CAC (MPI) 1-1

Part and Chapter:	**LA.2.2**	**Page No.:**	**P.12, lines 1-8; 2021 GRA Tx: P320 L18 to P321 L21**
PUB Approved Issue No:			
Topic:	**Proposed Rebate**		
Sub Topic:	**PIPP savings assumptions**		

Preamble to IR:

"In this Application, unlike the evidence heard at the 2021 GRA, MPI assumes a direct one-to-one correlation between collision, PD and PIPP claims (in terms of costs). Even though it has been harder to predict a precise correlation between both – owing to a lag in the reporting of these claims (especially PIPP claims) – MPI submits that this correlation continues to exist. Regarding PD claims, MPI expects a higher decrease, of 19.6%, as compared to the 2021 GRA Rate Update. Based on these assumptions, the projected Basic ultimate claims savings from April 1, 2020 through March 31, 2021 is $58.6 million."

And

MR. LUKE JOHNSTON: Yeah. As soon as we went through this chart this morning, I -- I was thinking, well, we should have at least had another line that showed collision by itself because that largely is what we're talking about, how -- you know, how much fewer crashes are we seeing.

So, as I mentioned, there has been favourable results from prior years' PIPP, and some of those are COVID related, and I'll explain.

If you're getting rehabilitation of some kind and the physio place is closed, it's hard to -- to do that. So we did have some of those early

months where those payments stopped happening, so
there are some impacts there.
But other impacts could be non-COVID
related. You know, we've talked about better, you
know, claims control and claims handling and such.
With the current PIPP year, my caution
would be we have to do the October valuation. And if
we are seeing more serious claims, we may, you know,
have to post in an IBNR provision for -- for there
being more serious loss claims which could be an
unfavourable adjustment to PIPP. I'm not saying it
will be, but that -- that piece hasn't been done.
That aside, that's kind of why I'd say
focus on the -- on the collision claims itself. I
would expect PIPP to follow eventually with that
trend, but short-term fluctuations in PIPP, you should
be cautious, yeah.

Question:

a) Please explain if the $69 million rebate proposed assumes that all favourable PIPP Program savings are related to favourable COVID-19 experience.

b) Please confirm that the first Special Rebate Application relied on that same assumption as a) above.

c) Please confirm that MPI’s evidence in the 2021 GRA hearing was that PIPP savings were less attributable (or at least the attribution was less certain) to favourable “COVID-19 experience”

d) Please discuss any findings from October valuation that support the current assumption that PIPP program savings are related to favourable COVID-19 collision experience.

e) Please quantify the impact on the rebate, and on MPI’s financial condition, of not including any forecast savings from PIPP in the rebate.

Rationale for Question:

To understand MPI's assumptions, and any available supporting evidence, related to the impact of the COVID-19 pandemic on PIPP Program savings.

RESPONSE:

a) The $69 million rebate proposed operates on the assumption that, if MPI assumes a decrease in *ultimate collision frequency* by a given percentage in the 2020/21 loss year, the frequency of *ultimate injury claims* will also decrease by that percentage. MPI included in its updated forecasts all favourable results observed to-date for PIPP claims for prior years, which impacts the maximum rebate calculation.

b) Confirmed.

c) and d)
Please see *PUB (MPI) 1-3*.

e) If PIPP savings are completely excluded, the requested rebate would decrease by approximately $14 million (i.e. ~$55 million).

CAC (MPI) 1-2

Part and Chapter:	**LA.4**	**Page No.:**	**P.22, L 1-7** **P.7 ,L 12-15** **P.7, L 22-25**
PUB Approved Issue No:			
Topic:	**Quatum of Rebate**		
Sub Topic:			

Preamble to IR:

"MPI calculates the $69 million rebate requested herein on the basis of improvements in claims incurred before provisions (i.e. before interest rate impacts and DPAC adjustments) and anticipated favorable operating expenses. The rationale for the proposed rebate is that, given the reduced claims costs and operating expenses, customers would have paid significantly less to insure their motor vehicles between March 16, 2020 and November 21, 2020, had MPI calculated premiums on a monthly (as opposed to annual) basis."

And

"Should the PUB approve its request for a $69 million rebate, MPI expects the MCT ratio for the RSR to decrease to 117% at the end of this fiscal year. This is the minimum MCT ratio at which the RSR can be to permit the 5% capital release for the 2021/2022 rating year under the CMP, as requested in the 2021 GRA. MPI respectfully submits that any rebate ordered above this amount would require MPI to amend its 2021 GRA."

And

"The proposed rebate, following an approach similar to the one approved by the PUB in the 2021 SRA I, will accelerate the distribution of excess monies to policyholders in

the form of a one-time payment, instead of via lower rates. Due to the seriousness of the COVID-19 pandemic and the economic hardship facing many Manitobans, these funds must be distributed to ratepayers in a responsible, yet expeditious manner, a balance which MPI respectfully submits this rebate strikes."

Question:

a) Please discuss the extent to which the amount of $69 million to rebate was calculated on the basis of maximizing the rebate without impacting the 2021 GRA rate and capital release request?

b) Please provide an estimate of the rebate amount, if it were increased so that the 5.0% capital release, applied for the in 2021 GRA, resulted in approximately 100% MCT at the end of 2021/22.

c) Please confirm that the 111.1% MCT Ratio in 2021/22 (see PF-3), is the expected capital adequacy after the 5% release in 2021 rates, and $69 million rebate requested in this application. Please discuss if the immediate release of the 11.1% excess capital in Basic would also help relieve serious economic hardship facing many Manitobans.

Rationale for Question:

To understand the basis for the $69 million rebate amount, and potential alternative values.

RESPONSE:

a) The $69 million rebate was calculated by determining the maximum excess capital available in 2020/21 such that the 2021 GRA rate and release request remains unchanged and satisfies AAP pricing requirements and the capital management plan (CMP).

b) The rebate amount, if it were increased so that the 5.0% capital release, applied for the in 2021 GRA, resulted in approximately 100% Minimum Capital Test (MCT) at the end of 2021/22, would be approximately $115 million. Please note this scenario results in an ending 2022/23 MCT of 94.8% and would conflict with the 5.0% capital release over a three year period as per the CMP.

c) Alternatively, an estimate of the rebate amount, if it were increased so that the 5.0% capital release applied for in the 2021 GRA resulted in approximately 100% MCT at the end of 2022/23, is $90 million.

d) Confirmed, the 111.1% MCT ratio in 2021/22 (see PF-3), is the expected capital adequacy after the 5% release in 2021 rates, and the $69 million rebate requested in this application.

The immediate release of an additional 11.1% of excess capital in Basic could help relieve serious economic hardship facing many Manitobans. However, this would be a deviation from the approved CMP, whereby the goal of any release is to restore the Basic MCT to 100% over a three year period. MPI seeks a rebate that complies with the approved CMP, to ensure the Public Utilities Board can fully assess its performance and amend the CMP if necessary.

<u>CAC (MPI) 1-3</u>

Part and Chapter:	**LA.5**	**Page No.:**	**P 24, L1-5**
PUB Approved Issue No:			
Topic:	**Implementation Costs**		
Sub Topic:			

Preamble to IR:

> *"Once qualified, MPI will calculate the amount of the rebate to which the customer is entitled. MPI will then again distribute rebate cheques to qualified customers via regular mail, to their last known address on file.*
>
> *MPI anticipates that the total cost of issuing the rebates will be approximately $937,000, itemized as follows (assuming 675,000 different recipients)"*

Question:

a) Please describe any other options considered for issue rebates, such as e-transfers, credits to customer accounts, or other.

b) Please provide a brief explanation of why the selected method is preferred to the alternatives.

c) Based on current timelines, does MPI anticipate that checks will be handled by Canada post during its peak holiday season, of afterwards? Has Canada Post indicated that there may be delays in delivery?

d) Is there a minimum rebate value under which a check will not be issued? If so, how does MPI propose to address these rebates?

Rationale for Question:

To understand and test the reasonableness of the proposed implementation approach, and associated costs.

RESPONSE:

a) The legacy technology used by MPI does not support the ability to distribute the proposed rebate to customers through e-transfers. Further, MPI collect and store the banking information of all of its customers in the rare event (under normal circumstances) of a premium rebate. Due to the complexity of potential individual customer situations, additional effort and cost would be required to program the rebate rules to consider these many factors, plus additional testing and validation of those rules. This would increase the cost and time required to issue the refund to customers. The intention is to distribute the rebate to customers as quickly as possible, appreciating current technology constraints.

b) Premium rebates are issued by cheque to ensure awareness by the customer and to encourage them to confirm the accuracy of their address. When MPI credits their accounts, customers are not immediately notified. As indicated above, MPI intends to distribute these rebates to customers as quickly as possible. MPI assumes that many of its customers desire cash, but does not assume any particular intended use (recalling that the basis for the rebate is that qualifying customers have paid too much premium during the pandemic and would therefore have had this money for other uses). Under a credit scenario, where a customer account is not in arrears, MPI would still need to issue the customer a refund cheque, which would delay delivery of the rebate to the customer.

c) While early indications are that Canada Post will be able to meet letter mail delivery standards, delays are possible and cannot be accurately predicted. Canada Post has not advised MPI of any anticipated delays in delivery at this time.

d) MPI applies credits to customers' accounts where the premium rebate is less than ten dollars. This threshold acknowledges both the cost of issuing a cheque and the value to the customer.

CAC (MPI) 1-4

Part and Chapter:	LA.2.5	Page No.:	p.17, lines 6-9
PUB Approved Issue No:			
Topic:	Duration of COVID-19 impacts		
Sub Topic:			

Preamble to IR:

> *"MPI estimates its 2020/21 net income forecast at $186.8 million, compared to the $105.4 million forecasted in the 2021 GRA Rate Update. As discussed above, relative to the 2021 GRA Rate Update, MPI experienced a decrease in claims costs, which it expects will last, to some degree, until March 2022."*

Question:

Please confirm MPI now believes the effects of COVID-19 may persist for up to 16 months from the time of this application.

Rationale for Question:

To confirm MPI's expectations with respect to the impact of COVID-19 on claims experience, and the apprioriateness of the proposed rebate.

RESPONSE:

Reference to March 2022 in the quote contained in the preamble above is a typographical error. The forecast assumes the favorable impact of COVID-19 on claims experience is expected to occur until March 2021, not March 2022.

CAC (MPI) 1-5

Part and Chapter:	LA.2.5	Page No.:	P.16, L 3-4
PUB Approved Issue No:			
Topic:	Interest Rate Forecast used in SRA II		
Sub Topic:			

Preamble to IR:

"MPI uses the following key assumptions for investment forecasts:

- *Naïve interest rates;"*

Question:

a) Please provide the value of the Naïve interest rate forecast underpinning the forecasts in this application, and the date on which the Naïve forecast value was selected.

b) Please indicate if the naïve interest rate forecast has changed since the Oct 9th Rate update in the 2021 GRA, and provide the forecast value on or about the time of filing this application.

c) If the a) and b) are not the same, please indicate the direction and approximate magnitude of the impact of the naïve interest rate forecast, if any.

Rationale for Question:

To confirm the assumptions supporting the application.

RESPONSE:

a) The value of the Naïve interest rate forecast underpinning the forecasts in this application was 0.56%, and the date on which the Naïve forecast value was selected was September 30, 2020.

b) The naïve interest rate forecast for August 31, 2020 was 0.62%. The naïve interest rate forecast on November 30, 2020 was 0.67%.

c) When comparing to either August 31, 2020 or September 30, 2020 interest rates, the naïve interest rate forecast for November 30, 2020 has increased 0.05% and 0.11% respectively. The increase in interest rates will provide a net favorable interest rate impact for 2020/21.

CAC (MPI) 1-6

Part and Chapter:	LA.2.2 Claims Incurred Before Provisions	Page No.:	10
PUB Approved Issue No:	Claims Forecasting (including PIPP)		
Topic:	Improvement in claims incurred before provisions		
Sub Topic:			

Preamble to IR:

> *"Relative to the rate update provided within the 2021 GRA Rate Update, MPI forecasts a $69 million improvement in claims incurred before provisions (i.e. before interest rate impacts and DPAC adjustments) in the fiscal year 2020/21, which was comprised of approximately $31 million for collision, $28 million in PIPP, $5 million in property damage, and $5 million in internal loss adjustment expenses (ILAE)".*

Question:

a) Please explain what is meant by "before provisions". Please quantify the 'provisions' impact on the $69 million claims improvement (plus or minus).

b) Please provide a narrative discussion of the extent the "policy liability actuarial valuation" supported the $69 million improvement in claims incurred. Please file a copy of the policy liability valuation report supporting the special rebate, if prepared.

c) Please file a detailed claims incurred analysis with documentation and explanations (severity, frequency, incurred) supporting the claims incurred improvements for collision ($31 million), PIPP ($28 million), property damage ($5 million) and the ILAE analysis ($5 million).

Rationale for Question:

To better understand the underlying analysis supporting the claims incurred improvement of $69 million.

RESPONSE:

a) The term "before provisions" means excluding interest rate impacts and DPAC adjustments. As a result of "provisions", interest rate impact increased by $5.7 million and DPAC adjustments increased by $0.1 million (as outlined in *PF.4*).

b) The policy liability actuarial valuation is currently in progress. The $69 million reduction in claims costs is further supported by actual experience to date. Please see the response to *PUB (MPI) 1-3*.

c) The figure below compares the 2020/21 accident year ultimate amounts from the 2021 SRA II and the 2021 GRA, for Collision and Property Damage. MPI assumed that PIPP decreased at the same percentage as Collision (i.e. 16.73%). The "collision ($31 million), PIPP ($28 million), property damage ($5 million) and the ILAE analysis ($5 million)" in reductions quoted are from the rate update filed in October 2020 and are based on fiscal year results.

Figure 1 2020/21 Ultimate Comparison

Line No.			Frequency	Severity	Incurred
1	**Collision**	**2021 GRA**	0.106	$4,385	$416,057,952
2		**2021 SRA II**	0.102	$4,153	$375,866,156
3		**Difference**	(0.005)	($232)	($40,191,795)
4					
5	**Property Damage**	**2021 GRA**	0.060	$725	$38,701,127
6		**2021 SRA II**	0.052	$748	$34,450,951
7		**Difference**	(0.008)	$23	($4,250,177)

CAC (MPI) 1-7

Part and Chapter:	**LA.4.1 Illustrative examples for typical customer in each major class**	**Page No.:**	**23**
PUB Approved Issue No:	**Assumptions in the Special Rebate Application forecast**		
Topic:	**Figure 15 Average Dollar Rebate by Major Class**		
Sub Topic:	**Earning Period**		

Preamble to IR:

Question:

a) Please explain the term “Earning Period” and how it relates to “policy year” premiums and/or premiums in-force.

b) Please rationalize the fairness of “earning period” as a base for calculating the policyholder average dollar rebates. Please elaborate on the alternatives considered in calculating this special rebate for individual policyholders.

Rationale for Question:

To better understand the fairness and reasonableness of rebate calculation for individual policyholders.

RESPONSE:

a) The term “earning period” refers to the period March 16, 2020 to November 21, 2020, during which the premiums earned are used by MPI to calculate the amount of rebate payable to each policyholder. The premiums earned in the “earning period” reflect approximately 69% (251 days / 365 days) of the total premium earned in a year (assuming premiums are earned uniformly over the year).

The term "in-force premiums" refers to the total premiums on policies in-force on a specific date. They do not necessarily translate to earned premiums for a specified earning period. For example, in-force premiums for the motorcycle class are completely earned in the "riding season (May 1 to September 30 of each year). As a result, during the period March 16 to April 30, MPI earns no premiums on motorcycle policies despite the fact that they may be in-force.

b) MPI believes that it is fair to use earned premiums in the earning period from March 16, 2020 to November 21, 2020 as it reflects the exposure which contributes to the claims experience in that period. The $69 million rebate can be attributed back to the overall claims experience of this group of insureds. MPI views this methodology to be preferable to alternatives, such as using in-force premiums on a given date or rebating based on a different test period.