changes or PUB approval.

22 A number of issues should be addressed as part of the VFH Framework Review,
23 that fall into one of four general categories:

- 24 i. Data Collection
25 ii. Product Design
26 iii. Incentives for reducing risk
27 iv. Subsidization of VFH rates

28 Each of the ten (10) sub-recommendations are addressed in one of the four (4)
29 categories. (See Issue Brief 5)

- 30 **5. Direct MPI to make reasonable attempts to conduct its VFH framework**
31 **review so it has a proposal for the next GRA with a view of being able to**
32 **integrate the revised framework in NOVA on or before April, 2022.**

33 MPI should abide by timing constraints imposed by Project NOVA, to ensure
34 efficient program delivery. (See Issue Brief 5)

- 35 **6. Find that there is a gap in currently offered DSR incentives to Corporately**
36 **owned VFH (2 or more owners), and direct MPI to implement a DSR registrant**

1 **model for corporately owned VFH. This would include taxis, accessible and**
2 **limo VFH.**

3 Vehicle premium discounts under the DSR Program are not available to multi-
4 owner corporations. Revising program design can eliminate this undue
5 discrimination. (See Issue Brief 6)

6

7 The following issue briefs are provided below:

8 1. Regulatory Principles

9 2. Passenger VFH Adjustment to Break-Even Indicated Rates

10 3. Partial adjustment toward break-even indicated rates

11 4. Passenger VFH Experience and Assumptions

12 5. Credibility Weighting and Volatility

13 6. The VFH Framework Review

14 7. DSR Programming Gap for Small Corporate Customers

15 Issues briefs may also have appended additional transcript excerpts relevant to the
16 content of the brief.

1 **ISSUE TOPIC #1: Regulatory Principles**

2 **ISSUE:**

3 What are the regulatory principles applicable to this hearing?

4 **TC SUMMARY AND/OR RECOMMENDATION:**

5 *The Crown Corporations Governance and Accountability Act* C.C.S.M. c. C336, and *The*
6 *Public Utilities Board Act* C.C.S.M. c. P280 set out the regulatory principles of just and
7 reasonable rates for service, which are consistent with the regulatory principles set out in
8 Bonbright.

9 The absence of any evidence to the contrary and in the absence of any challenge to Mr.
10 Bowman's evidence, the Board should give significant weight to it.

11 **DISCUSSION AND SUPPORT:**

12 We submit that the regulatory principles applicable to this hearing are set out in section
13 25 of the *The Crown Corporations Governance and Accountability Act* C.C.S.M. c. C336
14 which sets factors which may be considered at s. 25(4). That *Act*, through s. 25(3) and
15 (5), also incorporates by reference the regulatory principles of just and reasonable rates
16 for a service as set out in ss. 77 and 82 of *The Public Utilities Board Act*. We submit that
17 those statutory principles are consistent with recognized regulatory principles set out in
18 Bonbright.

19 **Hydro and MPIC rates review**

20 25(1)

21 Despite any other Act or law, rates for services provided by Manitoba Hydro and
22 the Manitoba Public Insurance Corporation shall be reviewed by The Public
23 Utilities Board under *The Public Utilities Board Act* and no change in rates for
24 services shall be made and no new rates for services shall be introduced without
25 the approval of The Public Utilities Board.

26 **Definition: "rates for services"**

27 25(2)

28 For the purposes of this Part, "**rates for services**" means

1 (a) in the case of Manitoba Hydro, prices charged by that corporation with
2 respect to the provision of power as defined in *The Manitoba Hydro Act*,
3 and

4 (b) in the case of The Manitoba Public Insurance Corporation, rate bases and
5 premiums charged with respect to compulsory driver and vehicle
6 insurance provided by that corporation.

7 **Application of Public Utilities Board Act**

8 25(3)

9 *The Public Utilities Board Act* applies with any necessary changes to a review
10 pursuant to this Part of rates for services.

11 **Factors to be considered, hearings**

12 25(4)

13 In reaching a decision pursuant to this Part, The Public Utilities Board may

14 (a) take into consideration

15 (i) the amount required to provide sufficient funds to cover operating,
16 maintenance and administration expenses of the corporation,

17 (ii) interest and expenses on debt incurred for the purposes of the
18 corporation by the government,

19 (iii) interest on debt incurred by the corporation,

20 (iv) reserves for replacement, renewal and obsolescence of works of the
21 corporation,

22 (v) any other reserves that are necessary for the maintenance, operation,
23 and replacement of works of the corporation,

24 (vi) liabilities of the corporation for pension benefits and other employee
25 benefit programs,

26 (vii) any other payments that are required to be made out of the revenue
27 of the corporation,

1 (viii) any compelling policy considerations that the board considers
2 relevant to the matter, and

3 (ix) any other factors that the Board considers relevant to the matter; and

4 (b) hear submissions from any persons or groups or classes of persons or
5 groups who, in the opinion of the Board, have an interest in the matter.

6 **MPIC**

7 25(5)

8 In the case of a review pursuant to this Part of rates for services of the Manitoba
9 Public Insurance Corporation, The Public Utilities Board may take into
10 consideration, in addition to factors described in subsection (4), all elements of
11 insurance coverage affecting insurance rates.

12 *The Public Utilities Board Act C.C.S.M. c. P280* provides, in part:

13 **Orders as to utilities**

14 77

15 The board may, by order in writing after notice to, and hearing of, the parties
16 interested,

17 (a) **fix just and reasonable** individual rates, joint rates, tolls, charges, or
18 schedules thereof, as well as commutation, mileage, and other special
19 rates that shall be imposed, observed, and followed thereafter, by any
20 owner of a public utility wherever the board determines that any existing
21 individual rate, joint rate, roll, charge or schedule thereof or commutation,
22 mileage, or other special rate is **unjust, unreasonable, insufficient, or**
23 **unjustly discriminatory or preferential**; (emphasis added)

24 (b) fix just and reasonable standards, classifications, regulations, practices,
25 measurements, or service to be furnished, imposed, observed, and
26 followed thereafter by any such owner;

27 **Discriminatory rates**

28 82(1)

29 **No owner of a public utility shall**

- 1 (a) make, impose, or exact any unjust or **unreasonable, unjustly**
2 **discriminatory, or unduly preferential**, individual or joint rate,
3 commutation rate, mileage, or other special rate, toll, fare, charge, or
4 schedule, **for any** product or **service** supplied or rendered by it within the
5 province; (emphasis added)
- 6 (b) without the written authorization of the board and subject to subsection (2),
7 make, impose, exact, or collect, any rate, toll, fare, or charge, or any
8 schedule of rates, either individual or joint, for any product supplied or
9 service rendered by it within the province;
- 10 (c) adopt or impose any unjust or unreasonable classification in the making,
11 or as the basis, of any individual or joint rate, toll, fare, charge, or schedule
12 for any product or service rendered by it within the province;
- 13 (d) **adopt, maintain**, or enforce any regulation, **practice, or measurement**
14 **that is unjust, unreasonable, unduly preferential, arbitrarily or**
15 **unjustly discriminatory**, or otherwise in violation of law, or provide or
16 maintain any service that is unsafe, improper, or inadequate, or withhold
17 or refuse any service that can reasonably be demanded and furnished
18 when ordered by the board; (emphasis added)
- 19 (e) **make or give, directly or indirectly, any undue or unreasonable**
20 **preference or advantage to any person or corporation**, or to any
21 locality, or to any particular description of traffic **in any respect**
22 **whatsoever**, or subject any particular person or corporation or locality, or
23 any particular description of traffic, to any prejudice or disadvantage in
24 any respect whatsoever; (emphasis added)
- 25 (f) subject to subsection (3), issue any stocks, stock certificates, bonds, or
26 other evidences of indebtedness payable in more than one year from the
27 date thereof, unless it has first obtained authority from the board for the
28 proposed issue;
- 29 (g) subject to subsection (9),
- 30 (i) capitalize its right to exist as a corporation; or
- 31 (ii) capitalize any right, franchise, or privilege in excess of the amount
32 (exclusive of any tax or annual charge) actually paid to the
33 government or any municipality in the province as the consideration
34 therefor; or

- 1 (iii) capitalize any contract for consolidation, merger, or lease; or
- 2 (iv) issue any securities against, or as a lien upon, any contract for
3 consolidation, merger, or lease;
- 4 (h) without the approval of the board, sell, lease, mortgage, or otherwise
5 dispose of or encumber its property, franchises, privileges, or rights, or
6 any part thereof, or merge or consolidate its property, franchises,
7 privileges, or rights, or any part thereof, with that of any other public utility
8 or its owner;
- 9 (i) subject to subsections (12) and (13), enter into any contract or
10 arrangement, other than a contract to provide the services that the public
11 utility provides, at rates approved by the board, with a company or firm in
12 which the owner of the public utility or a director thereof has an interest,
13 unless the public utility has filed with the board the contract, or a
14 memorandum describing and giving full details of the arrangement, and
15 has received from the board a written acknowledgment that the filing has
16 been made as required herein;
- 17 (j) discontinue service to the public without authorization of the board at least
18 one year prior to discontinuance, unless otherwise provided in the statute
19 or agreement under which the public utility is operated;
- 20 (k) declare or pay any dividend, or effect any other distribution of the assets
21 of the utility, when it appears likely that an application will be made in the
22 foreseeable future for authority to discontinue service to the public, unless
23 authorization of the board is first obtained;
- 24 (l) declare or pay any dividend, or effect any other distribution of the assets of
25 the utility, at a time when a subsisting order of the board prohibiting the
26 owner from declaring or paying dividends or effecting any other
27 distribution of or from the assets of the utility is in force, unless
28 authorization of the board is first obtained;
- 29 (m) declare or pay any dividend, or effect any other distribution of the assets
30 of the utility, that would contravene any restriction on the payment or
31 declaration of dividends or other distribution of the assets of the utility
32 imposed by a subsisting order of the board, unless authorization of the
33 board is first obtained.

1 We note that MPI who has the onus of proof in this case did not adduce any expert
2 evidence on the regulatory principles and their application to rates for VFH. MPI did not
3 challenge Mr. Bowman in cross-examination on the regulatory principles and their
4 application to this case.

5 There is no issue of evidentiary unfairness as suggested MPI in its final submissions.

6 MPI had the pre-filed evidence of Mr. Bowman and Mr. Crozier and could have filed
7 rebuttal evidence. It chose not to.

8 In addition, it incorrectly asserted in its presentation (Slide 35, Ex. 85) that the TC was
9 proposing that (Transcript p. 2292 and 2293) the 10% credibility weighting formula be
10 changed to a 40% credibility weighting formula. Mr. Bowman's pre-filed evidence sets out
11 the regulatory reasons for his two recommendations. There was extensive cross-
12 examination of Mr. Johnston on the unreliability of the initial assumptions and the need to
13 reflect current data because the formula is not useful or applicable for a new rate without
14 historical data.

15 The reference to the evidentiary rule in *Browne and Dunn* is misplaced. There was no
16 evidentiary unfairness on the issue.

17 MPI could have had a regulatory witness address any regulatory evidence and
18 recommendations of Mr. Bowman in the Regulatory Panel. MPI chose not to adduce any
19 evidence to challenge Mr. Bowman's pre-filed evidence. Mr. Johnston, although an
20 actuary and not a regulatory expert, could also have shared his views on Mr. Bowman's
21 evidence.

22 Finally, MPI had the opportunity to cross-examine Mr. Bowman on his pre-filed evidence
23 and oral testimony with respect to his recommendations but chose not to.

24 We submit that in the absence of any evidence to the contrary and in the absence of any
25 challenge to Mr. Bowman's evidence and in the absence of any challenge to his extensive
26 local, national and international regulatory expertise, the Board should give significant
27 weight to it.

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 **ISSUE TOPIC #2: Passenger VFH Adjustment to Break-Even Indicated Rates**

2 **ISSUE:**

3 Whether after applied-for adjustments, Passenger VFH rates should increase by a further
4 56% or \$1,117 to achieve indicated break-even rates.

5 **TC SUMMARY AND/OR RECOMMENDATION:**

6 The PUB should direct a full adjustment to break-even indicated rates, and so increase
7 rates by the full 56% beyond applied-for in the current proceeding, together with
8 corresponding reductions to rates in the Private Passenger Major Class.

9 Relevant regulatory principles which support the adjustment to full break-even indicated
10 rates include: the avoidance of significant cross subsidization, the avoidance of promoting
11 wasteful use. Rate stability is a low priority in this unique case which involves a newly
12 created class.

13 The two years of Passenger VFH experience to date has been relatively stable. As the
14 experience evolves, there is reason to expect that raw relativities may increase because:

15 1. Serious losses have been absent from the 2018 and 2019 Passenger VFH
16 experience. Serious losses are an unfortunate inevitability, and will increase the
17 experienced losses of Passenger VFH, all else equal; and

18 2. As the passenger VFH market matures, and major service providers enter the
19 market, and professional drivers may increase as a proportion of all Passenger
20 VFH drivers, increasing time on road, and kms drive, all else equal.

21 Therefore, current indicated break-even rates are more likely to need further upward
22 adjustment in subsequent years (beyond the noted 56%), than a downward adjustment.

23 The adjustment to break-even indicated rates should also be done based on the available
24 data to date, as the current year's experience data is expected to be significantly impacted
25 by COVID-19, and further years' data may similarly be impacted over the course of an
26 economic recovery. It may well be many years before any additional reliable data is
27 available.

28 Finally, had the PUB been endowed with perfect foresight in the 2018 VFH application, it
29 is reasonable to expect that rates would have set to reflect the experience in 2018 and in
30 2019 and the 56% level higher than that proposed by MPI.

31

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 **DISCUSSION AND SUPPORT:**

2 **A full adjustment to break-even indicated rates is supported by the evidence**

3 In response to TC(MPI)2-3, Passenger VFH rates would have to increase by a further
4 56% (or \$1,117) above the currently applied for rates in order to equal today's actuarially
5 indicated break-even rate.

6 MPI comes to this conclusion as follows:

7 Per Ratemaking Appendix 9, Table 15, the balanced raw relativity and the new
8 relativity after product change are 3.0156 and 1.9316 respectively. This implies an
9 actual-to-applied ratio of 1.56 ($=3.0156 / 1.9316$) i.e. the rates for the Passenger
10 VFH (Passenger Vehicle) insurance use would have to be increased further by
11 56% beyond the 2021 GRA.¹

12 And

13 Per the response to a) above, the rates for this insurance use would have to be
14 increased further by 56% beyond the 2021 GRA. As such, the average rate for this
15 insurance use would have to increase by a further \$1,117.

16 The 56% rate increase is based on the full and complete data from 2 years of operation
17 of Passenger VFH use – it is not a “small sample set”, it is the complete set. The relativities
18 have been stable across the two years, indicating reliability in the measurement. They
19 have included no serious losses, however, which suggests the relativities are in fact low
20 compared to what will ultimately arise. Also, if the use category changes to more
21 committed VFH drivers (as is likely given natural market evolution, as well as needed rate
22 increases over time under any scenario) the relativities will also likely rise.

23 It is also important to note that the analysis and development of relativities as used by the
24 Taxi Coalition are entirely those generated by MPI and their actuaries. The TC have not
25 developed their own, nor challenged in any way, the MPI development of actuarial cost
26 comparisons, or the application of the minimum bias procedure. In this regard, there is no
27 dispute what the actual data shows. MPI recognized that Mr. Bowman is not an actuary –
28 this was acknowledged. However, the TC case does not rely in any way on competing
29 actuarial analyses. The only dispute relates to how much weight to put on the actual data,
30 relative to the hypothetical and unfounded data used in the 2018 hearing – MPI argues
31 90% credibility weight should be put to the unfounded data – TC submits there is no
32 credibility to this data, in light of having actual experience.

¹ TC(MPI)2-3(a)

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 The evidence of its Chief Actuary on the issue of the magnitude of the increase was not
2 consistent in the hearing. During cross-examination by Board Counsel, Mr. Johnston
3 opined that: ²

4 the likelihood is very high that a rate increase of a larger
5 magnitude is required

6 Thus, the evidence is not that there is a low likelihood that a rate increase of a larger
7 magnitude is required. We submit that with this evidence of a “very high” likelihood of a
8 rate increase of a larger magnitude being required there is no sound reason to reject Mr.
9 Bowman’s evidence that a 56% increase is appropriate.

10 **Economic efficiency principles supersede rate stability principles**

11 The relevant regulatory principles (as specified by Bonbright) for consideration in this case
12 are³:

- 13 1. Avoidance of "undue discrimination" in rate relationships.
14 2. Efficiency of the rate classes and rate blocks in discouraging wasteful use of
15 service while promoting all justified types and amounts of use:
16 (a) in the control of the total amounts of service supplied by the company;
17 (b) in the control of the relative uses of alternative types of service (on-peak versus
18 off-peak electricity, Pullman travel versus coach travel, single-party telephone
19 service versus service from a multi-party line, etc.).

20 A further principle that should be given less weight in this context compared to typical
21 regulated situations is:

- 22 3. Stability of the rates themselves, with a minimum of unexpected changes seriously
23 adverse to existing customers. (Compare "The best tax is an old tax").

24 Addressing each of these in turn:

- 25 1) Undue discrimination is present in the material undercharging of the Passenger
26 VFH rates, relative to today’s indicated break-even rate. The 56% variance
27 between applied-for rates and indicated rates is material, and market distorting.

² Tx p 1730 lines 13 and 14

³ Bonbright, James C., Principles of Public Utility Rates. Columbia University Press. 1960. page 291.

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 Mr. Bowman elaborates on this point⁴:

2 my submission is that PUB should make it a priority to
3 address the material cross-subsidization that is
4 occurring now before entrenching more unfairness in the
5 market, that failure to address the issue now may lead
6 drivers to opt into the TNC service when their actions
7 are not economically efficient to be in that service
8 and consuming insurance services, and it would not have
9 made that decision absent cross-subsidization.

10 This discrimination leads to the other participants in the major class paying higher
11 rates than necessary to cross-subsidize the Passenger VFH users. MPI asserts
12 that this does not lead to higher rates for others but rather a charge against the
13 Rate Stabilization Reserve⁵. This is clearly not correct, in that there is ultimately
14 only one source of funds for MPI – drivers. If the Passenger VFH drivers do not
15 cover their costs, the only other source of the funds is other drivers. Whether this
16 arises in the same year, through the MPI balancing process, or over multiple years
17 through the Rate Stabilization Reserve funding process, there is no means to
18 retroactively recover these material subsidies from the Passenger VFH customers
19 in 2021.

20 We also note Mr. Johnston's evidence on this issue: ⁶

21 But I'm quite willing to say that with consecutive loss
22 ratios in this neighbourhood, the -- the **likelihood that**
23 **there's some subsidization is high**. (emphasis added)

24 2) Wasteful use would be discouraged by charging Passenger VFH the full indicated
25 break-even rate, by sending Passenger VFH operators, particularly those who are
26 new, or considering entering the marketplace, the correct price signal about the
27 cost of operations. Simply put, charging new entrants to the Passenger VFH
28 industry the correct insurance price signal now will allow them to make informed
29 decisions about the full cost of operations. 'Shielding' current and prospective
30 Passenger VFH operators from the full cost of insurance may lead to them
31 incorrectly assessing options, and over-valuing the prospects for them to enter into
32 Passenger VFH operations, and missing other more beneficial opportunities or
33 inappropriately investing (for example, as justification for purchasing a new vehicle
34 that they incorrectly assume can be funded in part by VFH activities over a number

⁴ Tx 2140 line 6-14

⁵ Tx 2294 line 5 - 23

⁶ Tx 1718 line 14 -16

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 of years). These drivers, under MPI's approach, would face continuing and
2 compounding increases year-over-year for many years, undermining their
3 economic prospects, building resentment with MPI pricing, and adversely affecting
4 a competitive marketplace for VFH/taxi operations.

5 On a round numbers basis, indicated rates are \$1100 more than the currently
6 applied-for rate. This is without any observed serious losses in the first two years
7 of data. If serious losses might account for an additional 10% overall (as they do
8 for taxis), then currently applied-for rates might be underpriced by as much as
9 \$1400.

10 Taking for example a casual driver, who according to MPI⁷, might drive 3500 km
11 per year, this additional cost would amount to an additional \$0.40/km, which may
12 approach the entire operating costs of a vehicle.

13 Mr. Bowman elaborates on this issue as follows⁸:

14 The issue that we're talking about is a different in
15 pricing between, in rough numbers, two thousand dollars
16 (\$2,000) a year for the -- the TNC driver versus a full
17 cost that's close to around three thousand dollars
18 (\$3,000) a year and probably higher with serious losses
19 if one was to put in an estimate for that component,
20 so, you know, over -- over a thousand dollars.

21 If this market is evolving to have more professional
22 drivers on the road in many hours, that may increase
23 compared to the two (2) years that you've experienced.

24 If, instead, it's a market with a lot of weekenders who
25 are not doing a lot of driving, and extra, rough numbers,
26 a thousand to fourteen hundred dollars (\$1,400) could
27 easily be the difference about whether they participate
28 in the market versus choose not to.

29 That could change whether they make certain investments
30 in a new vehicle or in the -- what other -- ever other
31 infrastructure they need to deal with this or changes
32 in their life -- livelihood versus to stay out of the
33 market. Not charging this cost has the potential to

⁷ TC(MPI) 1-16

⁸ Tx 2051 line16 to 2053 line 16

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 skew that market. And to give you an idea about the
2 scale, in terms of if this is a market of weekenders,
3 an extra thousand to fourteen hundred dollars (\$1,400),
4 in one (1) of the interrogatories MPI does an estimate
5 of -- they provide a summary of Saskatchewan's pricing
6 for this service now. And they do an estimate of that
7 based on the assumption that a driver drives 3,500
8 kilometres per year in this -- offering this service.
9 It struck me as low, but it's the number that MPI chose.

10 If that driver as a weekender had the price -- the full
11 price flowed through to them, an extra thousand to
12 fourteen hundred dollars (\$1,400), you're talking about
13 an additional thirty (30) to forty (40) cents per
14 kilometre cost to operate their service that they're
15 not currently paying for, for the insurance cost they
16 consume.

17 That is a significant value. To give you an example,
18 the full vehicle compensation rates that the province
19 offers is a little under fifty (50) cents, in my
20 understanding.

21 So an additional thirty (30) to forty (40) cents of cost
22 that is not yet being reflected in the rates to
23 weekenders could easily be enough to change the decision
24 that people are making about whether to participate.

25 Note that if this assumption about "weekenders" is not correct, and the typical
26 Passenger VFH driver is in fact driving far more kilometres, then the MPI analysis
27 of the Saskatchewan pricing precedent becomes important to understand.
28 Saskatchewan Passenger VFH pricing is based on \$0.11/km, which MPI
29 calculates is about a 30% premium to All Purpose rates (\$385)⁹. If the typical
30 Passenger VFH driver is not operating at 3500 km a year (a very low level) but
31 more like 20,000 km a year, as an example (a level representative of perhaps part-
32 time use, in Saskatchewan they would in fact be paying an extra \$2200 for
33 Passenger VFH operations, which would be more than double the All Purpose
34 average for Regina (\$1,317 to \$1,519)¹⁰.

⁹ TC(MPI) I-16(b)

¹⁰ TC(MPI) I-16(b)

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 In short – if the Passenger VFH drivers are weekenders, the degree of cross-
2 subsidization they are experiencing is more than larger enough to materially distort
3 the VFH/taxi market and drive inefficient decisions

4 3) Rate Stability should not be the guiding regulatory principle for determining rates
5 in this instance. The Passenger VFH market is new in Manitoba, have only been
6 established in 2018. As such, there is no ‘old tax’, to use the colloquialism of
7 Bonbright. Viable long term business plans have not been developed based on a
8 reasonable expectation of cost stability.

9 Further, the market for Passenger VFH seems likely to expand and evolve as a
10 major global player has only just established operations here. MPI believes that
11 Passenger VFH are operating at more than a purely casual basis, but less than
12 the 24x7 operation consistent with Taxi VFH¹¹. This implies fairly low barriers to
13 entry and exit for Passenger VFH operators, unlike major commercial or industrial
14 operation that have invested significantly to operate in their industry.

15 Mr. Bowman again elaborates on this issue¹²:

16 And further, I'm not sure we're doing these drivers a
17 favour if we're putting them into a situation where
18 they do not see the full cost of the insurance
19 services they consume at the outset, and then see
20 material increases year over year for many years into
21 the future.

22 And¹³:

23 In short, it's not that the market needs a faster
24 evolution; it effectively needs a fix.

25 **Today's data is the best available, and may be for some time**

26 The data available to MPI to set Passenger VFH rates is by comparison to other VFH
27 insurance uses, a limited data set, consisting of only two full years of experience. It is
28 however, undoubtably superior to the initial assumptions that MPI relied on establishing
29 the Passenger VFH rates in the 2018 VFH Application.

¹¹ TC(MPI) 2-11(a)

¹² Tx 2054 line 11-16

¹³ Tx 2055 line 3-5

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 This data is the complete experience of the Passenger VFH population – meaning it is not
2 a sample of Passenger VFH experience¹⁴, and it benefits from having two years of raw
3 relativities that are reasonably close to one another, as shown in Table 6 of the InterGroup
4 Evidence, reproduced below:

| <u>GRA</u> | <u>Insurance Use</u> | <u>Balanced Raw Relativity</u> | <u>Balanced Current Relativity</u> | <u>Credibility</u> | <u>Credibility Weighted Relativity</u> |
|------------|--|--|--|--------------------|--|
| 2021 | Passenger Vehicle-for-Hire (Passenger Vehicle) | 2.9930 | 1.8083 | 0.10 | 1.9267 |
| 2020 | Passenger Vehicle-for-Hire (Passenger Vehicle) | 3.1160 | 1.6593 | 0.10 | 1.8049 |

5 Source: RM Appendix 9, Table 15

6 Finally, given the unusual experience of current year in the COVID pandemic environment
7 it will be unreasonable to expect this experience to inform future rate indications. It could
8 therefore be 2022/23 or later before further additional data on Passenger VFH loss
9 experience is available to inform future rate indications¹⁵. For this reason, there is no basis
10 to delay moving to the appropriate and justified cost level for Passenger VFH vehicles.

¹⁴ Tx 1921 line 20-23

¹⁵ Tx 2037 line 2-7

1 **TRANSCRIPT EXCERPTS**

2 The following transcript excerpts are provided to further highlight the issues presented in
3 the above Issue Brief

4 On the matter of subsidization of the Passenger VFH Rate, at Transcript page 1712:

5 13 MR. ROBERT WATCHMAN: Now one (1) of
6 14 the things the Board noticed -- noted right from the
7 15 outset -- if you could go to page 19, Kristen, to the
8 16 last paragraph on that page. So this was, you know,
9 17 the first interim order on VFH rates:
10 18 "The Board is concerned with respect
11 19 to the financial impact of the
12 20 provision of VFH insurance, and in
13 21 particular that such insurance not be
14 22 subsidized by other Basic customers."
15 23 Do you see that?
16 24 MR. LUKE JOHNSTON: I do.

17 And at Transcript page 1715:

18 3 MR. ROBERT WATCHMAN: Okay. So now if
19 4 we look at the last column, the -- the loss ratio, and
20 5 as you indicated, if you have a loss ratio in excess
21 6 of 100 percent, you're clearly not charging enough
22 7 premium.
23 8 MR. LUKE JOHNSTON: That's true.
24 9 MR. ROBERT WATCHMAN: And just -- and
25 10 as I understand it, that loss ratio is just the
26 11 incurred versus the earned premium?
27 12 MR. LUKE JOHNSTON: That's right.
28 13 MR. ROBERT WATCHMAN: So does that
29 14 take into consideration things like operational
30 15 costs?
31 16 MR. LUKE JOHNSTON: It would not.
32 17 You'd -- it is slightly different depending on the
33 18 class, just depending on the weight of those items,
34 19 but I would expect a -- a loss ratio more in the 70
35 20 to

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 19 80 percent range to -- to truly break even net of all
2 20 costs.

3 21 MR. ROBERT WATCHMAN: Right. So the
4 22 only point I was trying to understand there is that
5 23 even with 100 percent loss ratio, you're -- you're
6 24 still not charging enough premium?

7 25 MR. LUKE JOHNSTON: Correct.

8 And at Transcript page 1718:

9 4 MR. LUKE JOHNSTON: I -- I can't say
10 5 that. There's 452 cars in the first year, right?
11 6 So -- and the total incurred of a
12 7 million dollars, one claim could be a million dollars,
13 8 right?

14 9 Like, so I can't say that with
15 10 certainty and any actuary would say with only 450
16 11 vehicles and then obviously a much smaller number of
17 12 claims, that they -- they can't have full confidence
18 13 in that statement.

19 14 But I'm quite willing to say that with
20 15 consecutive loss ratios in this neighbourhood, the --
21 16 the likelihood that there's some subsidization is
22 17 high. (Emphasis added)

23 18 But we still have to appreciate the
24 19 volatility of a -- a small vehicle group like this
25 20 can
26 21 have in such a short time frame.

27 And Mr. Johnston in reaction to Mr. Gabor's questions at p. 1720

28 17 But -- so I don't -- I can't make a
29 18 definitive statement that this group definitely has a
30 19 one hundred and, say, twenty-five (125) percent loss
31 20 ratio. But the likelihood is high, and the rate-
32 21 making methodology will of course move toward that
33 22 rate, but in a -- at a certain speed.

34 23 And I think the most important thing
35 24 for this hearing is -- is that the speed at which
36 25 it's

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1 25 moving to the target appropriate? MPI hasn't

2 And in answer to questions by Mr. Watchman at p. 1730

3 12 I -- like, as I mentioned, I believe

4 13 the likelihood is very high that a rate increase of -

5 -

6 14 of a larger magnitude is required, but I can't peg
7 (emphasis added)

8 15 that at that level of detail right now.

9 16 But to your point, yes, if we changed

10 17 rates today by 56 percent, that would continue on and

11 18 be adjusted as -- as per the rate-making methodology.

12 On the discussion with respect to increasing Passenger VFH rates by 56% at pages 1853
13 and 1854

14 13 MR. LUKE JOHNSTON: Approximate

15 14 magnitude. I think whether it's 50 or 56, I don't

16 15 think -- I think your point --

17 16 MR. ANTOINE HACAULT: Yeah.

18 17 MR. LUKE JOHNSTON: -- is made, yeah.

19 18 MR. ANTOINE HACAULT: But is MPI of

20 19 the view then that that's not a significant change?

21 20 MR. LUKE JOHNSTON: So I'll just

22 21 reiterate earlier comments. I believe my -- my

23 22 comment was there's a high likelihood that the actual

24 23 loss experience is tracking higher than the current

25 24 rates (emphasis added).

26 25 We put caution, given the small number

27 1 of units, but, as mentioned, for this GRA we've

28 2 continued to follow the existing rate-making

29 3 methodology. But, as noted here, if it gets to the --

30 4 the stage where the evidence is really clear, MPI or

31 5 PUB may have to act outside of that methodology if --

32 6 if deemed necessary.

33 And after discussing amounts paid in Ontario, Quebec and Alberta at p. 1859

34 1 two thousand (2,000). A 50 percent rate increase

35 2 would add a thousand dollars (\$1,000) or so, so closer

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 3 to three thousand (3,000) for all time bands.

2 4 MR. ANTOINE HACAULT: Okay. So that

3 5 would be somewhere between the Quebec low and where

4 6 everybody else is situated in -- in the private

5 7 jurisdictions?

6 8 MR. LUKE JOHNSTON: Yeah.

7 ...

8 18 So if the current loss information was

9 19 correct, we'll just assume, and let's say MPI should

10 20 have charged twenty-five hundred (2,500) to three

11 21 thousand (3,000) or something, for example -- that's

12 22 for all the time bands if we had perfect information

13 -

14 23 - that is what it is.

15 And at pages 1860 and 1861:

16 13 MR. ANTOINE HACAULT: I would suggest

17 14 to you that you did not have very good actuarial data

18 15 on which to base a notional rate in that interim

19 16 application.

20 17 MR. LUKE JOHNSTON: We didn't have any

21 18 Manitoba data. We just had industry comparisons, so

22 19 we had no actuarial data from -- from Manitoba.

23 20 MR. ANTOINE HACAULT: I think I

24 21 understood your question to say that you had no

25 22 actuarial data from Alberta, Ontario, or Quebec

26 23 either, sir?

27 24 MR. LUKE JOHNSTON: Correct. We -- we

28 25 only had the jurisdictional scan as a guide to the

29 1 relative differences that other provinces were seeing

30 2 or how they were charging for that. Of course, we

31 3 don't know if there's any subsidization happening here

32 4 or other things like that. Just as a -- as a guide to

33 5 the relative difference in other provinces, that's all

34 6 we had.

35 And at p. 1862 with respect to the most recent jurisdictional scan being relied on:

36 15 MR. ANTOINE HACAULT: Now it's

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1 16 explained that in the next paragraph under (b) is
2 17 Saskatchewan Government Insurance and British
3 Columbia
4 18 are the jurisdictions most comparable to MPI. A
5 19 recent jurisdictional review focussed on those two
6 20 models, correct?
7 21 MR. LUKE JOHNSTON: Yes.

8 And with respect to the Saskatchewan comparative and data at pp. 1863 and 1864

9 2 MR. ANTOINE HACAULT: And one (1) is
10 3 blanket liability policy, which we don't have in
11 4 Manitoba?

12 5 MR. LUKE JOHNSTON: We do not.

13 6 MR. ANTOINE HACAULT: And the other
14 7 one (1) is an additional premium based on actual
15 8 kilometres driven by its drivers, and we don't have
16 9 that data or that model in Manitoba?

17 10 MR. LUKE JOHNSTON: That's correct.

18 11 MR. ANTOINE HACAULT: Now did
19 12 Saskatchewan -- and I'm going to page 4 of 6, the end
20 13 of the first paragraph -- about mid-way through the
21 14 paragraph it says:

22 15 "SGI does not have data currently to
23 16 provide us with an estimated cost
24 17 for the annual blanket policy."

25 18 Firstly, is that still correct?

26 19 MR. LUKE JOHNSTON: That's my
27 20 understanding, but I -- I haven't asked that question
28 21 recently, but yeah.

29 22 MR. ANTOINE HACAULT: And secondly,
30 23 the second part of their premium related to
31 kilometres

32 24 and the response here says:

33 25 "SGI was unable to disclose the
34 1 average kilometre per year a driver
35 2 may put on."

36 3 So you didn't get a data set on that
37 4 either?

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 5 MR. LUKE JOHNSTON: We did not.
2 And with respect to the British Columbia comparative and data at pp. 1864 and 1865 and
3 1866:

4 22 MR. ANTOINE HACAULT: Okay. Thank you
5 23 for that clarification.
6 24 Now that leaves us with the British
7 25 Columbia model in your jurisdictional scan. And
8 1 that's dealt with at pages 5 and 6, and closer to the
9 2 bottom of page 5 of 6, first full paragraph after the
10 3 heading "Insurance Requirements and Premium", and
11 4 there's an explanation, again, that there must be a
12 5 purchase of a blanket insurance certificate. Correct?

13 6 MR. LUKE JOHNSTON: That's right.

14 7 MR. ANTOINE HACAULT: Once again,
15 8 Manitoba does not have that feature?

16 9 MR. LUKE JOHNSTON: MPI does -- does
17 10 not.

18 11 MR. ANTOINE HACAULT: Okay. And at
19 12 the very last sentence in that paragraph:
20 13 "The rate for this blanket insurance
21 14 is based on kilometres driven."
22 15 Do you see that, sir?

23 1 MR. ANTOINE HACAULT: Okay. So, sir,
24 2 in this response again, because there was a question,
25 3 well, what data did you get, and at the very last
26 4 page, page 6 of 6, under the heading "Estimating
27 5 ICBC's Vehicle For Hire Premium", it's indicated that
28 6 MPI has reached out to ICBC to obtain information on
29 7 Vehicle For Hire insurance rates. To date it has not
30 8 received the requested information.
31 9 So as of August of 2020, there was no
32 10 insurance rate data or actuarial data received from
33 11 ICBC on Vehicles For Hire, correct?

34 12 MR. LUKE JOHNSTON: That's correct.

35 Another formulation of Mr. Johnston's evidence on the need to increase rates for
36 Passenger VFH at p. 1874:

37 1 There's as -- and I -- I said, you

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 2 know, the -- the premium likely needs to be higher for
2 3 passenger Vehicle For Hire, but there's nothing
3 4 indicating that it needs to be nine thousand dollars
4 5 (\$9,000).

5 On the issue of what is excluded in the raw relativities for Passenger VFH at p.

6 1 there was a serious claim that occurred in 2019, it
7 2 may not be -- and likely is not categorized as such by
8 3 now. Correct?

9 4 MR. LUKE JOHNSTON: The only type of
10 5 claim that would hit that threshold would be a very --
11 6 a very serious claim that was reserved right away.
12 7 Like, a -- a quadriplegic or something like that.
13 8 More chronic type cases that haven't
14 9 been fully reserved yet may not have hit that
15 10 threshold. Yeah.

16 11 MR. ANTOINE HACAULT: But as you
17 12 explained in your testimony, there's, like, a two (2)
18 13 year time frame where you're kind of, well, say,
19 14 listen, we really don't know for sure until two (2)
20 15 years whether we should be putting something.
21 16 So, we're giving this category the
22 17 benefit of the doubt that there is no serious claims
23 18 that have occurred to date.

24 19 MR. LUKE JOHNSTON: We're giving it
25 20 the experience that -- that it had.
26 21 I'm not making any assumptions about
27 22 what their claims will do beyond what the experience
28 23 shows today.

29 On Mr. Johnston appearing to concede that MPI is under collecting from Passenger VFH
30 and that a serious loss would add to that (page 1901):

31 5 MR. LUKE JOHNSTON: I think you've
32 6 already established that we believe they're under
33 7 collected, so it would be -- it would add to that,
34 8 yes.

35 At pp. 1907 and 1908 Mr. Johnston confirms the raw relativity of 2.99 excludes an
36 allowance for serious losses:

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 24 MR. ANTOINE HACAULT: Yeah. But,
2 25 okay, let's just make sure, because you said "serious
3 1 losses." We've allocated zero (0) cost in that two
4 2 point nine nine (2.99) number, correct?
5 3 MR. LUKE JOHNSTON: We've reflected
6 4 the actual experience, which is zero (0), yes, yeah.

7 On this issue of moving Passenger VFH closer to their raw relativity taking 10 years based
8 on a credibility weighting of 10% to actual losses being incorrect (see pp. 1912 and 1913):

9 14 MR. ANTOINE HACAULT: No, I wasn't
10 15 saying that you weren't acting in accordance with the
11 16 formula, sir.
12 17 I just wanted it to be clarified for
13 18 the record -- and even your own small calculation
14 19 clarified this -- the move from one point six five
15 20 (1.65) to one point nine two (1.92), if we were
16 21 actually going to achieve 100 percent two (2) years,
17 22 we shouldn't have increased by 16 percent, we should
18 23 have increased by 20 percent on a straight line.
19 24 But we saw your calculation. You said
20 25 in two (2) years, instead of moving 20 percent, we
21 1 only moved 16 percent. So I just wanted the record to
22 2 be clear that it's not going to be a straight-line
23 3 increase that you get there in ten (10) years. And
24 4 hopefully you've agreed with me on that.

25 5 MR. LUKE JOHNSTON: That is -- it's
26 6 not -- it's not a straight-line increase that's
27 7 applied in this -- in this manner, so it will not --
28 8 if we assume all things the same, it'll not get to two
29 9 point nine nine three zero (2.9930) in exactly ten
30 10 (10) years. It'll take longer, yes.

31 On the issue of Mr. Johnston's confidence in the Passenger VFH data given a raw relativity
32 for 2 years around 3, at p. 1916:

33 11 MR. ANTOINE HACAULT: Yeah. Now, for
34 12 passenger Vehicle for Hire, we've just seen the raw
35 13 relativity around three (3) and the premium ratio for
36 14 the two (2) years not having that swing.

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 15 Would that give you greater confidence
2 16 in that data set as compared to the Vehicle for Hire
3 17 truck?
4 18 MR. LUKE JOHNSTON: The question is
5 19 would -- does passenger Vehicle for Hire data give me
6 20 more confidence than the truck data?
7 21 MR. ANTOINE HACAULT: Yes.
8 22 MR. LUKE JOHNSTON: Yes, it does.

9 On questioning by the Board Chairperson as to how the 20% increment over All Purpose
10 was selected at p. 1976:

11 16 But if you look at the additional
12 17 charge to the Vehicle for Hire in the provinces that
13 18 had systems at the time, the average was around 20
14 19 percent. It's not -- it's not -- **it wasn't a precise**
15 20 **calculation by any means**, but that was the basis.
16 (emphasis added)

17 At p. 1977:

18 18 That was the original basis. **Definitely**
19 19 **an imperfect calculation** - (emphasis added)
20 20 THE CHAIRPERSON: Yeah.
21 21 MR. LUKE JOHNSTON: -- but best we had
22 22 at the time.

23 At p. 1978 when discussing where the appropriate rate was as between All Purpose and
24 Taxi:

25 15 MR. LUKE JOHNSTON: But all the
26 16 evidence that we've seen, the -- in terms of the
27 17 studies and what -- what other companies are actually
28 18 charging was that that risk wasn't as high as taxis
29 19 because they're more occasionally used, they may have
30 20 a part-time job, thing -- things like that.
31 21 So, going right to the taxi rate didn't
32 22 seem appropriate either. **We knew it was in the**
33 23 **middle, between the two (2) somewhere.**(emphasis added)

34 At p. 1978:

Issue Topic #2: **Passenger VFH Adjustment to Break-Even Indicated Rates**

1 7 MR. LUKE JOHNSTON: **So, maybe -- maybe**
2 8 **that two thousand (2,000) should be three thousand**
3 (emphasis added)
4 9 (3,000), but it's not nine thousand (9,000). So, I
5 10 think we got -- we got it right that it's in the
6 11 middle; the magnitude wasn't as precise.

Issue Topic #3: **Partial adjustment toward break-even indicated rates**

1 **ISSUE TOPIC #3: Partial adjustment toward break-even indicated rates**

2 **ISSUE:**

3 Whether a partial adjustment towards breakeven indicated rates should be considered in
4 the alternative to a full adjustment, after careful consideration to trade-offs and implications
5 of the slower adjustment.

6 **TC SUMMARY AND/OR RECOMMENDATION:**

7 Should some measure of gradualism be preferred, the PUB may elect to move Passenger
8 VFH rates this year to a level that would permit next year's adjustment, at the 15%
9 experience adjustment limit, to bring the applied-for rate in line with today's break-even
10 indicated rate, all else equal. This is not the preferred approach, but could reflect a
11 "mitigation based" alternative.

12 The PUB should reject implementing only a series of annual adjustments at the 15%
13 experience adjustment limit, as this will lead to Passenger VFH operators facing year over
14 year increases at the upper experience adjustment limit, for potentially several years.
15 During this time, it will send the wrong the price signals at a time when the market for
16 Passenger VFH is maturing. It will also drive a contentious customer experience, for those
17 who will face routine annual adverse rate impacts.

18 The PUB should explicitly reject MPI's status quo approach to adjusting Passenger VFH
19 Rates, and should not approve the 10% credibility level, as otherwise required by the
20 standard ratemaking approach. A 10+ year time horizon is an unreasonably long time to
21 correct known errors in the initial rates.

22 In this circumstance, a special adjustment to Passenger VFH is required to correct for
23 known issues with the initial, and subsequent rating. MPI recognized this could be required
24 in the 2018 application. Decisive action is preferred to an incremental approach.

25 **DISCUSSION AND SUPPORT:**

26 MPI's ratemaking methodology is intended to move applied for rates toward the actuarially
27 indicated break-even rate, over time at a pace dictated by the credibility weighting. The
28 credibility weighting is determined by the number of units in the insurance use¹. Small
29 insurance uses, such as Passenger VFH, with less than 1000 vehicles on the road have
30 very low credibility factors, and are assigned a minimum credibility weighting of 10%

¹ Exhibit TC 4-1, IG Evidence, page 17

Issue Topic #3: **Partial adjustment toward break-even indicated rates**

1 leaving a much greater weighting to the existing data, which is typically extensive and
2 collected over many years.²

3 A 10% credibility weighting means that applied for insurance rates will gradually move
4 towards today's indicated break-even rate over a span of more than 10 years^{3,4}, assuming
5 the indicated rate remains constant over time. In reality, this assumption is unlikely to hold
6 (for multiple reasons the relativities should be expected to increase, including the fact that
7 no serious losses are yet included in the actual results), and a slower adjustment in
8 applied-for rates will perhaps perpetually be playing catch up with the evolving estimate
9 for break-even indicated rates.

10 As highlighted in the evidentiary quotes attached to Issue Brief 2, Mr. Johnston, has
11 opined notwithstanding the limitations to the 2 years of data that "there's a high likelihood"
12 that the actual loss experience is giving us the right indication and that the initial rate was
13 based on an imperfect calculation. At pages 1977 and 1978 of the transcript he appears
14 to concede that if he had this information from the outset he would have set the rate at
15 \$3,000 – not at about \$2,000.

16 MPI's standard ratemaking approach, described above, is not the appropriate means to
17 address the known issues with Passenger VFH rates, and should be rejected in this
18 instance. For all the reasons that an immediate and full move to indicated break-even
19 rates is just and reasonable, a decade-long move toward indicated break-even rates is
20 unreasonable.

21 Further, the consequence of having a 10% credibility factor for raw relativities is that the
22 current relativities are given 90% factor in the credibility weighting procedure. These
23 current relativities substantially reflect the initial rating assumptions which were not based
24 on any Manitoba-based data⁵, and were not based on any underlying data from provinces
25 identified in the jurisdictional scan⁶. The only information MPI had to rely on at that time
26 were the rates charged for TNC insurance in Ontario, Alberta and Quebec⁷, without any
27 understanding of the pricing objectives and market dynamics at play in those markets⁸.
28 For example, were these rates themselves based on any actuarial analysis, or were they
29 perhaps loss-leader rates offered by private insurers looking to lack up a new market
30 despite failing to recover the actuarial costs of the product offered?

² Exhibit TC 4-1, IG Evidence, page 18

³ TC(MPI) 2-3(a)

⁴ Tx 1913 line 5-10

⁵ Exhibit TC 4-1, IG Evidence, Appendix 1 page 3-4

⁶ Tx 1731 line 15-25

⁷ Exhibit TC 4-1, IG Evidence, Appendix 1 p.2

⁸ Tx 1859 line 8-17

Issue Topic #3: **Partial adjustment toward break-even indicated rates**

1 In short, MPI's standard ratemaking methodology is applying 90% weight to the relativity
2 containing no data, and 10% weight to the relativity containing all the actual known data.

3 Mr. Bowman elaborates:⁹

4 " the more one turns over in their mind the whole concept of
5 credibility where you're weighting one (1) number that has
6 an experience and data behind it and one (1) that is an
7 inference with no data behind it, trying to balance the
8 credibility of the two (2) numbers starts to become -- so to
9 stretch the concept of credibility -- stretch the con --
10 stretch the concept of -- of the two (2) being able to put on
11 a scale to balance the two (2) of them.

12 If some measure of gradualism toward the indicated rate is desired, a partial adjustment
13 toward break even indicated rates for Passenger VFH should take place over two years,
14 with the first year's adjustment targeted to 'right-size' the second year's adjustment, such
15 that in the second year, no more than the 15% experience adjustment is required¹⁰. In
16 round numbers, relying on the figures MPI provided in TC(MPI)2-3, the 56% adjustment
17 to indicated break-even rates could be separated into a 40% adjustment in the first year,
18 and a 15% adjustment in the second year.¹¹

19 Mr. Bowman explains as follows:¹²

20 MR. ROBERT WATCHMAN: Yes. And so, what you were talking about
21 in terms of taking a step now so that future rate increases
22 could be limited would be an increase now or for the 2021 GRA
23 of something in the order of a 40 percent rate increase?

24 MR. PATRICK BOWMAN: Right. And remember that 40 percent, 56
25 minus 15 for simple math, is based off of numbers that says
26 a 56 percent increase would be needed on top of the
27 adjustments MPI is already here proposing. So, it's -- it's
28 40 additional percent, if you like, yeah.

⁹ Tx 2070 line 12 – 21, and Tx 2046 line 8 - 20

¹⁰ Exhibit MPI-1, RM.5 page 50

¹¹ Exhibit TC 4-1, IG Evidence Appendix 1, page 4

¹² Tx 2126 line 4-15

Issue Topic #3: **Partial adjustment toward break-even indicated rates**

1 An approach to achieving break-even indicated rates for Passenger VFH that strictly
2 adheres to the PUB's experience adjustment and rate cap rules should be rejected for the
3 following reasons:

4 1) If the 15% rate cap approach as used (which itself already rejects the MPI
5 credibility weighting by assigning a 40% weight to the known data), this approach
6 would take in excess of 4 years to reach the indicated rate (noting that the
7 adjustments are not linear, in the same way it would take in excess of 10 years to
8 move toward the indicated rate at a 10% credibility weighting). This adjustment
9 would occur at a critical time of market development.¹³

10 2) Such an approach would produce a price signal that would be one of material
11 increases in insurance rates at or near the limit of rate shock¹⁴, year over year over
12 year... until the indicated break even rate is reached. How would such a recurring
13 price signal be interpreted by active and aspiring participants in the Passenger
14 VFH market? Mr. Bowman opines:¹⁵

15 ...the ruthless economist in me who would say mispricing
16 a product is not doing a favour to the people who
17 purchase the product if they're not getting the right
18 price signal to be able to make appropriate decisions.

19 3) Extending the timeframe over which Passenger VFH rates move toward the break-
20 even indicated rate extends the time, and extent to which other insurance uses in
21 the Private Passenger Major Class are paying for the underpricing of Passenger
22 VFH rates – in effect the direct subsidy of the Passenger VFH rates by
23 predominately the All-Purpose and Pleasure insurance uses that make up the
24 majority of the Private Passenger Major Class.¹⁶

25 4) Drawing out the period over which Passenger VFH rates will attain the break-even
26 indicated rate also harms Taxi VFH and other competitors of the Passenger VFH
27 service providers, by establishing an uneven playing field, where insurance rates
28 for Passenger VFH are materially underpriced, and offering an unearned
29 competitive advantage in an increasingly competitive marketplace.

30 As set out in s. 82(1)(d) and (e) of *The Public Utilities Board Act*, regulatory
31 principles prohibit undue or unreasonable preference or advantage to any person
32 or corporation. We submit that if the rates for Passenger VFH are not adjusted

¹³ Tx 1805 line 23 to Tx 1807 line 5

¹⁴ Tx 2124 line 8-23

¹⁵ Tx 2135 line 24 to Tx 2136 line 3

¹⁶ Exhibit MPI-1, RM Appendix 9, Table 13

Issue Topic #3: **Partial adjustment toward break-even indicated rates**

1 there will be an undue or unreasonable preference or advantage given the
2 Passenger VFH which distorts the marketplace.

3 Mr. Bowman elaborates on this point as follows:¹⁷

4 The second is outside of this room, if you like, in the
5 marketplace, the thumb-on-the-scale effect of pricing
6 or of availability of the different services. And that's
7 where one might highlight the taxicabs.

8 If -- and I just want to emphasize, raise the rates for
9 passenger VFH as much as you want, it's not going to
10 lead to a decrease for taxis. It's going to lead to a
11 decrease for other private vehicles.

12 But the taxis are the ones who are harmed in the
13 marketplace outside this room when they're trying to
14 offer services in a competitive market. So there's where
15 the thumb-on-the-scale aspect of MPI's proposal is.

16 5) Finally, the move to indicated break-even rates should not be delayed because the
17 adjustment is not meant to smooth over a short term aberration that is known to
18 be temporary. It is meant to move rates to where (by all current and reasonable
19 data suggest) they ought to be. Mr Bowman explains: ¹⁸

20 This broader question about sort of public interest by
21 imbedding a fairly blatant cross-subsidization that is
22 nothing more than delaying them paying their costs.

23 It's not letting them pay what we expect the long-term
24 cost to be but avoiding some kind of short term
25 aberration, but it's avoid -- it's delaying them paying
26 what we reasonably expect their cost to be.

¹⁷ Tx 2135 line 8-23

¹⁸ Tx 2140 line 6-14

1 **ISSUE TOPIC #4: Passenger VFH Experience and Assumptions**

2 **ISSUE:**

3 What weight, if any, should be given to initial assumptions and the initial rate
4 recommended by MPI in the 2018 VFH Interim Application?

5 **TC SUMMARY AND/OR RECOMMENDATION:**

6 The initial assumptions used to set Passenger VFH rates have not materialized, and the
7 initial rates established for Passenger VFH have proven to be materially underpriced.
8 While MPI and the PUB did the best with the information and understanding available at
9 the time, the initial underlying assumptions must now be discarded in favour of actual
10 Manitoba based experience.

11 While this experience data has its limitations, being a relatively short 2 years, not yet
12 including any serious losses, and not yet reflecting a fully developed marketplace for
13 Passenger VFH services, these limitations do not outweigh the significant shortcomings
14 of the initial assumptions.

15 The initial assumptions should be rejected in full, and as swiftly as possible in favour of
16 actual experience.

17 **DISCUSSION AND SUPPORT:**

18 **Initial Rating Assumptions and Benchmarks were flawed**

19 This is the first time since the interim rate application that the issue of whether Passenger
20 VFH rates are the subject of close scrutiny and analysis.

21 In cross-examination with Mr. Johnston reviewed the jurisdiction scan which formed the
22 basis for the initial rates:

- 23 a) First, there was no experience in Manitoba;
24 b) Second, the best comparable being public insurance in Saskatchewan and B.C.
25 had not yet allowed the use
26 c) Third, the only information available was from private insurance in Alberta, Ontario
27 and Quebec. MPI obtained no actuarial data from those jurisdictions and has
28 indicated in this hearing that they are unreliable
29 d) Lastly, irrespective of actual rates being between at \$2,457 for Quebec at the lower
30 end and \$7,593 to \$8,193 being at the higher end MPI recommended starting its
31 rates at a range of \$1,514 to \$1,730 being 105% to 120% of the All Purpose rate

1 based on the number of time zones chosen. Each of the 4 time zones would have
2 the effect of adding 5% to the base All Purpose rate.

3 In this proceeding the Taxi Coalition asked about the MPI benchmarking done since then.
4 MPI responded in TC(MPI) 1-16. MPI indirectly commented on the previous jurisdiction
5 scan of 2018 as follows:

6 At the time of the 2018 VFH Interim Application, only Ontario, Alberta and
7 Quebec had VFH (TNC) legislation in force. Since then, Saskatchewan (effective
8 December 14, 2018) and in British Columbia (effective September 16, 2019)
9 have also enacted legislation. While Nova Scotia and New Brunswick are both in
10 the process of creating regulatory frameworks, neither has enacted VFH
11 legislation as of today.

12 As Saskatchewan (SGI) and British Columbia (ICBC) are jurisdictions most
13 comparable to MPI, the recent jurisdictional review focused on these two models.
14 Further, rating models used in other Canadian jurisdictions with private insurance
15 are not considered suitable within this environment given the compulsory nature
16 of Basic, and the regulatory framework in Manitoba. As such, MPI has not
17 reevaluated the rating models in Ontario, Alberta and Quebec, where private
18 insurance exists.

19 Therefore, in this proceeding, MPI has conceded that the jurisdiction scan it was able to
20 perform was “not considered suitable within our environment given the compulsory nature
21 of Basic coverage and the regulatory framework in Manitoba.

22 This proceeding also tested the level of information available to MPI from Saskatchewan
23 and B.C. and the extent to which rates in those jurisdiction could be used to benchmark
24 what was adopted in Manitoba.

25 Mr. Johnston confirmed that the insurance product was different and that he had not
26 received any actuarial data from Saskatchewan or B.C. or key data such as premiums
27 paid or data on kilometers driven. The rates are mainly based on kilometers driven.

28 We respectfully submit that nothing useful can therefore be gleaned from these
29 jurisdictional scans to inform us about the reasonableness of the rates currently charged
30 to Passenger VFH.

31 Mr. Crozier conceded that the in the best judgment of MPI, appropriate rates are
32 somewhere between what All purpose vehicles pay and what taxis pay. He also indicated
33 that the issue to be determined by the PUB is whether accepted rate making methodology
34 on credibility weighting should apply to this new class.

1 For the reasons which follow, we say although MPI did its best with the information it had,
2 it got the starting point wrong and rates need to be fully adjusted to an appropriate rate
3 based on experience in Manitoba to date.

4 **Initial Assumptions about Passenger VFH Operations and Risk were incorrect**

5 At the time of the 2018 VFH Interim Application, the nature of Passenger VFH operations
6 were incorrectly understood to be similar to the 'pure rideshare' model, where drivers
7 would pick up passengers as part of their day-to-day driving. Loss Ratios suggest that is
8 not the case and Passenger VFH may operate prevalently in a professional capacity on
9 either a full time or part time basis.

10 The misunderstanding in operating characteristics supported the initial under-pricing of
11 the Passenger VFH policies, which continues to heavily influence the applied-for rates
12 today.

13 By contrast, the data underlying the Passenger VFH Raw Relativities represent two years
14 of actual data, sourced from the full population of Passenger VFH insured in Manitoba.
15 The data has limitations, but those limitations must be weighed against the initial
16 assumptions that established Passenger VFH rates in 2018, before anything was known
17 about Passenger VFH operations and risk.

18 The initial assumptions around Passenger VFH risk and rates have not materialized. MPI
19 concedes this point in response to TC(MPI)1-2, where they state:

20 When it created the insurance use, MPI understood that individuals would drive
21 for a ridesharing company on a casual basis, and pick up passengers as part of
22 their regular day-to-day driving from one place to another. The starting rates for
23 this insurance use reflected this understanding (i.e. MPI assumed a moderately
24 higher rate for Passenger VFH as compared to All Purpose to reflect the
25 increased risk exposure).

26 MPI is unwilling to accept that Passenger VFH operate in a capacity similar to Taxi VFH
27 as expressed in response to TC(MPI) 2-11(a):

28 MPI does not believe that Passenger VFH operates in the same capacity as
29 Taxicab VFH. MPI appreciates that there are differences between Passenger VFH
30 operators in terms of how long they drive in their capacity as a Passenger VFH.
31 However, on average, Passenger VFH operators are on the road significantly less
32 than Taxicab VFH operators

Issue Topic #4: **Passenger VFH Experience and Assumptions**

1 The PUB is therefore left with a significant gap in understanding the actual nature of
2 Passenger VFH operations. Mr. Crozier explains: ¹

3 *Having a couple of years of experience, it would seem that*
4 *the peer ride share model, which is my language, to*
5 *characterize, offering rides as part of day-to-day driving*
6 *doesn't seem to be prevalent.*

7 MPI believes that passenger VFH are on the road significantly
8 less than taxi VFH, and so we sort of seem to have some
9 bookends in terms of how passenger VFH operate, but where
10 they lie and sort of what the, let's say, dispersion within
11 those bookends is -- is certainly an open question.

12 The incorrect assumptions about Passenger VFH operations led MPI and the PUB to
13 understand that the results of a jurisdictional scan suggesting that TNC insurance rates
14 approximately 25% higher than all purpose passenger vehicle rates², were reasonable.
15 This in turn was the basis for setting Passenger VFH. The 2018 VFH Application at page
16 14 states:

17 **Ratemaking Assumptions:** It is assumed that the characteristics of this group
18 are as follows:

- 19 • The operation of the vehicle does not fall within the definition of Taxi vehicles
20 for hire, Limo vehicles for hire, or Accessible vehicles for hire, which are
21 described in the following sections.
- 22 • Loss exposure is greater than the Private Passenger All Purpose insurance
23 use, but less than a taxi³.

24 **Internal data to support ratemaking:** None. Passenger vehicles for hire has
25 never existed in the province. The current Taxi/Livery Passenger Vehicle
26 insurance use is not believed to be a good representation of the loss exposure for
27 this rating classification.

28 **External data to support ratemaking:** The figure below provides a jurisdictional
29 scan of vehicles for hire rates in other jurisdictions. As shown in the figure, the
30 average vehicles for hire rate is approximately 8% to 25% higher than the all-
31 purpose rate.

¹ Tx 2031 line 10-19

² Exhibit TC 4-1 IG Evidence, Appendix 1 p. 2

Figure 2: Summary of Jurisdictional Review of VFH premiums

| Line No. | City | Base Rate | TNC Endorsement (per year) | % Over Base Rate |
|----------|----------|-----------|----------------------------|------------------|
| 1 | Calgary | \$3,251 | \$500-\$800 | 15%-25% |
| 2 | Edmonton | \$3,410 | \$500-\$800 | 15%-23% |
| 3 | Toronto | \$6,593 | \$1,000 - \$1,600 | 15%-24% |
| 4 | Montreal | \$2,267 | \$190 | 8% |

1
2 One notable failing of the initial assumptions was that no experience data from these
3 jurisdictions was ever available to MPI, only the rates, meaning the pricing objectives of
4 the companies offering these rates could not be known.

5 Mr Johnston confirms that the underlying data was not available:³

6 Now you did not get a lot of raw risk relative data from those
7 companies at all, if any at all, correct?

8 MR. LUKE JOHNSTON: The companies themselves wouldn't give us
9 the underlying data. That's correct.

10 And Mr. Bowman expands on those implications⁴:

11 We have no details on the inputs that were used for coming up
12 with the pricing that was -- where the risk was inferred, we
13 don't know the number of policies that were derived, and it
14 was prepared by private insurers, where we're not aware of
15 other objectives they may have had about avoiding cross-
16 subsidization.

17 As a matter of fact, there's an -- it's entirely possible
18 that there was intentional cross- subsidization built into
19 those rates if it was a rate designed for a -- a new type of
20 use and private insurers may have been competing to lock down
21 those -- those customers.

22 The evidence to date however casts serious doubt on these initial assumptions.

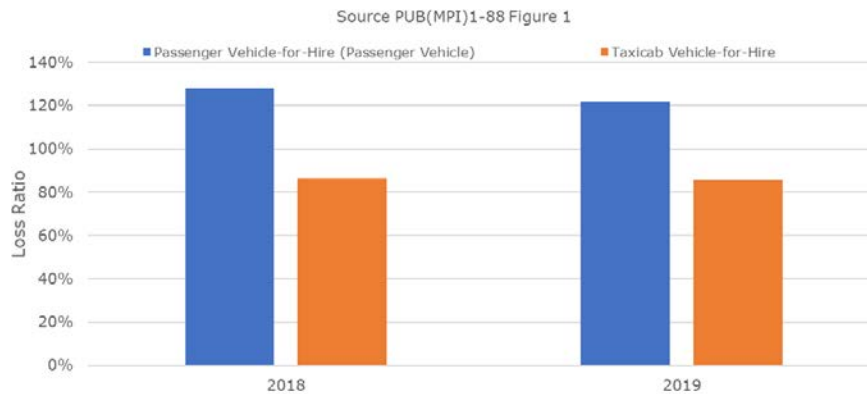
³ Tx 1855 lines 17-22

⁴ Tx 2046 line 8-20

Issue Topic #4: **Passenger VFH Experience and Assumptions**

1 **Actual loss experience does not compare favourably with initial assumptions**

2 What is known at this time is the actual loss experience of the Passenger VFH relative to
3 the premiums collected, as expressed by the loss ratios. Loss ratios for Passenger VFH
4 are presented in response to PUB(MPI)1-88, and are summarized in the following chart:
5 ⁵



6
7 Recall that the loss ratio is the ratio of incurred loss to earned premium, and a loss ratio
8 in excess of 1.0 means that incurred losses exceed the earned premium⁶. Note however
9 that a loss ratio under 1.0 doesn't imply the rates are under-collecting. For a loss ratio to
10 represent break-even pricing, it must be around 80%, according to MPI's actuary Mr
11 Johnston:⁷

12 MR. ROBERT WATCHMAN: And just - and as I understand it, that
13 loss ratio is just the incurred versus the earned premium?

14 MR. LUKE JOHNSTON: That's right.

15 MR. ROBERT WATCHMAN: So does that take into consideration
16 things like operational costs?

17 MR. LUKE JOHNSTON: It would not. You'd -- it is slightly
18 different depending on the class, just depending on the weight
19 of those items, but I would expect a -- a loss ratio more in
20 the 70 to 80 percent range to -- to truly break even net of
21 all costs.

⁵ Exhibit TC 4-1, IG evidence p.15

⁶ Tx 1682 line 25 to 1683 line 8

⁷ Tx 1715 line 9-20

Issue Topic #4: **Passenger VFH Experience and Assumptions**

1 And:⁸

2 MR. LUKE JOHNSTON: Yeah, I apologize. I -- I -- the -- the
3 question posed to me was basically covering their costs. The
4 -- the true breakeven would be around 80 percent, maybe a
5 little higher or lower, so slightly above that but not -- my
6 comment was just, you know, they're -- we're not way out --
7 out to lunch here in terms of the --

8 MR. ANTOINE HACAULT: Okay.

9 MR. LUKE JOHNSTON: -- that -- that target but slightly above.

10 A further insight into the difference between the actual incurred losses of Passenger VFH
11 and the initial assumptions used to set Passenger VFH rates is found in the raw and
12 current relativities for Passenger VFH over the past two years.

13 These figures are summarized in Table 6 of the InterGroup evidence reproduced below:⁹

| <u>GRA</u> | <u>Insurance Use</u> | <u>Balanced Raw Relativity</u> | <u>Balanced Current Relativity</u> | <u>Credibility</u> | <u>Credibility Weighted Relativity</u> |
|------------|--|--|--|--------------------|--|
| 2021 | Passenger Vehicle-for-Hire (Passenger Vehicle) | 2.9930 | 1.8083 | 0.10 | 1.9267 |
| 2020 | Passenger Vehicle-for-Hire (Passenger Vehicle) | 3.1160 | 1.6593 | 0.10 | 1.8049 |

14 Source: RM Appendix 9, Table 15

15 Recall that the Balanced Raw Relativity reflects the actual experience (represented by
16 Raw Pure Premiums from RM appendix 9, Table 14) while the Current Relativity reflects
17 the cumulative history of experience¹⁰, that is otherwise reflected in current rates.

18 Note however, that in the case of Passenger VFH the current relativity is predominately a
19 reflection of the initial rating assumptions. These initial rating assumptions are modified
20 slightly each year, as the credibility weighting procedure applies a small increase to the
21 weighted relativity. This effect can be seen in comparing the current relativity of 1.6593
22 from the 2020 GRA against 1.8083 from the 2021 GRA. Mr Johnston advises that this
23 increase is approximately 16%.¹¹

⁸ Tx 1917 lines 14-24

⁹ Exhibit TC 4-1, IG Evidence p.17

¹⁰ Exhibit TC-8, IG presentation slide 16

¹¹ Tx 1911 Line 3- 8

1 Compare however the difference in Raw Relativity against the Current Relativity for the
2 2020 GRA, which is nearly double (3.1160 vs 1.6593). This difference highlights the
3 degree to which initial assumptions were out of line with initial experience.

4 **Initial Experience of Passenger VFH should be preferred to initial assumptions**

5 The initial actual experience of Passenger VFH is preferred to the initial assumptions used
6 to set the rates. The Raw Relativities of the past two years reflects the full population of
7 Passenger VFH insureds¹², and represents the actual experience based in Manitoba. It is
8 also fairly consistent between the two years, suggesting it is more reliable than if it varied
9 widely from one year to the next.¹³

10 This data is known to have shortcomings, compared to the conventional data sets
11 employed by MPI, specifically that it is only two years worth of experience compared to
12 many decades for most other insurance uses, and comes from a small population relative
13 to the overall fleet of MPI insured vehicles, but nevertheless is comparable in size to the
14 number of Taxi VFH.

15 While these limitations suggest that Raw Relativities may change in the future, there are
16 reasons to believe that the raw relativities may increase, rather than decrease.¹⁴

- 17 1. As TNC operations grow it may be expected that more professional TNC drivers
18 will join, and losses may increase as professional drivers are on the road more
19 than casual drivers.
- 20 2. If proper price signals are sent to the TNC marketplace, casual drivers may find
21 alternatives to operating for a TNC, further exacerbating the effect described in
22 point 1 above.
- 23 3. There are no serious losses present in the Passenger VFH data to date. While the
24 base assumption of All Purpose Private Passenger included serious losses, the
25 actual experience of Passenger VFH has yet to register a serious loss.¹⁵ Once
26 this occurs, it will increase the loss experience for Passenger VFH.¹⁶

27 Accordingly the PUB should find that the Raw Relativities, while subject to change with
28 additional experience are more likely to increase than decrease.

¹² Tx 1921 lines 20-23

¹³ Exhibit TC4-1, IG Evidence Appendix 1 page 4

¹⁴ TC(MPI) 1-7

¹⁵ Tx 1905 line 3-7

¹⁶ Tx 2048 line 8-16

1 **Given the disparity between actual data and initial assumptions, extreme caution is**
2 **not warranted**

3 As part of the 2018 VFH Application, MPI indicated that:¹⁷

4 However, if experienced based rates are observed to be significantly different from
5 the initial rates, MPI may come forward with a special rating adjustment that falls
6 outside the approved ratemaking methodology.

7 Noting that MPI has not brought a special rating adjustment, MPI was asked to expand on
8 what kind of experience would have been necessary at this time to justify a such a special
9 adjustment. Mr Johnston explains:¹⁸

10 MR. STEVE SCARFONE: So is that -- does that threshold -- I
11 want to understand -- is -- does that number cause you enough
12 concern to come back before this Board to adjust the rates?

13 What number or what threshold on the loss-ratio scale would
14 re -- would get your attention for an adjustment that's
15 contemplated here in forty two (42)?

16 MR. LUKE JOHNSTON: That is a good question. I guess one (1)
17 way to look at it is we talked about the -- the bounds of the
18 possible rate, all-purpose versus going right to the taxi
19 rate. If -- let's just, in a general sense, say that the
20 passenger Vehicle for Hire rate is around two thousand dollars
21 (\$2,000) today, just as an estimate, and the taxis are nine
22 -- nine (9) to ten thousand (10,000).

23 If we got this completely wrong, that we'd be talking about
24 maybe a 4 or 500 percent loss ratio, right, to be -- because
25 since taxi rates are basically four (4) to five (5) times,
26 right now, what passenger Vehicle for Hire is seeing.

27 However, this testimony must be contrasted with the earlier statements of MPI regarding
28 the prevalence of loss ratios above 130%. In response to TC(MPI) 1-2(c) MPI states:

29 Situations where an insurance use has a loss ratio exceeding 130% are rare. This
30 could occur in insurance uses with a small number of units, whereby a single large
31 loss could throw off the entire loss ratio for that use. This could also occur in the

¹⁷ Passenger VFH Application p. 13, see also Tx 1853 line 1-7

¹⁸ Tx 2004 line 19 to 2005 line 15

Issue Topic #4: **Passenger VFH Experience and Assumptions**

1 case of new insurance uses, where MPI has insufficient data to determine an
2 appropriate starting rate. The latter scenario above represents the case with
3 Passenger VFH.

4 Therefore, MPI's initial IR response on the issue, suggests that a loss ratio of over 130%
5 would be rare, and driven by insufficient data to establish a starting rate. This response is
6 at odds with the testimony of Mr. Johnston with respect to the scale of mis-pricing.

7 If loss ratios exceeding 130% are rare, a loss ratio of 500% would be vanishingly rare, and
8 should not be considered a reasonable threshold at which to take action over mispricing
9 Passenger VFH rates.

1 **TRANSCRIPT EXCERPTS**

2 The following transcript excerpts are provided to further highlight the issues presented in
3 the above Issue Brief

4 Regarding the starting rates, and the initial assumptions supporting them at Transcript
5 page 1710:

6 11 MR. ROBERT WATCHMAN: And so what the
7 12 Corporation did in terms of the starting rates, and
8 13 you spoke about that this morning, but essentially the
9 14 starting rates, certainly for the passenger vehicles,
10 15 were done judgmentally, correct?

11 16 MR. LUKE JOHNSTON: Judgmentally in
12 17 the sense that we didn't have any of our own data, but
13 18 guided to some extent by the jurisdictional scans that
14 19 we had available.

15 20 MR. ROBERT WATCHMAN: And as you
16 21 indicated, for the private vehicles it was determined
17 22 that there would be more risk than all-purpose, but
18 23 that there would be lower risk than the taxicab
19 24 classification.

20 25 MR. LUKE JOHNSTON: Yeah. Those were

21 And Continued on Transcript p. 1711

22 1 seen as the -- the bounds of the potential experience,
23 2 right? It has to be -- it'd be strange to think that
24 3 it'd be less than all-purpose, and, based on what we
25 4 know about taxis, also unreasonable to assume more
26 5 than taxis, so somewhere in between those two numbers,
27 6 for sure, yeah.

28 7 MR. ROBERT WATCHMAN: Right. And as
29 8 you indicated, pursuant to a jurisdictional scan, you
30 9 determined that the average rate would be 20 percent
31 10 above the all-purpose rate for passenger vehicles.

32 11 MR. LUKE JOHNSTON: As a starting
33 12 point, yes, yeah.

34 Regarding the population of Passenger VFH changing, at Transcript p.1788:

35 1 MR. ANTOINE HACAULT: And the first
36 2 thing we observe is that, for Territory 1, there's
37 3 actually more in this class of cars than there is in
38 4 the taxis. They're at six hundred and twenty-five

Issue Topic #4: **Passenger VFH Experience and Assumptions**

1 5 (625), correct?

2 6 MR. LUKE JOHNSTON: Correct, and

3 7 probably more today, just recognizing that this sample

4 8 or -- or population count would have been taken at a

5 9 point of time in the past, and we know that it's --

6 10 it's grown a bit since then.

7 Regarding the newness of the Passenger VFH insurance use, at Transcript p. 1791:

8 4 MR. ANTOINE HACAULT: And I'll take

9 5 you through an actual example of how that's applied

10 6 for this category, but this is part of the discussion

11 7 that you said that the PUB has to consider is how

12 8 quickly, if at all, do we move from the two point zero

13 9 four (2.04) to the other number that you were talking

14 10 about, the raw relativity, correct?

15 11 MR. LUKE JOHNSTON: That's right. MPI

16 12 is following the established ratemaking methodology,

17 13 but I understand obviously that this is a new class of

18 14 vehicles.

19 15 Almost every other class that we have

20 16 in the Basic pool has gone through decades of tweaks

21 17 to get to where they are today, which is why we

22 18 generally don't have too much rate instability,

23 19 whereas passenger Vehicle for Hire is -- is obviously

24 20 a very -- very new class. So we can have those

25 21 discussions about that.

1 **ISSUE TOPIC #5: Credibility Weighting and Volatility**

2 **ISSUE:**

3 What is MPI's credibility weighting procedure intended to address?

4 Was MPI's credibility weighting procedure intended to apply to new classes with rates in
5 the absence of Manitoba data?

6 Should MPI investigate and report back to the PUB on the appropriateness of applying
7 this procedure to established classes with a small population whose Raw Pure Premiums
8 are significantly below the balanced indicated rates?

9 **TC SUMMARY AND/OR RECOMMENDATION:**

10 MPI's credibility weighting procedure should not be relied upon for setting Passenger VFH
11 rates in this application, as the special circumstances discussed in earlier Issue Briefs
12 warrant action beyond the standard methodology.

13 In the more general case, there is some evidence that Raw Pure Premiums within other
14 established insurance uses are significantly below the balanced indicated rates. This
15 appears to be the case for Taxi VFH in Territories 2,3, and 4.

16 The PUB should Direct MPI to investigate, and in the next GRA report on whether it is
17 appropriate to accelerate the reduction in premiums for Taxicab VFH in territories 2, 3 and
18 4.

19 **DISCUSSION AND SUPPORT:**

20 The credibility weighting procedure is the central feature of MPI's standard ratemaking
21 methodology that results in the significant over-weighting of initial assumptions about
22 Passenger VFH against the actual experience to date.

23 The credibility weighting factor is determined based on a judgementally selected constant
24 against the 5-year historical earned units. Small insurance uses, such as the VFH
25 subcategories, will have a very low credibility factor, owing to the small number of vehicles
26 in each use. MPI judgementally assigns a 10% credibility factor to these small insurance
27 uses.

28 The small credibility weighting factor means that changes in actual experience may take
29 many years to be reflected in actual experience, as is the case with Passenger VFH rates,
30 and as may also be the case with other small insurance uses such as Taxi VFH.

1 The credibility weighting procedure is outlined at page 18 of the Exhibit TC 4-1, the
2 InterGroup Evidence, where it states:

3 Turning first to the credibility weighting, the equation below shows the
4 formula for the credibility weighting factor,¹ the judgementally selected
5 constant, and the Passenger VFH Historical Earned Units from RM
6 Appendix 9, Table 15:

$$7 \quad \frac{N}{N+K} = \frac{\text{Historical Earned Units}}{\text{Historical Earned Units}+60,000} = \frac{1,199}{1,199+60,000} = 0.0195$$

8 Given the low historical earned units for Passenger VFH, relative the
9 constant, the actual credibility weighting is 0.0195. Per MPI's ratemaking
10 process, the minimum credibility of 0.10 is assigned in the event actual
11 credibility is less than 0.10.

12 Turning next to the credibility weighted relativities, the balanced raw
13 relativity is weighted by the credibility factor, and the balanced current
14 relativity is weighted by one minus the credibility factor as follows:

$$15 \quad \text{Balanced Raw Relativity} * (0.1) + \text{Balanced Current Relativity} * (0.9) \\ 16 \quad \quad \quad = \text{Credibility Weighted Relativity} \\ 17 \quad \quad \quad 2.993*(0.1) + 1.8083*(0.9) = 1.9267$$

18 The low credibility factor applied to the raw relativity, allows the current
19 relativity to heavily influence the credibility weighting.² As it relates to
20 Passenger VFH specifically, the initial rating assumptions (substantially
21 reflected in the current relativity) overwhelm the actual experience
22 (substantially reflected in the raw relativity) and generate a weighted
23 relativity for ratemaking purposes that is well below the raw relativity value.

24 Some additional intuition around the credibility weighting formula is provided in Exhibit TC-
25 8, the direct evidence of Patrick Bowman at slide 23:

¹ As described at RM page 48.

² As an aside, note also that MPI's credibility assignment approach has the property of assigning low credibility based on the number of units, even if those units produce a substantially similar Balanced Raw Relativity each year.



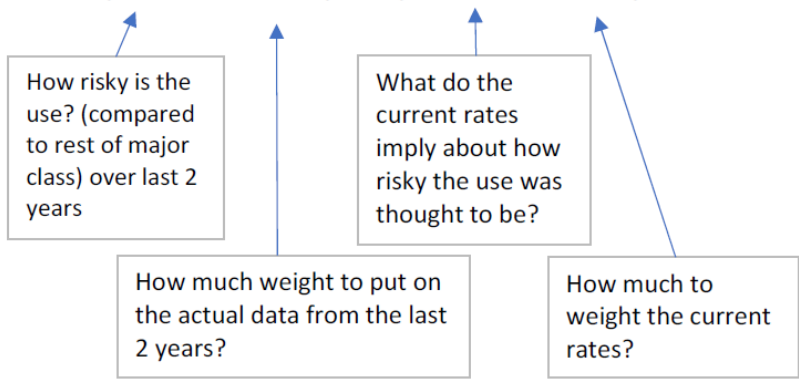
Passenger VFH

Relativities - Calculation

Before product change

| | | | | |
|------------|-------------|------------|--------------|--------------------|
| Balanced | | | | Credibility |
| Raw | | Current | (1 - | Weighted |
| Relativity | Credibility | Relativity | Credibility) | Relativity |

$$(2.993 \times 10\%) + (1.8083 \times 90\%) = \mathbf{1.9267}$$



23

1

2 The discussion of why little to no weight should be placed on the Current Relativity for
 3 Passenger VFH was presented in Issue Topic 4 Passenger VFH Experience and
 4 Assumptions.

5 The issue that may exist in the general case, is that the credibility weighting procedure
 6 may be inhibiting reasonable progress towards break-even indicated rates, particularly in
 7 the small insurance uses. This is highlighted in response to PUB(TC) 1-1, which includes
 8 a table showing the balanced indicated rates, and raw pure premiums for the top twenty
 9 riskiest insurance uses (as measured by combined relativities). The table is reproduced
 10 below. Recall that Raw Pure Premiums are adjusted claims cost per earned unit, and are
 11 sourced from RM Appendix 9, Table 14.

Issue Topic #5: **Effect of the Credibility Weighting Procedure**

Table 1 – Top 20 Combined Relativity – All Major Classes

Source: RM App 9, Tables 13, 14 and 16

| Rank | Major Class | Description | Territory | Combined Relativity | Major Class Average Rate | Relativity x Major Class Average | (a) Balanced Indicated Rate (RM App 9 Table 16) | (b) Raw Pure Premiums (RM App 9 Table 14) | (c) Pure Premium/Balanced Indicated Rates | (d) Earned Units (RM App 9 Table 13) |
|------|-------------|---|-----------|---------------------|--------------------------|----------------------------------|---|---|---|--------------------------------------|
| 1 | 3 | Taxicab Vehicle-for-Hire | 1 | 4.6197 | \$2,038.52 | \$9,417.38 | \$8,790.63 | \$7,227.83 | 0.82 | 2,397 |
| 2 | 2 | Common Carrier Passenger Vehicle Over 161K in MB | 1 | 4.6059 | \$ 827.38 | \$ 3,810.80 | \$ 3,321.38 | \$ 770.84 | 0.23 | 20 |
| 3 | 2 | Common Carrier Truck Over 161K in MB | 1 | 3.7668 | \$ 827.38 | \$ 3,116.61 | \$ 2,734.45 | \$ 945.59 | 0.35 | 2,030 |
| 4 | 4 | All Purpose Motorcycle (Sport Body Style) | 1 | 3.3662 | \$ 867.46 | \$ 2,920.04 | \$ 2,693.49 | \$ 581.82 | 0.22 | 566 |
| 5 | 2 | Common Carrier Truck Over 161K in MB | 1 | 3.3062 | \$ 827.38 | \$ 2,735.48 | \$ 2,412.21 | \$ 945.59 | 0.39 | 2,030 |
| 6 | 2 | Common Carrier Truck Over 161K in MB with GVW > 16330kg | 1 | 3.2866 | \$ 827.38 | \$ 2,719.29 | \$ 2,398.52 | \$ 945.59 | 0.39 | 2,030 |
| 7 | 2 | Common Carrier Passenger Vehicle Over 161K in MB | 2 | 3.1082 | \$ 827.38 | \$ 2,571.70 | \$ 2,273.73 | \$ 778.68 | 0.34 | 32 |
| 8 | 2 | Common Carrier Passenger Vehicle Over 161K in MB | 3 | 2.9615 | \$ 827.38 | \$ 2,450.27 | \$ 2,171.07 | \$ 1,807.78 | 0.83 | 3 |
| 9 | 2 | Common Carrier Local Passenger Vehicle* | 1 | 2.8976 | \$ 827.38 | \$ 2,397.45 | \$ 2,126.40 | \$ 1,505.29 | 0.71 | 4,157 |
| 10 | 2 | Common Carrier Passenger Vehicle Over 161K in MB | 4 | 2.8930 | \$ 827.38 | \$ 2,393.65 | \$ 2,123.19 | \$ - | - | 2 |
| 11 | 4 | All Purpose Motorcycle (Sport Body Style) | 2 | 2.8609 | \$ 867.46 | \$ 2,481.71 | \$ 2,304.71 | \$ 1,545.64 | 0.67 | 196 |
| 12 | 3 | Taxicab Vehicle-for-Hire | 3 | 2.7549 | \$2,038.52 | \$5,615.83 | \$5,282.46 | \$2,419.93 | 0.46 | 251 |
| 13 | 4 | All Purpose Motorcycle (Sport Body Style) | 1 | 2.7356 | \$ 867.46 | \$ 2,373.06 | \$ 2,208.34 | \$ 581.82 | 0.26 | 566 |
| 14 | 3 | Taxicab Vehicle-for-Hire | 4 | 2.7190 | \$2,038.52 | \$5,542.72 | \$5,214.99 | \$1,019.53 | 0.20 | 101 |
| 15 | 3 | Taxicab Vehicle-for-Hire | 2 | 2.5512 | \$2,038.52 | \$5,200.72 | \$4,899.39 | \$2,165.05 | 0.44 | 694 |
| 16 | 2 | Common Carrier Passenger Vehicle Within 161K in MB | 1 | 2.5444 | \$ 827.38 | \$ 2,105.19 | \$ 1,879.31 | \$ 1,354.40 | 0.72 | 158 |
| 17 | 2 | Common Carrier Truck Over 161K in MB | 2 | 2.5420 | \$ 827.38 | \$ 2,103.23 | \$ 1,877.64 | \$ 886.58 | 0.47 | 2,300 |
| 18 | 3 | U Drive Moped | 1 | 2.5376 | \$ 2,038.52 | \$ 5,172.87 | \$ - | \$ 19,493.55 | N/A | 3 |
| 19 | 4 | All Purpose Motorcycle (Sport Body Style) | 5 | 2.4521 | \$ 867.46 | \$ 2,127.07 | \$ - | \$ 311.19 | N/A | 61 |
| 20 | 2 | Common Carrier Truck Over 161K in MB | 3 | 2.4220 | \$ 827.38 | \$ 2,003.92 | \$ - | \$ 647.55 | N/A | 53 |

1 * For RM App 9 Tables 13 and 14 "Common Carrier Vehicle Local" is understood to be the matching description/use

2 The ratio of balanced indicated rates to raw pure premiums is shown in column (c). This ratio varies widely across the reported
 3 insurance uses, with a maximum of 0.83, and a minimum of 0.2. Note that Taxi VFH appear near the tails of this distribution,
 4 with Territory 1 registering at 0.82 and Territory 4 registering at 0.20. Taxi VFH in Territories 3 and 4 register at 0.44 and 0.46
 5 respectively, and are generally closer to the middle of the range.

6 The implication being that for low ratio insurance uses, the indicated rate is 5 times higher than raw pure premium, which is
 7 indicative of the average loss experience per unit (i.e. claims costs per unit).

Issue Topic #5: **Effect of the Credibility Weighting Procedure**

1 MPI should be directed to investigate and report on the implications of such a divergence
 2 in raw pure premium and balanced indicated rates for small insurance uses, and
 3 specifically if the analysis warrants accelerated rate decreases for Taxi VFH in Territories
 4 2, 3, and 4.

5 In the case where divergence is driven by changes in experience, the credibility weighting
 6 procedures, particularly for small insurance uses, will ensure that the cumulative history
 7 of experience (captured in the Current Relativity), is heavily weighted compared to the
 8 actual experience (captured in the Raw Relativity).

9 Serious losses are one such case to illustrate the effect of changes in experience and the
 10 inability of rates to 'catch-up' and reflect the recent experience.

11 An excerpt of RM Appendix 9 Table 11 is reproduced below, highlighting the history of
 12 serious losses for Taxi VFH from 2010 through 2019, which is clearly volatile through time.

Table 11
Reported Serious Losses and ALAE

| Major Class | Use | Loss Year | Territory | | | | | Total |
|-------------|----------------------------|-----------|-----------|---------|---|---|---|-----------|
| | | | 1 | 2 | 3 | 4 | 5 | |
| 3 | Taxicab Vehicle-for-Hire | 2010 | 488,973 | | | | | 488,973 |
| 3 | Taxicab Vehicle-for-Hire | 2011 | | | | | | 0 |
| 3 | Taxicab Vehicle-for-Hire | 2012 | 1,158,201 | | | | | 1,158,201 |
| 3 | Taxicab Vehicle-for-Hire | 2013 | | | | | | 0 |
| 3 | Taxicab Vehicle-for-Hire | 2014 | 1,005,513 | | | | | 1,005,513 |
| 3 | Taxicab Vehicle-for-Hire | 2015 | | | | | | 0 |
| 3 | Taxicab Vehicle-for-Hire | 2016 | 275,232 | 303,772 | | | | 579,004 |
| 3 | Taxicab Vehicle-for-Hire | 2017 | 571,741 | | | | | 571,741 |
| 3 | Taxicab Vehicle-for-Hire | 2018 | | | | | | 0 |
| 3 | Taxicab Vehicle-for-Hire | 2019 | | | | | | 0 |
| 13 | 3 Taxicab Vehicle-for-Hire | Total | 3,499,660 | 303,772 | 0 | 0 | 0 | 3,803,432 |

14 Mr. Johnston, in commenting on the stability of Taxi experience, highlights his expectation
 15 that serious losses can drive volatility in experience:³

16 MR. LUKE JOHNSTON: I agree with you, but you are drawing my
 17 attention, I guess, to the stability of the losses in these
 18 two (2) years. I guess I assumed to make a point that
 19 they're -- they're -- you know, despite the small -- small
 20 unit size, there is some stability here.

³ Tx 1919 line 5-15.

Issue Topic #5: **Effect of the Credibility Weighting Procedure**

1 But I'm just cautioning you that we've also gone through
2 that there don't appear to be any serious losses in this
3 year, so it would be more volatile in -- if that situation
4 arose, so previous years I would expect to have perhaps
5 more volatility.

6 By contrast Passenger VFH had not had any serious loss experience to date, which Mr.
7 Johnston confirms: ⁴

8 MR. LUKE JOHNSTON: Yeah. So I expected to -- to be even
9 there is no data to show a placeholder for that. The -- in
10 talking to my staff, there are no serious losses for that
11 group. And if there's nothing to show to manage the size of
12 the tables, we don't -- we just simply don't, you know --
13 only show classes where serious losses have occurred.

14 But I agree, in the future, it would at least -- it would
15 make more sense to at least show all the categories and put
16 zero (0). So that it's understood that it's not missing. It
17 is, in fact, zero(0)

18 The credibility weighting procedure is designed primarily to smooth volatility in recent
19 experience among small population insurance uses, such as VFH and its subcategories.
20 Where volatility is not present in a small insurance uses' experience, the credibility
21 weighting serves to inhibit progress towards the break-even indicated rates, as was shown
22 to be the case with Passenger VFH.

⁴ Tx 1789 line 15-25

1 **ISSUE TOPIC #6: The VFH Framework Review**

2 **ISSUE:**

3 What should the scope of the VFH Framework Review include?

4 What are desirable time frames in which to complete the VFH Framework Review?

5 **TC SUMMARY AND/OR RECOMMENDATION:**

6 The two years of experience with Passenger VFH operating in Manitoba provides an
7 improved opportunity to craft a VFH framework that is fair and responsive to the needs of
8 VFH customers.

9 MPI is now afforded an opportunity to develop a VFH framework that:

- 10 i. Is based on data and experience of actual VFH operating in Manitoba;
- 11 ii. Has carefully considered the product design required by the varying industries
12 operating under the VFH framework;
- 13 iii. Can strengthen the ineffective incentives for reducing risk; and
- 14 iv. Can address the issue of subsidization between VFH insurance uses, and the rest
15 of Basic

16 In respect of the scope of the VFH Framework review, the PUB should direct that the
17 following matters be included in the VFH framework review:

- 18 a) Whether MPI requires any regulatory or municipal by-law changes in order to
19 collect relevant information for the VFH rate design(s);
- 20 b) Which DSR model(s) best reflect risk and incentives to reduce risk;
- 21 c) Whether the fleet program, or some variation of that program, which takes into
22 account the claims experience of multiple vehicles and multiple drivers is
23 appropriate for Corporately owned VFH fleets of two or more vehicles;
- 24 d) Whether any one or more of other metrics such as time on the road or kilometers
25 driven or driver risk are appropriate for designing VFH premiums;
- 26 e) Whether time bands should be adjusted to better reflect the business operations
27 and risk of VFH;
- 28 f) Collection of and analysis of relevant data in order to better understand the causes
29 of high relativities of VFH, and in particular of Taxicabs, in their major class;

- 1 g) Analyze and report on whether it continues to be appropriate to have Passenger
2 VFH and Private delivery services like Uber Eats and Skip the Dishes in a different
3 major class than other VFH;
- 4 h) Analyze and report on the relative probability as between the Passenger VFH and
5 the other VFH that there will be a serious loss claims experience in the future
- 6 i) Collect and analyze, if available, relevant data and report at the next GRA on the
7 composition of and characteristics of the Passenger VFH group, including (based
8 on a metric such as per week or per month) time available for fares, number fares
9 taken, time of day (e.g. evenings, weekends..) on the road, and kilometers driven;
- 10 j) Report on whether and which parts, if any, of the proposed VFH framework require
11 regulatory changes or PUB approval.

12 In respect of the timing for the VFH Framework review, the PUB should direct MPI to make
13 reasonable attempts to conduct its VFH framework review so it has a proposal for the next
14 GRA with a view of being able to integrate the revised framework in NOVA on or before
15 April, 2022.

16 **DISCUSSION AND SUPPORT:**

17 **MPI has an opportunity to collect the necessary data to properly price the VFH**
18 **policies, and identify the underlying causes of extreme risk**

19 MPI has identified significant issues in the approved VFH Framework which it describes
20 as follows:¹

- 21 • significant differences between Taxi VFH and Passenger VFH rates;
- 22 • significant differences in exposure (i.e. kilometers driven) and driver risk, not
23 properly captured by the current system;
- 24 • feedback from Transportation Network Companies that the current product offering
25 does not meet their needs (i.e. no per kilometer rate available, blanket coverage,
26 etc.); and
- 27 • lack of incentives to improve driving behaviour (i.e. flat-rated Taxi VFH).

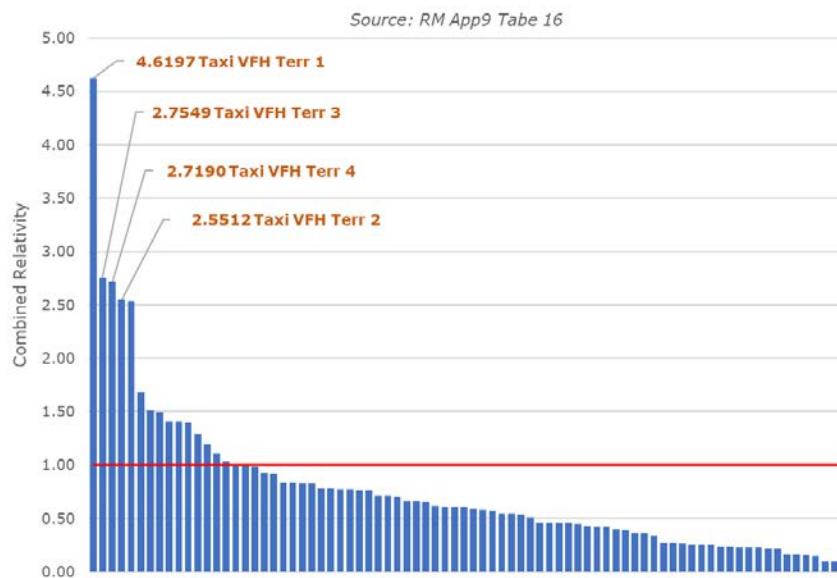
28 Accordingly, MPI has advised that it is proceeding with a VFH Framework redesign². As
29 the redesign is in the early stages, details have not yet been provided to the PUB or
30 stakeholders.

¹ TC(MPI)1-9

² TC(MPI)1-9

1 Given its early stages there is an ideal opportunity for the PUB to offer guidance on its
2 expectations for scope and timing of the VFH framework review.

3 Taxi VFH represent an unusual and extreme case of risk that careful data collection and
4 analysis can shed light upon. The following chart presents the combined relativities of all
5 insurance uses in the Public Major Class: ³



6

7 Taxi VFH, and in particular Territory 1 Taxi VFH, represent an unusually high risk
8 compared to all other insurance uses in the Public Major Class. The unusual riskiness of
9 Taxi VFH is not well understood by MPI, a fact that was summarized by Mr. Johnston
10 when he stated:⁴

11 The taxi rates are high because the claims frequency is, like
12 -- has been literally off the charts relative to regular
13 passenger vehicles. I know other jurisdictions have,
14 obviously, higher taxi rates than all purpose car, but MPI's
15 taxi rates, from all measures, are very high on a relative
16 basis.

17 So we do need to do some work with the stakeholders, not only
18 to understand how the product's designed, but to address the
19 question as to why frequency is so dramatically higher than
20 an all purpose vehicle and so dramatically higher than a

³ Exhibit TC 4-1, IG Evidence Page 5

⁴ Tx 1998 line 25 to Tx 1999 line 14

1 similar type of use that is driving people around in a way
2 similar to taxis. So the -- that -- we'll continue to
3 investigate that.

4 Collection and analysis of data with respect to time on road, distance travelled, and driver
5 profiles would provide MPI, and the PUB, with insight into the underlying causes – be they
6 an extreme distance driven or time on road relative to other insurance uses. This data
7 should be used to inform insurance rate incentive programming (such as the DSR
8 Program, Fleet Program, or other programs that MPI may elect to develop), and Road
9 Safety Programming, in order to address the issue of extreme risk presented by Taxi
10 VFH.⁵

11 Through the VFH framework review, MPI will also be in a position to collect additional data
12 on passenger VFH operations, to better understand the operations of Passenger VFH with
13 respect to distance driven, time on road, and driver profiles. This information should be
14 used to set rates within the revised VFH framework that are consistent with actuarially
15 indicated break-even rates.

16 Lastly, MPI should explore whether any regulatory or municipal by-law changes are
17 required to permit MPI to collect the necessary information and data required to properly
18 inform a revised VFH framework. Under cross examination, Mr. Johnston was unaware of
19 what limitations the current by-laws and regulations were placing on MPI's ability to collect
20 the relevant and necessary data:⁶

21 MR. ANTOINE HACAULT: Okay. Has MPI considered whether or not
22 any changes to, say, for example, the -- say, Winnipeg bylaw
23 framework which already collects information could assist the
24 Corporation in collecting that data if amendments were made
25 to its bylaw?

26 MR. LUKE JOHNSTON: I'm not aware. But I will -- my -- my team
27 is listening, so if I can add anything on that prior to
28 finishing this, I can do so. If that's helpful.

29 **The VFH Framework Review provides an opportunity to consider whether other**
30 **uses should be put in the Public Major Class**

31 Passenger VFH characteristics will be better known and MPI should be in a position to
32 consider whether it should be moved from the Private Passenger Major Class to the Public

⁵ Exhibit TC 4-1, IG Evidence section 2.3.4 page 8

⁶ Tx 1847 line 1-9

1 Major Class. In addition, MPI has indicated that it would make sense to include private
2 vehicles used for delivery services⁷:

3 MR. ANTOINE HACAULT: Now, it's a side question. There's Uber
4 Eats, there's Skip The Dishes, there are all kinds of not
5 necessarily passenger driven, but there are things that these
6 vehicles are hired to do. Is that the type of vehicle that
7 will also kind of be part of this framework for review?

8 MR. LUKE JOHNSTON: That would make some sense to do so.

9 **The VFH Framework Review provides an opportunity to Carefully consider product**
10 **design to meet the needs of VFH Customers**

11 The ongoing jurisdictional scan of the VFH frameworks has revealed that other crown
12 insurers, including SGI and ICBC are now positioned to provide blanket coverages to TNC
13 companies⁸, and that SGI is providing coverage on a per kilometer basis.⁹

14 The VFH Framework Review should similarly explore product options that best meet the
15 needs of VFH operations in Manitoba.

16 MPI articulated the principles for its framework review as follows: ¹⁰

- 17 1. The rating model is actuarially-based and uses experience-based adjustments to
18 reflect the risk
- 19 2. The model and/or pricing does not have to apply identically and/or consistently
20 between VFH sub-categories
- 21 3. No cross-subsidization outside of the VFH class or between VFH classes

22 It is promising that the second principle affords MPI the opportunity to design products in
23 a manner that best meets the needs of its customers, and MPI should be encouraged to
24 do just that, provided the differences between the products are based on appropriate
25 reasons¹¹, and reflect the actual business needs of the particular VFH subcategory.

⁷ Tx 1830, line 14-22

⁸ TC(MPI) 1-16 (b)

⁹ TC(MPI) 1-16 (b)

¹⁰ TC(MPI) 2-7(g)

¹¹ PUB(TC) 1-2 (a)

1 To that end, in the event that MPI considers other rating variables such as time on road
2 or distance travelled, the data collected should be reliable enough to comply with the first
3 principle listed above, that experience based adjustments reflect the actual risk.

4 Should the VFH Framework Review conclude that the time band approach remains the
5 optimal approach to pricing risk, MPI should consider how the time bands can be adjusted
6 to better meet the needs of Taxi operators, or how additional time bands can be created
7 to expand the options available to all VFH subcategories.

8 In light of any of the potential VFH product changes MPI should investigate and report on
9 which aspects of the VFH Framework may be altered with regulatory (cabinet) approvals,
10 which may be altered with PUB approval, and which if any aspects may be altered on
11 MPI's initiative. One such example is a change in time bands, for which MPI indicated in
12 response to TC(MPI) 1-4 (c) that:

13 "An adjustment to the time bands that *does not* change the risk profile would *not*
14 require a rate change".

15 Whether and if this position extends to the creation of new time bands that reflect the same
16 risk profile should be explored by MPI in the VFH Framework Review.

17 **The VFH Framework Review presents an opportunity for MPI to strengthen the**
18 **ineffective incentives to reduce risk**

19 Taxi VFH face the familiar problem of principal driver risk, in that multiple drivers may be
20 operating a single vehicle, but the DSR Vehicle Premium Discount is awarded based on
21 the DSR level of the registered owner. In this way Taxi VFH, and potentially other VFH
22 subcategories face the same issue as households.

23 Options to address this may include revisions to the DSR Program to correct for principle
24 driver risk in the Vehicle Premium Discount, or looking to the Fleet Program or some
25 variation thereof to provide the indirect incentives for multiple drivers.

26 Options for DSR Program revisions that will reflect some measure of principal driver risk
27 are, at this time, understood to include a principal driver model, and a household model.
28 The principal driver model would assign a single principal driver to each vehicle, whereas
29 a household model would assign multiple drivers to a vehicle for the purposes of
30 determining the vehicle premium discount. Mr. Crozier explains some of the challenges
31 with each approach:¹²

¹² Tx2083 line 15 to Tx 2084 line 5

1 there was one (1) instance where, you know, a primary driver
2 model, where, you know, one (1) single driver is assigned to
3 -- to a vehicle, was one (1) option, and I -- as I recall,
4 MPI didn't particularly favour that model because they felt
5 that it wouldn't offer much practical difference from the
6 current registered-owner model, and there's a second model
7 where you might have to assign drivers to a vehicle. So in
8 the household example, mom, dad, and two (2) teenagers get
9 assigned to a vehicle, and the rating is done on the basis
10 of, you know, some aggregate household. There are, no doubt,
11 many issues with that, cohabitation, multi-generations living
12 in a household, who knows, right? So we're -- we might be a
13 long way away from -- or some time away from sort of figuring
14 out what the details of those are.

15 While a multi-person (or household) model may better address the issue of multiple
16 drivers, the ease of implementation, and customer acceptance would need to be carefully
17 assessed, and may ultimately dissuade MPI, and ultimately Cabinet, from adopting such
18 an approach.

19 Should a DSR Program revision not fully address the issue of the principal driver risk in
20 the case of VFH, MPI may turn to the Fleet Program, or some variant, to address the
21 residual issues.

22 The Fleet program has the desirable attribute of addressing the principle driver risk
23 problem (if imperfectly), which Mr. Crozier explains:¹³

24 My evidence was really focusing on, well, of the suite of
25 options that MPI has now, what - what do we have, right? We
26 have -- we have the DSR program and we have the fleet program;
27 those are your two (2) options. What attributes of the fleet
28 program are desirable from a perspective of addressing the
29 principal driver risk problem? And that -- one of those
30 desirable features is -- is the fact that the incentive, in
31 my words, reaches the -- the drivers. Because the driver's
32 experience will have an impact on that fleet program rebate
33 or surcharge at the end of the year.

¹³ Tx 2080 line 23 to 2081 line 9

1 Lastly with respect to risk, the VFH Framework review should explore the relationship
2 between VFH subcategories and serious losses, to explore the probability and frequency
3 of future major losses for Passenger VFH, to inform experience-based risk adjustments.

4 **The VFH Framework Review provides an opportunity to address subsidization of**
5 **Passenger VFH rates with the Private Passenger Major Class.**

6 There are two instances of subsidization taking place in respect of VFH rates. The first
7 which was addressed by the InterGroup Evidence is the prospective subsidization, that is
8 a feature of the rate setting methodology, and the second is the retrospective
9 subsidization, that occurs when loss experience exceeds premium collected. MPI has
10 addressed this subsidization.

11 These topics will be addressed in turn.

12 On the issue of prospective subsidization, applied for Passenger VFH rates are being set
13 below the break-even indicated rate, by 56% or \$1117¹⁴ At an intuitive level, someone
14 else is being asked to pay what Passenger VFH are not. Mr. Bowman exclaims: ¹⁵

15 If -- and I just want to emphasize, raise the rates for
16 passenger VFH as much as you want, it's not going to lead to
17 a decrease for taxis. It's going to lead to a decrease for
18 other private vehicles.

19 At a more technical level, the mechanism for cross subsidization appears to be the
20 balancing procedure employed by MPI within the Major class. Table 10 of Exhibit TC 4-1,
21 the InterGroup evidence, shows the Balanced New Relativities for each of the Private
22 Passenger Major Class insurance uses, decreases as the selected relativity for Passenger
23 VFH is increased through the sensitivity test. Table 10 is reproduced below.

¹⁴ TC(MPI) 2-3

¹⁵ Tx 2135 line 8-13

Taxi Coalition Closing Submission
 Manitoba Public Insurance
 2021 General Rate Application
 Issue Topic #6: **The VFH Framework Review**

| Use | Passenger VFH Credibility weighting | | | | | | | | | |
|---|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 0.1 | 0.2 | 0.3 | 0.4 | 0.5 | 0.6 | 0.7 | 0.8 | 0.9 | 1.0 |
| All Purpose Motorhome | 0.749 | 0.749 | 0.748 | 0.748 | 0.748 | 0.748 | 0.748 | 0.748 | 0.748 | 0.748 |
| All Purpose Passenger Vehicle | 1.154 | 1.154 | 1.153 | 1.153 | 1.153 | 1.153 | 1.153 | 1.153 | 1.153 | 1.153 |
| All Purpose Truck 4540 kg or less | 1.027 | 1.027 | 1.027 | 1.026 | 1.026 | 1.026 | 1.026 | 1.026 | 1.026 | 1.026 |
| Antique Vehicle | 0.018 | 0.018 | 0.018 | 0.018 | 0.018 | 0.018 | 0.018 | 0.018 | 0.018 | 0.018 |
| Collector Passenger Vehicle | 0.101 | 0.101 | 0.101 | 0.101 | 0.101 | 0.101 | 0.101 | 0.101 | 0.101 | 0.101 |
| Collector Truck 4540 kg or less | 0.042 | 0.042 | 0.042 | 0.042 | 0.042 | 0.042 | 0.042 | 0.042 | 0.042 | 0.042 |
| Disabled Persons/Private/Business Bus | 0.801 | 0.801 | 0.801 | 0.801 | 0.801 | 0.800 | 0.800 | 0.800 | 0.800 | 0.800 |
| Farm Passenger Vehicle | 0.824 | 0.824 | 0.824 | 0.824 | 0.824 | 0.824 | 0.824 | 0.823 | 0.823 | 0.823 |
| Farming All Purpose Truck 4540 kg or less | 0.752 | 0.752 | 0.751 | 0.751 | 0.751 | 0.751 | 0.751 | 0.751 | 0.751 | 0.751 |
| Fishing All Purpose Truck 4540 kg or less | 0.936 | 0.936 | 0.936 | 0.936 | 0.936 | 0.936 | 0.936 | 0.935 | 0.935 | 0.935 |
| Passenger Vehicle-for-Hire (Passenger Vehicle) | 1.932 | 2.053 | 2.174 | 2.294 | 2.415 | 2.536 | 2.656 | 2.777 | 2.897 | 3.018 |
| Passenger Vehicle-for-Hire (Truck 4,499 kg or less GVW) | 1.508 | 1.508 | 1.508 | 1.508 | 1.508 | 1.508 | 1.507 | 1.507 | 1.507 | 1.507 |
| Pleasure Motorhome | 0.650 | 0.650 | 0.650 | 0.650 | 0.650 | 0.650 | 0.650 | 0.649 | 0.649 | 0.649 |
| Pleasure Passenger Vehicle | 0.868 | 0.867 | 0.867 | 0.867 | 0.867 | 0.867 | 0.867 | 0.867 | 0.867 | 0.867 |
| 1 Pleasure Truck | 0.716 | 0.716 | 0.716 | 0.716 | 0.715 | 0.715 | 0.715 | 0.715 | 0.715 | 0.715 |

2 The implication is that as Passenger VFH rates are increased (through upward adjustment
 3 of the credibility factor), the rates for other insurance uses in the Private Passenger major
 4 class will fall slightly.

5 The other subsidization that MPI addresses is the retrospective subsidization that occurs
 6 when actual loss experience exceeds the premium collected. In MPI's view the Rate
 7 Stabilization Reserve addresses this matter.¹⁶ While this view holds in the general case,
 8 it lacks nuance necessary in to understand the specific case of Passenger VFH.

9 Pricing Passenger VFH at 56% below indicated break even rate cannot in any reasonable
 10 sense be considered 'unexpected variances from forecast' as the stated purpose of the
 11 RSR outlines. It is difficult to disentangle a premium that is knowingly set at approximately
 12 56% below the indicated rate, from the inevitably poor loss ratio that materializes after the
 13 fact.

14 **MPI's VFH Framework Review must occur with sufficient speed to be implemented**
 15 **within Project NOVA**

16 With respect to the VFH Framework, MPI faces similar timing constraints imposed by
 17 Project NOVA on program design as with DSR Program revisions.

18 In short, for DSR Program revisions must be directionally set by April 2022¹⁷, or earlier, in
 19 order to not impact Project NOVA roll out timelines or costs.

¹⁶ MPI closing submission, para 104

¹⁷ Tx 986 line 20-24

1 The same timeline constraints exist for a VFH Framework review, which Mr. Johnston
2 explains:¹⁸

3 MR. ANTOINE HACAULT: The last thing I'd like to hopefully get
4 some insight from you, sir, is, when the Chairman, Mr. Gabor,
5 was asking you questions on Nova and kind -- or a critical
6 time line with respect to Driver Safety Rating, I had
7 understood that there was a critical date of April 2022 which
8 then later was explained perhaps it's earlier than that.

9 Are we facing the same time constraints with respect to the
10 Vehicle for Hire framework issue?

11 BRIEF PAUSE)

12 MR. LUKE JOHNSTON: I can't be as precise as maybe I'd like to
13 be on this one, but the Driver Safety Rating would be
14 considered very critical in the sense that it literally
15 impacts the entire population and it's part of the current
16 rating structure.

17 The next priority behind that would be improvements to the
18 current state, if you can -- if you can appreciate that. Like,
19 obviously we have to have something operational when Nova
20 goes live. And so, enhancements to the current state
21 processes, such as a new Vehicle for Hire program or other
22 things like that would be a higher priority -- sorry, would
23 -- would also be a priority.

24 It's tough for me to say when that decision needs to happen,
25 but **I would assume similar DSR, that early next year we'd**
26 **have to at least have the anticipated path to provide Nova**
27 **guidance on whether there's any action required on this**
28 **particular issue or product.**

29 [emphasis added]

¹⁸ Tx 1824 line 21-25

1 **TRANSCRIPT EXCERPTS**

2 The following transcript excerpts are provided to further highlight the issues presented in
3 the above Issue Brief.

4 On the issue of VFH framework redesign and DSR at p. 1812

5 3 MR. ANTOINE HACAULT: Okay. I believe
6 4 on the record, you've agreed that it's important to
7 5 know more about driver risk if you want to send a
8 6 signal to the drivers with respect to how they might
9 7 change their conduct.

10 8 MR. LUKE JOHNSTON: Having that
11 9 information would allow us to improve the -- the rate
12 10 setting in terms of the -- charging the risk
13 11 correctly.

14 And on the issue of expanding the fleet program a pp. 1815 and 1816:

15 1 just mentioned. But regardless of the source, there
16 2 is no magic to the number 10, so.
17 3 The fleet program's been around for a
18 4 while. A threshold had to be selected. A number was
19 5 very likely chosen to be large enough to provide some
20 6 kind of credibility and results but not too low to --
21 7 you know -- you know, if you do this at the single
22 8 vehicle level, obviously, annual rates would be
23 9 fluctuating kind of all over the place.

24 10 It should be more stable when you start
25 11 having fleets of double digit size or more.

26 12

27 13 CONTINUED BY ANTOINE HACAULT:

28 14 MR. ANTOINE HACAULT: So, I understand
29 15 your comment, sir, if the program is mandatory, that
30 16 you don't want to force people going into a small
31 17 subset which would give them a lot of rate volatility.
32 18 Now, if a program were to be optional
33 19 and say I had six (6) vehicles and I, as an owner, was
34 20 willing to assume that volatility, that shouldn't be a
35 21 concern of MPI, I would suggest. It would be a
36 22 concern of the owner as to whether or not he's willing
37 23 to accept that risk in volatility.

38 24 MR. LUKE JOHNSTON: We -- we don't --
39 25 we don't have such a setup, but -- in terms of

1 1 insurance product. But if your point is that
2 2 different customers or fleets or individuals may have
3 3 different risk preferences and -- and be willing to
4 4 accept more of that risk, that's definitely possible -
5 5 - possible.

6 And at page 1817

7 1 MR. LUKE JOHNSTON: Yeah. It's --
8 2 it's focussed on the degree of responsibility of the
9 3 driver of the collective group of fleet vehicles being
10 4 ten (10) -- ten (10) or greater.

11 5 MR. ANTOINE HACAULT: So, we see a
12 6 little glimpse of something that looks like driver's
13 7 incentive in a fleet, at least, to have good driving
14 8 incentives and for the owner to ensure that his
15 9 drivers have good driving records.
16 10 Do you agree?

17 11 MR. LUKE JOHNSTON: I agree. I'm --
18 12 I'm sure these fleet operators would very much like to
19 13 have a low loss ratio and get a fleet rebate cheque
20 14 back at the end of the year.
21 And at p. 1824 on the issue of automating the fleet program
22 calculations:

23 12 MR. ANTOINE HACAULT: Now, you said
24 13 it's not yet automated. Is it in the Corporate
25 14 vision, given it already has a fleet program and it's
26 15 mandated apparently by legislation, that in Project
27 16 Nova you will include the functionality in the
28 17 software which allows that calculation to be made more
29 18 automatically and be less time intensive?

30 19 MR. LUKE JOHNSTON: Fleets are -- I
31 20 can -- I can tell you fleets are definitely on our
32 21 list of high-priority functions that need to be
33 22 automated in Nova, just given the -- the nature of how
34 23 the calculations are currently performed.

35 And at p. 1826 on the issue of pricing approach for taxis generally:

36 1 MR. ANTOINE HACAULT: Okay. And what
37 2 I find interesting is that the response then goes and
38 3 says:
39 4 "It's possible that adopting a
40 5 pricing structure similar to the

1 6 fleet program may address the risk
2 7 associated with multiple drivers."
3 8 Do you see that, sir?
4 9 MR. LUKE JOHNSTON: I do.
5 10 MR. ANTOINE HACAULT: So is this one
6 11 (1) of the options that MPI is open to looking at and
7 12 seeing whether or not it might be something applicable
8 13 to taxi Vehicles for Hire?
9 14 MR. LUKE JOHNSTON: It's -- it's
10 15 definitely one (1) consideration maybe to look at the
11 16 current taxi structure a different way.
12 And on timing and milestones in the VFH framework review at pages 1832, 1833 and 1834

13 13 Would it be reasonable to expect that
14 14 between now and June of 2021, which would be the GRA
15 15 filing, that there would be stakeholder consultation,
16 16 data collection, and some kind of a framework
17 17 development?
18 18 MR. LUKE JOHNSTON: Yes.
19 19 MR. ANTOINE HACAULT: Okay. Now, for
20 20 the 2022 GRA, is it too aspirational to think that MPI
21 21 might be able to put some options before this Board on
22 22 a possible framework that it could look at for
23 23 Vehicles for Hire?
24 24 MR. LUKE JOHNSTON: So the --
25 25 obviously, the -- part of that will depend on the
26 1 stakeholders as well, so we'll obviously have to work
27 2 together.
28 3 But you can see with our interactions
29 4 with the CMMG, for example, coming up with these
30 5 product ideas and perhaps aspirational improvements
31 6 was not really that difficult. It's the implementing
32 7 them and doing them in the current IT world that was
33 8 more of a challenge.
34 9 So I'm optimistic that even from
35 10 initial discussions that we're very much aligned in
36 11 terms of trying to improve this product for -- for
37 12 everyone involved. So I will optimistically say that
38 13 at least some sort of framework in terms of what
39 14 everyone is looking for from those discussions is
40 15 reasonable to provide in the 2022 GRA.
41 16 MR. ANTOINE HACAULT: Okay. And --

1 17 and that would be desirable if we could do that
2 18 because if the PUB then has its hearings that we're
3 19 having now, either in October or November, we might
4 20 get some recommendations or some feedback from the PUB
5 21 and from your management which would allow the whole
6 22 regulatory process to be initiated, correct?
7 23 MR. LUKE JOHNSTON: Agreed. And I
8 24 think it's to the benefit of everyone if we try to
9 25 have those stakeholder discussions in advance and not
10 1 have them just show up at hearings. And they're more
11 2 well thought out and perhaps more aligned when we're
12 3 coming to this process.

13 And then on the integration into Project Nova at pages 1835 and 1836

14 18 Like, obviously we have to have
15 19 something operational when Nova goes live. And so,
16 20 enhancements to the current state processes, such as a
17 21 new Vehicle for Hire program or other things like that
18 22 would be a higher priority -- sorry, would -- would
19 23 also be a priority.
20 24 It's tough for me to say when that
21 25 decision needs to happen, but I would assume similar

Issue Topic #7: **DSR Programming Gap for Small Corporate Customers**

1 **ISSUE TOPIC #7: DSR Programming Gap for Small Corporate Customers**

2 **ISSUE:**

3 Is there a gap in DSR program availability that unduly discriminates against corporate
4 customers with small fleets (less than 10 vehicles)?

5 If so, how should this gap being remedied?

6 **TC SUMMARY AND/OR RECOMMENDATION:**

7 All customers with 10 or more vehicles are subject to compulsory participation in the Fleet
8 Program. 'Small fleets', those with less than 10 vehicles may or may not be eligible for
9 DSR Program incentives, depending on the legal status and organization of the business.

10 Small businesses organized as sole proprietorships are eligible for the DSR Program
11 incentive of Vehicle Premium Discounts, because the sole proprietor's DSR level can be
12 used to determine the discount.

13 The DSR program is available to some corporate customers with 'small fleets', if that
14 corporate customer has a single owner, who signs a right of possession agreement.

15 The DSR Program incentive is not currently available to multi-owner corporate customers,
16 with small fleets.

17 The discrimination between small business that are organized as sole proprietorships (and
18 single owner corporations), and small businesses organized as multi-owner corporations
19 is not a reasonable basis to discriminate for insurance rate incentive programming.

20 The PUB should find that there is a gap in currently offered DSR incentives to Corporately
21 owned VFH (2 or more owners), and direct MPI to implement a DSR registrant model for
22 corporately owned VFH. This would include taxis, accessible and limo VFH.

23 **DISCUSSION AND SUPPORT:**

24 Vehicle Premium Discount incentives available through the DSR Program have been
25 available to Taxi VFH since 2018.

26 A gap in incentive programming exists, whereby small (multi-owner) corporate customers
27 are not eligible for the DSR Program, and those with fewer than 10 vehicles are not eligible
28 for the Fleet Program. Small single-owner corporate customers can access the DSR
29 Program incentives through additional administration, which narrows the gap.

Issue Topic #7: **DSR Programming Gap for Small Corporate Customers**

1 In response to TC(MPI) 2-13(b), the corporation confirmed that that corporate customers,
2 with less than 10 vehicles are not eligible for any form of vehicle premium discount (either
3 through the DSR, or fleet program):

4 b) Corporate customers with less than 10 vehicles are not eligible for any form of
5 vehicle premium discount, either through the Driver Safety Rating (DSR), or fleet
6 program. However, a single-owner limited company can enter into a right of
7 possession agreement, to make the sole owner the registered owner. The
8 registered owner's driver's license is then used to determine the DSR Vehicle
9 Premium Discount.

10 The number of VFH vehicles impacted by the absence of DSR Program (or Fleet Program)
11 incentives for small corporate customers was presented at line 17 of Figure 1 in TC(MPI)1-
12 11, which is reproduced below:

Issue Topic #7: **DSR Programming Gap for Small Corporate Customers****Figure 1** Number of VFH Policies by DSR Level and VFH Subcategory

| Line No. | DSR Level | Discount Percent | Rate Model as of November 1, 2019 | | | | | Rate Model as of November 1, 2018 | | | | |
|----------|-----------------|------------------|-----------------------------------|-------------|----------------|---------------|--------------|-----------------------------------|-------------|----------------|---------------|--------------|
| | | | Passenger VFH | Taxicab VFH | Accessible VFH | Limousine VFH | Total VFH | Passenger VFH | Taxicab VFH | Accessible VFH | Limousine VFH | Total VFH |
| 1 | 15 | 33 | 107 | 167 | 22 | 2 | 298 | 65 | 155 | 12 | 1 | 233 |
| 2 | 14 | 30 | 17 | 16 | 1 | 1 | 35 | 13 | 36 | 1 | - | 50 |
| 3 | 13 | 29 | 25 | 25 | 3 | 4 | 57 | 13 | 22 | 2 | - | 37 |
| 4 | 12 | 28 | 16 | 23 | 4 | - | 43 | 8 | 20 | 2 | 3 | 33 |
| 5 | 11 | 27 | 30 | 27 | 8 | 1 | 66 | 19 | 29 | 4 | 1 | 53 |
| 6 | 10 | 26 | 32 | 28 | 3 | 2 | 65 | 20 | 34 | 6 | 7 | 67 |
| 7 | 9 | 25 | 26 | 39 | 6 | 4 | 75 | 18 | 22 | 2 | 3 | 45 |
| 8 | 8 | 25 | 24 | 23 | 4 | - | 51 | 20 | 29 | 2 | 3 | 54 |
| 9 | 7 | 25 | 33 | 25 | 5 | 2 | 65 | 17 | 26 | 2 | - | 45 |
| 10 | 6 | 20 | 25 | 20 | 6 | - | 51 | 29 | 29 | 2 | 2 | 62 |
| 11 | 5 | 15 | 35 | 25 | 2 | - | 62 | 23 | 12 | 4 | 1 | 40 |
| 12 | 4 | 15 | 50 | 15 | 3 | 2 | 70 | 24 | 18 | 1 | - | 43 |
| 13 | 3 | 10 | 38 | 16 | 10 | 1 | 65 | 38 | 10 | 6 | 1 | 55 |
| 14 | 2 | 10 | 41 | 23 | 6 | - | 70 | 43 | 17 | 6 | - | 66 |
| 15 | 1 | 5 | 47 | 26 | 6 | 1 | 80 | 28 | 22 | 6 | - | 56 |
| 16 | 0 (Individual)* | 0 | 92 | 28 | 15 | 2 | 137 | 54 | 29 | 10 | - | 93 |
| 17 | 0 (Corporate)** | 0 | 58 | 29 | 72 | 52 | 211 | 41 | 58 | 60 | 60 | 219 |
| 18 | -1 | 0 | 20 | 9 | 1 | - | 30 | 9 | 8 | 1 | - | 18 |
| 19 | -2 | 0 | 17 | 9 | 2 | - | 28 | 8 | 6 | 1 | 1 | 16 |
| 20 | -3 | 0 | 5 | 5 | 3 | 1 | 14 | 8 | 7 | 1 | - | 16 |
| 21 | -4 | 0 | 14 | 7 | 2 | - | 23 | 16 | 5 | - | - | 21 |
| 22 | -5 | 0 | 13 | 6 | 1 | 1 | 21 | 5 | 5 | 3 | - | 13 |
| 23 | -6 | 0 | 3 | 4 | 3 | - | 10 | 1 | 5 | - | 3 | 9 |
| 24 | -7 | 0 | 9 | 3 | 2 | - | 14 | 7 | 3 | 6 | - | 16 |
| 25 | -8 | 0 | 3 | 3 | 1 | - | 7 | 2 | 6 | 2 | - | 10 |
| 26 | -9 | 0 | 3 | 1 | - | - | 4 | 1 | 4 | - | - | 5 |
| 27 | -10 | 0 | 3 | 4 | 2 | - | 9 | 2 | 3 | 2 | - | 7 |
| 28 | -11 | 0 | - | 4 | - | - | 4 | - | - | - | - | - |
| 29 | -12 | 0 | 7 | 1 | - | 1 | 9 | - | - | - | - | - |
| 30 | -13 | 0 | 1 | 1 | - | - | 2 | 3 | 2 | 2 | - | 7 |
| 31 | -14 | 0 | - | 1 | 1 | - | 2 | 1 | 1 | - | - | 2 |
| 32 | -15 | 0 | - | 1 | 3 | - | 4 | - | 1 | - | - | 1 |
| 33 | -16 | 0 | 1 | - | - | - | 1 | 1 | - | - | - | 1 |
| 34 | -17 | 0 | 2 | - | - | - | 2 | - | 1 | - | - | 1 |
| 35 | -18 | 0 | - | - | - | - | - | - | - | - | - | - |
| 36 | -19 | 0 | - | 1 | - | - | 1 | - | - | - | - | - |
| 37 | -20 | 0 | - | 2 | 1 | - | 3 | 3 | - | 2 | - | 5 |
| 38 | Total | | 797 | 617 | 198 | 77 | 1,689 | 540 | 625 | 148 | 86 | 1,399 |

39 * Individual customer types qualify for DSR discounts

40 ** Corporate customer types do not qualify for DSR discounts

1

2 As of November 1, 2019, there were 211 corporately owned VFH vehicles that were
3 ineligible for DSR Vehicle Premium Discounts, of which 29 were Taxi VFH. There are also
4 an unknown number of other corporately owned vehicles that are not eligible for DSR
5 incentives.

Issue Topic #7: **DSR Programming Gap for Small Corporate Customers**

1 Any small business, organized corporately with multiple owners would be ineligible for
2 DSR Vehicle Premiums Discounts, such as florists, contractors, and couriers etc.¹

3 Mr Johnston explains why:²

4 MR. ANTOINE HACAULT: So if a Corporation had four (4) or
5 five (5) cars, because it has four (4) or five (5) cars, it
6 doesn't have the option of benefitting from a Driver's Safety
7 Rating?

8 MR. LUKE JOHNSTON: Yeah. In general, there's -- if there's
9 not a specific driver to -- to give that rating to, it's just
10 a corporate entity, it wouldn't apply.

11 The issue is with undue discrimination between customers on the basis of the entity's legal
12 status and organization, rather than a factor that is relevant to the rating, such as insurance
13 use, or territory. Mr Crozier explains: ³

14 But really the -- the problem that I'm highlighting here is
15 that any small corporate customer, whether it's a taxi
16 customer or even, you know, a small business that has, you
17 know, flower deliveries, plumbing, whatever, they -- they
18 would not have access to either the Fleet Program or the DSR
19 Program incentives on account of their corporate structure,
20 which doesn't appear to me to be a reasonable basis to
21 discriminate against that particular customer versus their
22 competitor who happens to be a sole proprietor or a single
23 owner corporate -- have a single owner corporate structure.

24 Upon questioning about the gap in DSR programming incentives, MPI agrees that this
25 discrimination should be addressed:⁴

26 MR. ANTOINE HACAULT: And I'm trying to understand the fairness
27 of not allowing a corporate entity with two (2) or more
28 vehicles to benefit from the same rate reductions as other
29 persons do, sir.

¹ Tx 2027 line 12 to Tx 2028 line 6, and Tx 2090 line 24 to Tx 2091 line 3

² Tx 1802 line 13-20

³ Tx 2027 line 20 to Tx 2028 line 6

⁴ Tx 1803 line 8 - 23

Issue Topic #7: **DSR Programming Gap for Small Corporate Customers**

1 MR. LUKE JOHNSTON: I -- I would agree that's a valid concern.
2 As you're aware, we -- DSR discounts are a new part of rating
3 for taxis, in particular.

4 But in terms of the corporate rating, if they're not entitled
5 to that, I agree that that's an issue that is worthy of
6 investigation, in the sense that there is no opportunities
7 for a corporation, assuming they're not a fleet of some sort,
8 to pay lower rates. I don't know the specifics of the twenty-
9 nine (29), but I'd have to -- I'd have to look into that.

10 The remedy is in DSR program design, or modification of business rules that would permit
11 multi-owner corporations to be assigned a DSR level, and allow that level to fluctuate with
12 the corporate entity's experience. If this programming gap can be addressed through the
13 overall DSR program redesign, the result may be superior than a targeted adjustment to
14 business rules for corporate customers specifically.