September 22, 2020

Via E-Mail

The Public Utilities Board
400 – 330 Portage Avenue
Winnipeg, MB R3C 0C4

Attention: Mr. Darren Christle, Board Secretary and Executive Director

Dear Mr. Christle:

RE: September 18, 2020 Motion of Coalition of Manitoba Motorcycle Groups (CMMG)

In response to the motion brought by CMMG, it is important to read the impugned response of Manitoba Public Insurance (MPI) in its entirety. CMMG (MPI) 2-5 was a two-part Information Request, set out below with the full response as provided by MPI:

QUESTION:

a) Please provide further explanation as to MPI's rationale as to why it does not support the use of a special backing portfolio for motorcycle claims liabilities.

b) Please provide the Asset Liability Management Strategy documentation which mandates the preclusion of growth assets in the Basic Claims portfolio.

RESPONSE:

a) In its response to *CMMG (MPI) CI 1-3* MPI states:

> *"MPI…will consider making the change in the 2022 GRA, after a more thorough impact assessment is complete for all vehicles".*

As the yield curve is extremely flat at the moment, any benefit from implementing a unique portfolio for motorcycle claims liabilities at this time would be minimal.

b) Page three of the Asset Liability Study - Phase 2 Report by Mercer dated December 19, 2017, states:

> *"Given MPI's low tolerance for risk, the proposed Policy for Basic will not include equities or alternatives".*

Quite simply, the Asset Liability Management (ALM) study, completed in January 2018 by Mercer, prohibits the inclusion of growth assets (equities) in the Basic Claims portfolio. All Basic liabilities are now backed by fixed income assets in the Basic Claims portfolio. The Board will recall the reasons for this: i) MPI's low tolerance for investment risk; and ii) to hedge against interest rate risk, which had resulted in $163 million in premium deficiencies in the three years leading up to the 2018 General Rate Application (GRA).

Following the 2018 GRA, concurrent with its delivery to the MPI Board of Directors, MPI filed with the Board all three phases of the ALM study as part of the 2019 GRA, including updates to the Board as directed in Board Order 130/17. In the result, following the 2019 GRA, the Board made the following finding (page 88 of Board Order 159/18):

> *"In this Application, the Board received considerable and detailed information regarding the steps it is taking to improve its asset liability management. Based on the evidence presented to the Board, the Corporation had a range of options available to it with respect to its portfolio composition. It appears to the Board that the Corporation has selected from a range of reasonable options for its portfolios as a result of the Mercer ALM study."*

The transition into the five unique portfolios under the ALM study began on March 1, 2019, with the new asset classes fully funded by August 31, 2019, except for private debt which is still ongoing. Three of the portfolios (RSR, EXT and SRE) are therefore not expected to be fully invested until late 2021. As such, implementation of the new investment strategy under the ALM remains underway, with the segregated Basic Claims portfolio having been operational for just one year. It would be imprudent and highly unusual to incorporate changes to the Basic Claims portfolio by adding growth assets as now suggested by CMMG.

Applying colloquial language to the position of CMMG on this issue (i.e. including equities in the Basic Claims portfolio), this ship has already sailed.

Further, and bearing in mind the evidence from last year's GRA that a full market cycle (5 years) is required before a fair comparison can be made between different investment strategies, a snapshot of the Shadow Portfolio for Basic, which contains Public Equities (P2 Unconstrained), showed a return of 2.31%, compared to the actual return for Basic of 6.19% (March 2019 – March 2020). That is, the inclusion of growth assets in the Basic Claims portfolio, at least for the one-year period shown at Appendix 10 to the Investments Chapter of the 2021 GRA, would not have had the desired effect of ameliorating the impact of interest rates on long-tailed claim liabilities.

In its motion, CMMG makes the following comment: "As has been demonstrated in previous years, and again in the 2021 GRA, the motorcycle class is disproportionately impacted by declining long term interest rates." It is important to remember that motorcycles, like all vehicle classes, are only charged for the costs they incur. The reality is that motorcyclists pose a greater insurance risk by virtue of the injuries sustained when an accident occurs. While it may be true that motorcycle premiums are more sensitive to long-term interest rates, it is equally true that motorcycle injury claims are longer when compared to the occupants of vehicles that offer considerably more protection to the motorist. Motorcycle rates are therefore exactly proportionate to the nature of their claims, and there is no inequity working against this class.

Having said that, the corporation is willing to consider using interest rates at points on the yield curve to discount liabilities for all vehicles (once the yield curve returns to its usual upward sloping trajectory). This should result in a greater discount rate for injury claim cash flows, with motorcyclists as the most obvious beneficiary.

Sincerely,

(Original signed)
Steve M. Scarfone
Counsel

SMS/

cc: K. McCandless and PUB Advisors
2021 GRA Registered Interveners