SUMMARY LEGAL APPLICATION

2021 SPECIAL REBATE APPLICATION II

MPI WRITTEN SUBMISSION

December 9, 2020

MANITOBA PUBLIC INSURANCE

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1 Additional Relief at a time of Urgent Need

1. The 2021 Special Rebate Application (SRA) II represents the second time in the past seven months that Manitoba Public Insurance (MPI) has applied to the Public Utilities Board (PUB) for approval of the issuance of a rebate to ratepayers and underscores the continued fluidity and unpredictability of the COVID-19 pandemic. On November 12, 2020, in the week that followed the closing of the 2021 General Rate Application (GRA) hearing, the Government of Manitoba announced further restrictions to respond to dramatic increases in positive cases, hospitalizations and deaths. These restrictions moved the entire Province to Critical Level (Red) on the #RestartMB Pandemic Response System and they persist as of this writing.

2. The result was an announcement on November 30, 2020 that MPI would rebate an additional $69 million to ratepayers; an unexpected development, but appropriate in the circumstances. For three weeks beginning October 19, 2020, the PUB heard evidence from the Chief Actuary and Chief Financial Officer of MPI that capital releases in compliance with the Capital Management Plan (CMP), and not by way of a rebate, were the most appropriate way to address excess capital. Indeed, in its closing submissions, MPI cautioned the PUB to avoid such "knee-jerk reactions" to this pandemic. And so the writings of the poet Robert Burns again hold true -- "the best laid plans of mice and men often go awry".

3. However, there is an important distinction in the positions taken by MPI on the issuance of rebates that must be brought to bear in this submission. The Application herein is *retrospective* in nature. It seeks a review and variation of past orders (i.e Orders 159/18 and 176/19). Conversely, the 2021 GRA is *prospective* in nature. It pertains to rates set to take effect on April 1, 2021. And so the PUB, if so inclined, can still approve this $69 million rebate without impinging upon the -8.8% overall rate MPI requests in the 2021 GRA, a rate that requires a capital release of 5% (approximately $54M) under the CMP.

4. As stated in its correspondence dated December 2, 2020, MPI submits that the 2021 GRA and 2021 SRA II are stand-alone applications. One has little or no impact on the other. At *page 6 of the 2021 SRA II*:

> *"This Application is also not a request by MPI to amend any of the relief it requested in the 2021 GRA. To be clear, MPI continues to seek a –8.8% overall rate indication for the period April 1, 2021 to March 31, 2022; a continuation of its Capital Management Plan (CMP) for that rating year (including the 5% rate reduction thereunder) and the other relief requested therein."*

5. Given the urgent and summary nature of this Application, MPI submits that the PUB need only concern itself with two things, namely whether:

   i) MPI can afford the proposed rebate; and
   ii) the criteria for entitlement and rebate calculation are fair.

2 MPI can Afford to Rebate $69 Million

6. MPI based the proposed rebate on actual and projected savings from reduced claim costs (approximately 85%) and operating expenses (approximately 15%), as at September 30, 2020 and with forecasts to March 31, 2021. Without the proposed rebate, MPI forecasts that its Rate Stabilization Reserve (RSR) will grow to 132% by fiscal year end, which is more capital than needed to reduce rates by 5% under the CMP (as proposed in the 2021 GRA) while still maintaining the RSR at a Minimum Capital Test (MCT) ratio of 100% in the years thereafter (which the *Reserves Regulation*, Man. Reg. 76/2019 requires MPI to do).

7. The PUB will recall that the update to the 2021 GRA filed by MPI on October 9, 2020 (2021 GRA Rate Update) was current to August 31, 2020. As stated in this SRA, as at September 30, 2020, the premiums charged under Orders 159/18 and 176/19 continue to exceed what MPI requires to cover the costs of claims during the ongoing pandemic.

8. The relevant financial evidence as set out in this SRA, including figures and pro formas, can be summarized as follows:

i) Total Earned Revenues for Basic, as forecast for the 2020/21 fiscal year, is up slightly from the forecast in the 2021 GRA Rate Update (assuming approval of the -8.8% overall rate indication);

ii) Claims Incurred shows an improved forecast of $69 million for 2020/21 when compared to the forecast in the 2021 GRA Rate Update (and the forecast is the same thereafter, consistent with no change to the forecast of 0% rate changes beyond 2020/21);

iii) Ultimate Collision Claims are 9.6% under budget, as compared to the 2021 GRA Rate Update, translating to an additional $58.5 million in ultimate claims savings from April 1, 2020 to March 31, 2021;

iv) Total Equity is forecast to be just under $505 million (116% MCT) at fiscal year-end compared to $501 million (115% MCT) in the 2021 GRA Rate Update (assuming the rebate is approved), and a transfer of approximately $60 million under the CMP is still forecasted; and

v) Net Income for fiscal year 2020/21 is now forecast at $187 million compared to $105 million in the 2021 GRA Rate Update (with much lower net income still forecasted thereafter).

9. MPI submits that these five financial indicators support its assertion in SRA II that the -8.8% overall rate indication requested in the 2021 GRA remains just and reasonable. Indeed, should the proposed rebate be approved, the financial position of Basic will be at or near the forecasted figures presented in the 2021 GRA Rate Update. As shown in *Figure 1* in 2021 SRA II (page 19), Basic Total Equity and the MCT Ratio improve slightly following issuance of the requested rebate (owing to changes in the forecast from the ongoing pandemic). This supports the assertion that $69 million represents the maximum amount MPI can rebate while still maintaining the integrity of the 8.8% rate reduction for 2021.

10. Similar to the May 2020 rebate (i.e. SRA I), MPI will pay this proposed rebate of $69 million entirely from cash on hand. MPI will again avoid the need to liquidate its investment assets. MPI would normally invest $50 million of $136 million in operational cash as at November 20, 2020, in order to align its actual cash position with its target. However, as issuing the proposed rebate will achieve this rebalancing, MPI does not anticipate investing these funds at this time.

11. As stated during the course of the 2021 GRA, and again in this SRA, MPI well-positioned the Basic Claims portfolio to withstand the impacts of the COVID-19 pandemic by departing from the holding of equities and by implementing an effective strategy to hedge against interest rate risk.

12. MPI appreciates that a corollary issue is whether it can afford to rebate more than the proposed $69 million. MPI responds to this issue at *page 7 of the 2021 SRA II* with the following statement:

> *"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."*

13. Put another way, as stated above, MPI submits that its proposal represents the maximum rebate permissible without interfering with the -8.8% overall rate indication requested in the 2021 GRA.

3 The Criteria for Rebate Entitlement and Rebate Calculation are fair

14. *Figure 1* in the 2021 SRA II, compares the entitlement criteria for the rebate issued in SRA I versus the entitlement criteria for the rebate proposed in this SRA. SRA II seeks a true rebate, as that term is commonly understood in the insurance industry. The entitlement period begins on March 16, 2020 and ends on November 21, 2020. A customer with a policy *in force* and *earning premium*[1] during this period qualifies for the rebate. This entitlement period permits the greatest exposure of coverage from the start of the pandemic to the present (i.e. it fully captures the rebate pool and

[1] *MPI uses the term "earned premium" to capture those customers who pay their entire policy premium at the outset, and who would otherwise be excluded if the query pertained to customers who "paid premium" during the entitlement period (i.e. March 16, 2020 to November 21, 2020). A policyholder who paid all of their premiums on March 1, 2020 would therefore still "earn" a percentage of their total annual premium during the entitlement period.*

avoids excluding motorcyclists and other customers that may have registered their vehicles during this period but are not currently paying premiums).

15. The above entitlement criteria must be contrasted with the point-in-time criterion that MPI used in SRA I (i.e. March 15, 2020). As indicated in its response to information request *CMMG (MPI) 1-2*, MPI proposed use of the in-force methodology largely because of the limited amount of pandemic-related experience available. However, this methodology was not without its drawbacks. For example, a customer who cancelled their policy on March 16, 2020, remained entitled to receive the entire rebate so long as their policy was in force on March 15, 2020. The methodology proposed in this SRA is consequently fairer. It should also mean an easier understanding by MPI customers – set out in lay terms, having a registered vehicle during the pandemic means a return of a percentage of premiums.

16. The entitlement period is separate and distinct from the rebate calculation period. For this SRA, MPI calculated the proposed $69 million rebate on the basis of COVID-19 savings realized or forecasted to be realized in the period May 16, 2020 to March 31, 2021. Provided they are entitled, policyholders can expect a return of 9.3% of premiums[2] earned in this period. Conversely, the SRA I rebate approved by the PUB (i.e. $58 million) was calculated on the basis of actual and projected COVID-19 savings from March 15, 2020 to May 15, 2020. Simply stated, the rebate calculation period proposed in this SRA picks up where the last rebate left off, and continues for the balance of the rating year. These sequential time periods mean no overlap or double recovery by policyholders of any COVID-19 related savings.

17. This SRA again represents an acceleration of the distribution of excess capital to ratepayers that would normally occur pursuant to the terms of the CMP. While MPI remains opposed to the return of excess capital by way of rebate in the normal course, the urgent need for financial support in this extraordinary circumstance must prevail. Moreover, MPI could not have reasonably foreseen the additional restrictions imposed by government as of November 12, 2020, or the updated public health orders

[2] *See MPI response to information request PUB (MPI) 1-9, for a clarification as to the percentage of the proposed rebate (i.e. 9.3% of earned premiums March 16-November 21, 2020 or 6% of annualized premiums).*

that introduced further restrictions beginning November 20, 2020, when it filed the 2021 GRA (June 2020) or the 2021 GRA Rate Update (October 2020).

18. MPI respectfully submits the foregoing as justification for approval of the $69 million rebate, to be distributed to qualifying customers forthwith.