MPI 2022 GRA – CAC Manitoba Recommendations

Rate request:

1. The rate indication for 2022/23 should be filed by MPI in a revised Undertaking 28, reflecting the Oliver Wyman past and future trends.

Capital Management Plan

2. The PUB should make a finding that MPI has not adhered to the Capital Management Plan by issuing special rebate application, but that the flexibility it showed during a time of hardship for Manitobans was appropriate.
3. The PUB should deny the additional trial year of the Capital Management Plan, given that there are no release or build provisions being sought. The PUB should maintain 100% MCT as a provisional capital target, to serve as an anchor point against which to measure any additional capital accumulation during the next year.
    - In the short-term until the next GRA, the PUB should find that when MPI's capital reaches $67M over 100% MCT, MPI should be directed to automatically apply to the PUB for a rebate. CAC Manitoba recommends $67M so that the average rebate would be approximately $100 (see Exhibit MPI-6, p 23: 675,000 recipients divided by $67M equals approximately $100).
4. Given the challenges to the CMP identified in the 2022 GRA, MPI should be directed to bring a new capital management plan for review in the 2023 GRA, including the analyses requested by the PUB in Order 1/21, p 10. The new capital management plan should include a regular review of capital and recognize the benefits that Extension receives from Basic. Should MPI fail to comply with these orders, the target capital range should revert back to the previously approved methodology applied in Order 159/18.

Transfers to Driver and Vehicle Administration

5. The PUB should find that transfers to DVA from Extension are illegal, in that they contravene section 14(2) of the *MPIC Act.*
6. The PUB should find that MPI has contravened the Capital Management Plan and Order 176/19 by transferring excess funds from Extension to DVA.
7. MPI should be directed to approach the Government of Manitoba to finalize a new agreement for the funding of DVA, which recognizes the Government of Manitoba's responsibility towards DVA, as well as the necessary Information Technology upgrade costs, both in the short-term and the longer term. MPI should file this agreement with the PUB in the 2023 GRA. As per section 14(2) of the MPIC Act, all funds required for DVA, including capital requirements relating to IT upgrades, must come from government revenues, not insurance premiums charged by MPI.

Special Rebate Application

8. The PUB should order that MPI's Special Rebate include the total amount transferred and forecast to be transferred from Extension to DVA by March 30, 2022, totalling $113M ($60M in 2020/21 and $53M in 2021/22).

9. MPI should be directed to implement alternatives to issuing rebate cheques as soon as possible, including **offering customers a choice** to receive the rebate in the way they choose, such as a cheque, a credit on their account, a refund on credit card, an e-transfer or direct deposit.

Ongoing COVID-19 impacts

10. The PUB should make a finding that the impacts of COVID-19 are likely to continue for an undetermined period of time. Given the lack of reliable forecasting of the impacts of COVID-19, the PUB should find that MPI's approach for the test year (2022/23) is reasonable.
11. In the short-term until the next GRA, given the possibility that claims costs will be significantly lower than forecast if impacts of COVID-19 continue, MPI should be directed to file monthly reports with the PUB identifying the variance in actual claims costs to budget, as well as the impact on capital accumulated. [1]
12. In the longer term, MPI should be directed to review what other insurers are doing in terms of potential long-term impacts of COVID-19 and file an analysis in the 2023 GRA, as well as incorporate best practice in its forecasts for claims costs so that prospective rates better reflect the post-COVID-19 reality.

Investments

13. Given the importance of the ALM and significant market uncertainty due to COVID-19, MPI should expedite the completion of its ALM study so that it is ready to be filed with the 2023 GRA in June 2022, to allow for a meaningful review by the PUB and Intervenors prior to implementation.
14. MPI should be directed to base its next Asset Liability Management Study on a real liability benchmark, as opposed to a nominal liability benchmark to better reflect the long-term risk of inflation on assets and liabilities.
15. MPI should be directed to remove costly constraints that MPI "self-imposes" (i.e., prohibiting RRBs and Equities from the investable universe) in ALM Studies.
    - Reasonable capital market assumptions, and optimizations of total portfolio return/risk, show these constraints have a significant cost (lower returns and/or higher risks); and
    - Removing such constraints would give the ALM model (and modern portfolio theory) a chance to work.
16. MPI should file an analysis of alternative investment income forecasting approaches in the 2023 GRA.

IFRS 17

17. Once MPI completes its IFRS 17 position papers, the corporation should be directed to provide a summary of the impact on MPI's financial statements, capital management, claims forecasting and composition of the investment portfolio for a full understanding of the impact of these accounting standard changes (including the changes from IFRS 9).
18. As soon as the mock IFRS 17 policy liability valuation is completed and a mock set of Financial Statements is completed, MPI should be directed to file these documents with the Board and

[1] As the PUB had ordered in Order 71/20, p 25.

the interveners so they can familiarize themselves with how financials will look like in the future, which may assist with efficiency during the hearing process.

Debt Financing for Capital Projects

19. MPI should investigate the opportunity to debt finance at least a portion of its capital spending. While it would have been advantageous if MPI had promptly investigated this issue and acted on the historically low interest rates in 2020, this would now appear to be a longer term issue, to be addressed as MPI becomes comfortable with more sophisticated financing operations.

Fleet Program Costs

20. Aside from a redesign, the fleet program should be transitioned from cost recovery from the general population of private passenger, commercial and public classes, towards a model that recovers more of the costs from fleet program participants. Increasing surcharges, or decreasing the rebates, under the fleet program would generate more revenue, and reduce the net rebates that are payable by the general population. MPI should be directed to file an analysis and proposal for modifications to the fleet program to better reflect cost causation.

Reinsurance

21. On its face, the additional $100M in re-insurance coverage at the cost of $1.7M does not appear to be warranted. The historical data and MPI's rationale for the additional coverage do not support this additional coverage.
    - As a result, MPI should be directed to investigate, support and report in the 2023 GRA the need for the additional $100M in reinsurance coverage.
22. More broadly, the details of the MCT calculation should be examined to understand the extent of overlap between the goals of the RSR and the reinsurance program. Does MPI need both programs at the levels they are currently or are they arguably serving the same purpose, in that they are creating a double layer of protection for rare events, for MPI at a high cost to customers, both in terms of MPI holding 100% MCT worth of capital, and in terms of re-insurance coverage?
    - As a result, for the 2023 GRA, MPI should be directed to provide a detailed analysis of the overlap of coverage among the MCT, RSR and Reinsurance programs in protecting MPI's financial risk exposures.

Project Nova and IT

23. MPI should be directed to file with the PUB an analysis of the foundational issues relating to Project Nova, including the impact on budget and schedule as soon as possible.
24. Given the importance for ratepayers of accountability and transparency on Project Nova as a high-risk project, MPI should be directed to:
    - File a summary of PriceWaterhouse Cooper's work on the public record and present PriceWaterhouse Cooper, the Independent Program Governance Vendor, as a witness in the 2023 GRA; and
    - Present MPI Operations staff as part of the Project Nova panel in the 2023 GRA.
25. Given the importance of customer engagement as it relates to Project Nova's business case, MPI should be directed to:

- Continue to engage customers in a variety of ways and on an ongoing basis relating to Project Nova and file summary results of its engagement, including methodology, in the 2023 GRA;
- File a public version of KPMG's work (or summary) on the public record and present KPMG, the external firm conducting a detailed and comprehensive customer experience roadmap and implementation plan for use by Project Nova, as a witness in the 2023 GRA.

26. MPI should be directed to continue to retain Gartner or another external IT benchmarking consultant as it experiences significant changes in its IT department.

Benchmarking, Staffing and Vacancy Allowance

27. The PUB should find that MPIs forecasted vacancy allowance for 2022/23 may not be high enough given historical under budget staffing and given the trend in FTE vacancy over the past three years. MPI should be directed to provide a clear plan to achieve the vacant FTEs implied by their vacancy allowance, otherwise they should adjust the vacancy allowance upwards, so that MPI does not over-collect from ratepayers.
28. Given the persistent underbudgeting of FTEs which have not resulted in deterioration of the business operations, MPI should be directed to conduct an analysis of productivity gains in the areas which have been operating under staffing budget in order to inform whether it should be reducing its budget FTEs in those areas. In addition and related, MPI should target FTE metrics that are comparable with Crown peers.

Driver Safety Rating

29. MPI should be directed to immediately begin collecting data on primary drivers in order to produce a pricing study for the primary driver model as soon as possible.
30. MPI should be directed do follow-up engagement with both customers and stakeholders on potential alternative DSR models, including providing information regarding the models' ability to price based on the risk that drivers bring to the system.
31. MPI should be directed to move towards actuarially indicated DSR discounts <u>over three years</u> (rather than MPI's proposed five years).

Territories

32. MPI should be directed to file its review of territories in the 2023 GRA.

Ratemaking

33. In order to determine the appropriate overall rate indication, MPI should be directed to file a revised Undertaking 28 applying the Oliver Wyman pure premium trends (<u>both past and future</u>) to the combined frequency and severity trends to calculate the overall rate indication.
    - Parties should have an opportunity to provide written comments on the methodology.[2]

[2] See for example, PUB Order 164/16 in the context of the Manitoba Hydro Cost of Service Study proceeding, where the PUB Ordered "In the interim, and utilizing the methodology approved by the Board in this Order and summarized in Appendix B, the Board directs Manitoba Hydro to make a compliance filing within 60 days of the date of this Order." Parties were invited to submit comments on Manitoba Hydro's Compliance Filing by letter dated April 3, 2017.

- In order for the Board to be able to include the rate indication in its final order, one option could be to direct MPI to file this revised Undertaking and Intervenor to file comments prior to a Board Order being issued.

34. For future GRAs, MPI should be directed to revise its methodology for pure premium trends and frequency and severity trends for claims incurred to better reflect statistical significance and residual analysis.
35. Given its acknowledgement in the last three GRAs that exploring the use of Generalized Linear modelling would be worthwhile and that it appears to be standard practice amongst automobile insurers, MPI should be directed to immediately explore this option, following the implementation plan proposed by Dion Strategic, and report back with its analysis and findings in the 2023 GRA.

PIPP and Complex Claims

36. MPI should be directed to further engage with customers who are not completely satisfied with injury claims due of a desire to see benefits extended or allowed to keep benefits longer to identify any trends or specific areas of coverage or injuries where there are ongoing challenges, for example but not limited to, complex claims (i.e. mental health, concussions, brain injuries).

Vehicles for Hire

37. Given the limited experience of the Private Passenger Vehicles for Hire class, there should be ongoing monitoring of the adequacy of rates for this class by the PUB.
38. To the extent that a rate increase is imposed for 2022/23, it should be capped at 20% to avoid rate shock to this class of customers.