

**FAIRNESS TO RATEPAYERS: OVER-COLLECTION AND
CROSS-SUBSIDIZATION IN THE 2022 MPI GRA**

OPENING STATEMENT OF THE CONSUMERS'
ASSOCIATION OF CANADA (MANITOBA BRANCH)

Prepared by: The Public Interest Law Centre

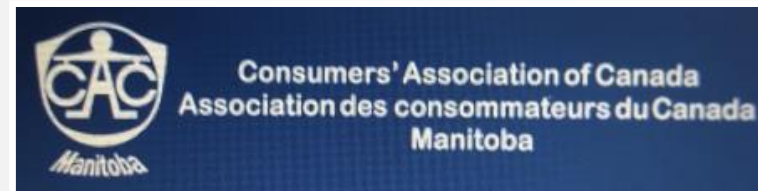
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2022/23 Manitoba Public Insurance (MPI)

General Rate Application (GRA)

CAC MANITOBA

- Close to three decades of rate hearings under Crown corporation governance legislation
- Core consumer rights
 - To be informed
 - To choice (or be involved in the regulatory process as a proxy for choice)
 - To have a choice in marketplace decision-making
 - To consumer education



DEVELOPING THE CAC MANITOBA POSITION

- Ongoing and regular consumer contact
- Consumer engagement, focus group-like engagement and quantitative surveys
- CAC Manitoba Board
- Advice from expert advisors

THE TEST

- Just and reasonable rates
 - [Public Utilities Board Act, s 77] [Crown Corporations Governance and Accountability Act, s 25]
- The burden of proof upon the owner
 - [Public Utilities Board Act, s 84(2)]
- In setting just and reasonable rates, “[t]he PUB has two concerns when dealing with a rate application; the interests of the utility’s ratepayers, and the financial health of the utility. Together, and in the broadest interpretation, these interests represent the general public interest.”
 - *Consumers' Association of Canada (Man.) Inc et al v Manitoba Hydro, Electric Board*, 2005 MBCA 55 at para 65.

SETTING JUST AND REASONABLE RATES

- Ensuring that MPI's forecasts are reasonably reliable;
- Ensuring that actual and projected costs incurred are necessary and prudent;
- Assessing the reasonable revenue needs of the Corporation in the context of the overall general health of MPI;
- Determining an appropriate allocation of costs between classes; and
- Setting just and reasonable rates in accordance with statutory objectives.
 - [PUB Order 98/14, p.28]

A CHANGING MPI

- Given significant changes in MPI's Executive are there any risks to the Corporation being able to achieve its plans within time and budget?

COVID-19 IMPACTS IN THE CURRENT YEAR AND GOING FORWARD

- Has the corporation adequately recognized that there may be long-term impacts of COVID-19 on claims incurred and is it prepared to monitor and adjust accordingly?
- Should excess capital grow faster than forecast over the next year, like it did since March 2020, what is MPI's plan to return over-collected premiums to ratepayers on an efficient, timely and fair basis?

CONSERVATIVE ASSUMPTIONS COULD BE LEADING TO A HIGHER RATE INDICATION

- Are some of the corporation's actuarial assumptions unduly inflating forecasts and heightening the rate indication?
- Could alternative pure premium trends for property damage, bodily injury, collision, income replacement, and Accident Benefits Other (Non-Indexed) and comprehensive better reflect the statistical significance and the relevant historical experience?

COMPLEX CLAIMS AND THE PERSONAL INJURY PROTECTION PLAN?

- Why are MPI customers less satisfied with the personal injury side of MPI's business?
- Is MPI's treatment of complex claims, such as brain injuries, concussions and mental health, in line with best practice? Is MPI adequately considering evolving medical science in its assessment of these complex claims?

PROJECT NOVA AND IT: RISKS AND OPPORTUNITIES

- Now that Project Nova is underway, has MPI appropriately recognized the significant risks associated with Project Nova and is the corporation well-positioned to respond to these risks, should they materialize?
- Are MPI consumers being adequately engaged about their needs with respect to interactions with the corporation, in the context of a transforming information technology strategy?
- Is there value in continuing annual third-party IT benchmarking exercises, given the ongoing work on Gartner recommendations and the ongoing significant changes to MPI's Information Technology strategy?
- Is MPI's "5-year Ambition" reminiscent of past MPI IT ambitions? To what extent does MPI need to be leading-edge in terms of information technology, given that it is a monopoly with captive ratepayers?

MISSED OPPORTUNITY, PROTECTION AGAINST RISKS AND THE ROLE OF BROKERS IN ONLINE TRANSACTIONS

- Has MPI failed to review the option of debt financing for capital projects and, as a result, missed a significant opportunity for ratepayers given low interest rates in 2020? Should MPI be directed to review the option of debt financing and present its analysis in the 2023 GRA?
- Is the corporation's reinsurance program reasonable, or is it intended to cover some of the same risks as the Rate Stabilization Reserve, thus becoming a "cushion on top of a cushion"?
- Does MPI think it is appropriate to be paying brokers for online transactions in which brokers play no role, especially as MPI's online adoption rate is forecast to significantly increase?

AN FTE PROBLEM?

- Is MPI too FTE (full-time equivalent) heavy as compared to the other Crown insurers, SGI and ICBC, against which it benchmarks?

INFLATION VOLATILITY, THE ASSET LIABILITY MANAGEMENT PLAN AND INVESTMENT INCOME

- Is MPI's investment portfolio too focused on short-term risk while leaving itself exposed to long-term risks, such as inflation?
- Given that MPI has acknowledged that inflation volatility is a risk, but that its investment portfolio is still based on a nominal liability benchmark rather than a real liability benchmark, what should be the parameters of the upcoming Asset Liability Management study regarding inflation risk?
- Should the Asset Liability Management study be expedited so that an important opportunity to review MPI's investment portfolio is not squandered?
- Is MPI's investment income forecasting methodology adequate and is MPI willing to explore alternatives that may be more consistent with best practice?

A CAPITAL MANAGEMENT PLAN IN PIECES

- Given the acknowledgement by MPI that the Capital Management Plan was not successful at returning capital to ratepayers in a timely manner in the last year and issues relating to confusion between rates and capital provisions, what should be done with the Capital Management Plan in the test year and going forward?
- In the absence of a proposed tool to return capital to ratepayers over the next year, what are options for the PUB's consideration, especially in the face of uncertainty with respect to ongoing COVID-19 impacts on claims incurred?

SELF-PROCLAIMED DISCRETION, OVER-COLLECTION, AND BROKEN PROMISES

- Has MPI contravened the MPIC Act by transferring Extension funds to DVA?
- Has MPI contravened the Capital Management Plan (approved by the PUB in 2019) by transferring **\$60 M in 2020/21** and forecasting another **\$53 M transfer in 2021/22** from Extension to Driver and Vehicle Administration (DVA), a line of business historically funded by the provincial government?
- Has MPI inappropriately claimed discretion to transfer capital accumulated by over-collection of Extension ratepayers' money to another line of business, despite assurances that excess capital in Extension would automatically be transferred to Basic to recognize the advantages procured to Extension (a *de facto* monopoly) by Basic (a legislated monopoly)?
- If MPI has contravened the Capital Management Plan, should the excess capital from Extension transferred to DVA be returned back to Basic ratepayers? If so, what are the options for the PUB to return this excess capital to ratepayers?
- Has MPI advocated on behalf of ratepayers to obtain a fair deal with government to address the funding shortfalls in the Driver and Vehicle Administration line of business relating to necessary information technology upgrades?

CONTINUING CROSS-SUBSIDIZATION IN THE DRIVER SAFETY RATING (DSR) SYSTEM

- Does MPI's transition plan for the DSR adequately address the ongoing and significant subsidization of lower DSR levels by higher DSR levels? Or does MPI's plan not address the cross-subsidization, in the short-term, and will not address the inherent issues of the Registered Owner model, in the long-term?
- Given findings by the PUB that a Primary Driver model may better reflect the risks that drivers bring to the system, are there other options that would resolve the issue more effectively and fairly? Should MPI collect data regarding primary drivers and conduct a pricing study, in order for MPI, the PUB and intervenors to meaningfully review that option?

TERRITORIES AND USES

- Given that MPI has still not completed a long overdue review of territories and uses, should the corporation be directed to file this review in the next GRA?

(MIS)ALLOCATION OF THE FLEET PROGRAM COSTS AND VEHICLES FOR HIRE

- Is there a better way to allocate fleet program costs to those customers or customer classes who get the most benefit of the fleet program?
- While Private Passenger Vehicles for Hire appear to have been paying too little and should not continue to be subsidized by other customer classes, how can we ensure that competition in the marketplace is not negatively impacted by rising insurance rates?

A RATE INCREASE DISGUISED AS A RATE DECREASE?

- Is the proposed rate request a rate increase disguised as a rate decrease, due to MPI asking for an overall rate decrease of 1.2% and the removal of the 5% capital release provision?
- Is the resulting **proposed rate increase of 3.8% reasonable?**

SPECIAL REBATE APPLICATION

- Is the amount proposed to be rebated to ratepayers in the third Special Rebate Application appropriate? Or should this amount be approximately \$113 M higher to correct the inappropriate transfers to DVA which resulted from an over-collection of Extension ratepayers' money and contravened the spirit and intent of the Capital Management Plan?
- When issuing the rebate to customers, should MPI be using an option other than mailing out physical cheques, given the cost associated with this process?

THANK YOU!