CAC MANITOBA BOOK OF DOCUMENTS: VFH / DSR PANEL

MANITOBA PUBLIC INSURANCE
2022/2023 GENERAL RATE APPLICATION

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TAB 1

M A N I T O B A	Order No. 89/09
THE PUBLIC UTILITIES BOARD ACT	
THE MANITOBA PUBLIC INSURANCE ACT	
THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT	May 28, 2009

BEFORE: Graham Lane, CA, Chairman
Leonard Evans, LL.D., Member

MANITOBA PUBLIC INSURANCE: APPROVAL OF COMPULSORY DRIVER INSURANCE PREMIUMS AND VEHICLE PREMIUM DISCOUNTS UNDER THE PROPOSED DRIVER SAFETY RATING PROGRAM

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Prospective Modelling

Finally, the Corporation used the results of its Retrospective Modelling, adjusted for expected differences in future initial DSR level placements, at-fault claim frequencies, conviction frequencies, and earned drivers' and earned vehicles', discounts, to project the expected level of total Driver Premiums and total Vehicle Premiums by fiscal year, assuming implementation on November 1, 2009.

Comparison of these results with the financial forecast from the last GRA, subject to the 2008/09 fiscal year forecast being actualized up to the end of the third quarter, provides a sense of the expected bottom line impact of this DSR Application (combined with the pending changes to broker commission arrangements) through the initial rating period under DSR, and the outlook period.

MPI's financial forecasting made no provision for any change in the frequency or severity of claims that may arise as a result of DSR implementation, a possibility which remains an "unquantifiable hope", but not a stated objective of DSR.

Relative Rate Adequacy and Responding to Experience

The Board accepts that DSR is a significant improvement over the current bonus/malus scheme, and represents progress towards establishing a rate structure that more fairly collects premiums from drivers and vehicle owners by better matching the risk they represent to the collective pool of risks.

However, the evidence presented and discussed during the hearing suggests that relative rate adequacy is not uniform across the DSR levels. In particular, the relative adequacy of rates increases as one moves to higher merit levels (with lower rates), and conversely, decreases as one moves to higher demerit levels (with higher rates). In other words, a level of cross-subsidization of the highest rated drivers by the lowest rated drivers is implicit in the DSR proposal, particularly at implementation.

To some extent, the proposed evolution of the driver premium surcharges in future years is expected to mitigate this initial cross-subsidization, and the Corporation committed to monitoring experience as it unfolds by DSR level towards applying "for future rate changes that are consistent with the actuarial evidence on a directional basis".

Citing public policy considerations, in particular the issues of access and affordability, the Corporation expressed doubt that it would "ever" be appropriate for a Crown corporation insurer to fully respond to the actuarial indications in this regard.

8.0 STREAMLINED RENEWALS/ONE PART LICENCE

MPI reported its intention to implement DSR concurrently with the further implementation of the Streamlined Renewal Process, which is a component of the Corporation's Business Process Review.

MPI indicated at the 2009/10 GRA (held in the fall of 2008) that the deferred development costs related to the SRP were approximately $5.4 million. As a result of this "investment", MPI expects to transition to a one-piece driver licence document encompassing all of the information currently on the two-part licence. The licence renewal process was expected to commence in the fall of 2009 and be completed by the summer of 2010.

While the "physical" licence will be issued for a five-year period, Manitobans will continue to make driver licence fee and premium payments annually, and be rated based on their driving record for the preceding year.

MPI reported that the new approach will require motorists, if they have no coverage or classification changes to make, to visit their broker once every five years, rather than on an annual basis. MPI asserted that this will improve "customer service".

In recognition of the expected significant decrease in broker Basic renewal work effort, MPI entered into a new commission agreement with the Insurance Broker Association of Manitoba (IBAM). Broker compensation is to be set out in a separate regulation, which MPI indicated was being drafted in accordance with the MPIC Act.

TAB 2

Order No. 130/17

MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION): COMPULSORY 2018/2019 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

December 4, 2017

BEFORE: Robert Gabor, Q.C., Chair
Carol Hainsworth, Member
Allan Morin, B.A., ICD.D., Member
Robert Vandewater, B.A., FCSI, CPA (Hon), CA (Hon), KStJ., C.D., Member
Michael Watson, Member

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4.0 DRIVER SAFETY RATING (DSR) PROGRAM

4.1. Proposed Changes To Driver Premiums by DSR Level

In this Application, MPI proposed to increase driver premium revenues by $17.5 million, resulting in an average overall premium revenue increase of 1.8%. With the change, driver premiums are forecast to increase from $50.3 million in fiscal year 2017/18 to $69.1 million in fiscal year 2018/19.

The proposed changes would apply only to driver premiums on the demerit side of the DSR scale, as follows:

Line No.	DSR Level	Current Rate	Proposed Rate	DSR Level	Current Rate	Proposed Rate
1	15	$15	$15	-1	$100	$200
2	14	$20	$20	-2	$100	$200
3	13	$20	$20	-3	$200	$300
4	12	$20	$20	-4	$200	$400
5	11	$20	$20	-5	$300	$450
6	10	$20	$20	-6	$300	$500
7	9	$25	$25	-7	$400	$650
8	8	$30	$30	-8	$400	$800
9	7	$30	$30	-9	$500	$900
10	6	$30	$30	-10	$500	$1,000
11	5	$30	$30	-11	$700	$1,200
12	4	$30	$30	-12	$900	$1,400
13	3	$35	$35	-13	$1,100	$1,600
14	2	$35	$35	-14	$1,300	$1,800
15	1	$40	$40	-15-	$1,500	$2,000
16	0	$45	$45	-16	$1,700	$2,200
17				-17	$1,900	$2,400
18				-18	$2,100	$2,600
19				-19	$2,300	$2,800
20				-20	$2,500	$3,000

MPI testified that the proposed rate changes are not actuarially indicated, because the rating structure MPI utilizes does not allow it to rate by driver. MPI noted that more vehicles are registered by drivers at the high end of the DSR scale than there are drivers, and that fewer vehicles are registered by drivers on the demerit side of the DSR scale than there are drivers. This phenomenon is attributed to the vehicle premium discounts increasing as the driver's DSR increases, resulting in vehicles being registered within families by the individual(s) with the highest discount. As such, vehicles insured at preferential discounts may potentially be primarily driven by high risk drivers, not reflecting the principal driver risk. The Corporation advised that although better analytical tools may be available, utilization of these tools would be part of a broader overall change to MPI's current driver premium ratemaking methodologies. At this time, MPI has no plans to change the ratemaking methodologies it uses.

However, MPI stressed that the proposed increase in driver premiums and its allocation to drivers on the demerit side of the DSR scale are directionally supported by statistical information. As a result, the proposed premiums have been determined on a policy rather than actuarial basis, but are guided by the statistical information available.

The basis for MPI's policy based decision was three-fold. First, the proposed changes were intended to reduce the rate indication for Basic vehicle premiums. As set out above, the initial rate indication for the present application was a 7.7% increase for Basic vehicle premiums. The proposed changes to the DSR scale were developed as part of management action to reduce the indicated rate for Basic vehicle premiums. The Corporation identified that, if an inflationary factor was considered, an increase of $18 million in driver premiums would have been justified, and therefore, a $17.5 million increase in driver premiums was appropriate.

Secondly, the proposed changes would reduce the largest negative discrepancy between some premiums paid per driver (both vehicle and driver premiums) and the claims costs per driver at each DSR level. That is, the projected premiums per driver and claims cost per driver were determined (including all non-comprehensive claims cost to drivers) based upon drivers' at fault frequency by DSR level, and by assigning all comprehensive claims cost to drivers based upon their expected comprehensive claims frequency by DSR level. This analysis illustrated a negative discrepancy between some premiums paid per driver and claims cost per driver throughout most of the demerit side of the DSR scale.

Finally, the Corporation advised that allocation of the driver premium should further incent better driver behavior, which contributes to road safety and loss prevention efforts. The proposed changes would apply only to driver premiums on the demerit side of the DSR scale, and were structured so that no demerit driver would face an increase in their 2018/19 driver premium relative to what they paid in 2017/18, provided they qualify to move up the DSR scale with an "incident free" year of driving in 2017/18. Therefore, drivers on the demerit side of the DSR scale can improve their driving behavior and avoid increases. Further, the snap-back provision on the DSR scale quickly rewards good driving behavior as it allows a driver at the highest demerit level to return to zero demerits within five years, based upon a safe driving record.

MPI was of the view that ratepayers support the concepts of rewarding good driving behavior while providing a financial deterrent to poor or dangerous driving behavior, that good drivers should not be subsidizing the cost of poor drivers, and that a driver's premium should accurately reflect the cost of that driver.

4.2. Interveners' Positions

CAC

CAC opposed the Corporation's proposal to increase driver premiums on the demerit side of the DSR scale until more research and comprehensive reform has been undertaken. CAC proposed a review of the effectiveness of MPI's current ratemaking methodology and the DSR system in terms of associating insurance risk to the cost of insurance, including comparison to ratemaking methodologies using in other Canadian jurisdictions. CAC believes that consideration should be given to other factors, such as designation of principal and secondary drivers to a vehicle, and that improved analytical tools be used for setting premiums which more accurately reflect the risk.

CAA

CAA was supportive of the proposed changes to the DSR scale, commenting that it has no issues with drivers on the demerit side of the scale paying substantially more when their driver behaviour behind the wheel is creating risks for road users and driving up costs.

CMMG

CMMG took no position with respect to the proposed changes to the DSR scale.

TAB 3

Public Utilities Board Régie des services publics

Order No. 159/18

MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION): COMPULSORY 2019/2020 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

December 3, 2018

BEFORE: Robert Gabor, Q.C., Chair
Irene Hamilton, Member
Robert Vandewater, Member
Carol Hainsworth, Member

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11. IT IS THEREFORE ORDERED THAT: 105

In this Application, MPI sought final approval of 2017/2018 and 2018/2019 VFH rates for service, and applied for approval of VFH rates for 2019/2020. The Corporation also reported on certain items about which the Board in Order 11/18 had directed the Corporation to report.

The Corporation advised that the primary means of limiting cross subsidization between VFH and the rest of Basic was through the creation of a new pool to track the VFH claims experience. It reported that it is collecting the same information on VFH policy claims as it does for all other policies, and claims experience for VFH classes will be tracked separately, which will form the VFH pool used to set actuarially sound rates for VFH policies. In addition to establishing a separate pool, MPI will continue to employ its processes to ensure that claimants are correctly insured at the time of a claim.

MPI reported that it had conducted an ongoing review of rating models used in other Canadian jurisdictions. Those other models were not considered suitable with Manitoba's public insurance environment given the compulsory nature of Basic. At the time of the Application, neither British Columbia nor Saskatchewan had permitted the operation of TNCs; accordingly, MPI's review of other jurisdictions could not include comparable public insurers.

MPI had assumed that the Taxi class of VFH would experience a $1 million reduction in premiums, relative to a written premium base of $5.7 million, reflecting an approximately 17.5% reduction in premium. To date, the Corporation reported, the average Taxi VFH has received a DSR discount of approximately 20.6%, and the claims costs for Taxi VFH have tracked closely with the premium reductions.

As of April 30, 2018, MPI reported a total of 872 vehicles insured as VFH, with the vast majority being comprised of the Taxi (497 vehicles insured) and Passenger (304 vehicles insured) classes. As of May 22, 2018, there were a total of 191 VFH-related claims.

4.1. *Board Findings*

The Board hereby grants final approval of the rates applied for by the Corporation in its Vehicles For Hire Rate Application, filed with the Board on December 15, 2017, and approved on an interim basis by the Board in Order 11/18. The Board recognizes that TNCs are a relatively new phenomenon in Manitoba and as such it will take time for claims experience to be gathered and tracked for the VFH pool. The Board directs that in the 2020 GRA, the Corporation file information as to its claims experience to date for the VFH class.

5. DRIVER SAFETY RATING (DSR)

As set out above, in the 2018 GRA, the Corporation applied for an increase to the demerit premiums for the DSR system. The Board approved the Corporation's application in that regard, but required that the Corporation undertake further work such that in the future, DSR rates and vehicle premium discounts would be based on principal driver rating than the registered driver rating. To that end, the Board directed in Order 130/17 that a Technical Conference take place on the availability and practicality of other analytical tools and ratemaking methodologies to better determine DSR rates and vehicle premium discounts based on principal driver rating rather than registered driver rating. The Board also directed the Corporation to file proposed driver premium rates more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale in this Application, and, in the 2021 GRA, file proposed vehicle premium discounts that are actuarially indicated based on principal driver performance evaluation.

The Corporation applied for a review and variance of those aspects of Order 130/17, on the basis that the foundational structure and purpose of the DSR program and the vehicle premium discounts were only given a cursory review in the 2018 GRA, and there was insufficient evidence or consideration given to justify changes to the structure and implementation of the DSR program. MPI took the position that while it might be appropriate to change the framework for the DSR scale, this should only be done after consideration is given to a complete evidentiary record.

By Order 29/18, the Board granted MPI's application in part. First, with respect to the requirement for a Technical Conference, the Board directed that it be undertaken in order to review the availability and practicality of other analytical tools and ratemaking methodologies to better determine DSR rates and vehicle premium discounts based on principal driver rating rather than simply registered driver rating. The information shared in the Technical Conference was to be included in this Application. Further, in this Application, MPI was required to file information as to how it would proceed to implement driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale, and vehicle premium discounts fully supported by actuarial indications based on principal driver performance evaluation. If MPI's position was that it is not possible to implement driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale and/or vehicle premium discounts that are fully supported by actuarial indications based on principal driver performance evaluation, MPI was to advise the Board in this Application, and file information as to why that is the case.

The Board also varied those aspects of Order 130/17 that required the Corporation to file proposed driver premium rates more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale in this Application, and, in the 2021 GRA, file proposed vehicle premium discounts that are actuarially indicated based on principal driver performance evaluation. In Order 29/18 the Board varied those directives such that they were to be held in abeyance until such time as the issues of driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale, and vehicle premium discounts that are fully supported by actuarial indications based on principal driver performance evaluation, were reviewed and considered in the this Application.

The Technical Conference on the DSR took place on March 20, 2018.

In this Application, the Corporation stated that DSR-based driver premiums should be actuarially sound, and that it is considering options for alternative models. This includes engagement with the public, as well as gathering of data. MPI advised that it plans to provide an update on or the results of its analysis in the 2020 GRA. MPI did acknowledge that it needs to improve the actuarial soundness of the DSR-based driver premiums and vehicle premium discount calculations, which are currently set by policy.

The Corporation also stated that it can improve the DSR model, to ensure that risk is better reflected in driver premiums and vehicle premium discounts under the DSR scale. These improvements will result in further disincentives for engaging in high-risk driving behavior and customers at the top and bottom of the DSR scale will pay rates that better align to their driving behavior. MPI has not yet determined that DSR ratemaking methodology should be based on principal driver performance evaluation.

The Corporation reported on certain models for driver premiums and vehicle premium discounts that might be considered in determining what changes should be made to the DSR rating system, and provided its views on each of the models. The models reviewed include: Primary Driver, Declared Driver, Forced Assignment, and Residual Risk.

Primary Driver would require policyholders to identify the primary driver of the each vehicle in the household. The Declared Driver model would require the policyholders to identify the regular drivers of the vehicle, and the Corporation could determine vehicle discounts based on some variable (i.e., average, lowest DSR rating) of the listed drivers of the vehicle. Forced Assignment would require MPI to develop the ability to easily and accurately identify all licensed drivers in a given household, and then determine vehicle discounts on the basis of the DSR data gathered about those drivers, or to assign specific vehicles to certain drivers for rating purposes. The Residual Risk model would ensure that drivers who do not register vehicles pay an actuarially determined driver premium based on their historic risk, and driver premium collected from non-owners would be used to lower vehicle premiums, and/or improve the actuarial soundness of the vehicle premium discounts.

The Corporation is in the process of researching these models. With respect to the demerit side of the DSR scale, the Corporation noted that is where drivers create risk; accordingly, it needs to collect more premiums from that particular group, but the current model that is used is not actuarially sound.

The Corporation reported that the next steps towards the implementation of more actuarially sound DSR premiums and vehicle premium discounts will involve its public consultation efforts, along with further investigation and analysis of those rating models having limited or no additional IT costs (Primary Driver and Residual Risk). It reported that it anticipates by the 2020 GRA, it will be in a position to report on the results of its public consultation efforts, its preliminary research on the no or low cost options, and whether it intends to proceed with data collection for higher cost options (Declared Driver and Forced Assignment).

TAB 4

Public Utilities Board

Régie des services publics

Order No. 176/19

MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION): COMPULSORY 2020/2021 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

December 3, 2019

BEFORE: Irene A. Hamilton, Q.C., Panel Chair
Robert Gabor, Q.C., Board Chair
Carol Hainsworth, Member

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	premium collected from these "non-owners" would be used to lower vehicle premiums for the pool of insured vehicles				

In addition to its public consultation efforts, MPI reported on its initial analysis of data collection costs for the rating models that were under consideration by it. The data collection costs for the models were as follows:

- Registered Owner: no data collection costs
- Primary Driver: $217,000 (primary driver information required)
- All Household Drivers: $1.18 million (to modify MPI's system to capture and maintain residence data)
- Declared Driver(s): $1.16 million (to capture data of regular drivers of the vehicle)
- Driver Premium: no data collection costs

MPI's position was that Manitobans are generally in favour of the current system (the Registered Owner model), which is seen as a fair way to establish rates to deal with the issue of risk. In MPI's view, most Manitobans appreciate that the current system achieves the objectives of fairness and appropriate pricing.

MPI advised that it would be providing a pricing examination of the Registered Owner, Primary Driver, and Driver Premium models in the 2021 GRA, at which time MPI would also provide its recommendation to the Board as to whether it intends continue with the Registered Owner model, or move to an alternate model.

6.1. __INTERVENERS' POSITIONS__

CAC

CAC advised that MPI should be directed to conduct a number of further steps with respect to the DSR, namely:

- To conduct a pricing examination, including the financial impact on premium revenue and the cost of modifying the system;

- To complete a review of best practices in other jurisdictions;

- To conduct further engagement with consumers with respect to models that are priced, including relating to how to structure and implement any new model.

Further, in CAC's view, decision-making considerations with respect to the DSR should include consumer views, premiums that accurately reflect the risk that drivers of a vehicle pose, encouraging safe driving, and cost efficiency to the Corporation.

CMMG

CMMG took the position that a greater share of PIPP costs or premiums should be transferred to the driver's licence, given that motorcyclists do not pose the majority of risk on the road but are required to pay high premiums because of the greater risk of bodily injury associated with motorcycle collisions.

6.2. BOARD FINDINGS

The Board expressed in Order 130/17 that it would like to see the Corporation strengthen its analytical tools in the determination of driver premiums, ultimately with a view to filing proposed DSR rates that are more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale. The Board recognizes the Corporation's efforts to enhance its analytical tools as well as to assess public support for certain rating models. However, with two years having passed since Order 130/17, the Board finds that MPI should be in a position by the 2021 GRA to advise the Board of the direction it intends to take with respect to DSR premiums. The Board therefore directs that in the 2021 GRA, the Corporation file:

- information as to which rating model it intends to proceed with;

- a pricing examination, including the financial impact on premium revenue and the cost of modifying the system, of the Registered Owner and Primary Driver models; and

- information as to whether it has collected data to recalibrate the amounts of driver premium and vehicle premium discounts to be charged under the DSR system to be more statistically sound, based on experience.

The Board has directed the pricing examination be limited to the Registered Owner and Primary Driver models only, given that these two models have the greatest amount of public support and perceived fairness.

The Board accepts the position of CAC that it would be beneficial to review and consider best practices for rating models in other jurisdictions. Accordingly, along with the directives as set out above, the Board directs the Corporation to conduct a review of best practices for rating models in other Canadian jurisdictions and file the results of that review in the 2021 GRA.

7. PROGRAM COSTS

The costs associated with providing Basic insurance to Manitoba motorists fall into the following major categories:

	Total Estimated Expense 2020/21 ($ millions)	**Percentage of Total Program Costs**
Net Claims Incurred	**$940.7**	**75.1%**
Claims Expenses	**139.4**	**11.1**
Road Safety/Loss Prevention	**13.5**	**1.1**
Operating Expenses	**74.2**	**5.9**
Commissions	**44.4**	**3.5**
Premium Taxes	**34.7**	**2.8**
Regulatory/Appeal expenses	**5.3**	**0.4**
Total Program Costs	**$1,252.2**	**100.0%**

TAB 5

Public Utilities Board — Régie des services publics

Order No. 6/20

MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION): COMPULSORY 2020/2021 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

APPLICATION FOR REVIEW AND VARIANCE OF ORDER 176/19

January 21, 2020

BEFORE: Irene A. Hamilton, Q.C., Panel Chair
Robert Gabor, Q.C., Chair
Carol Hainsworth, Member

Public Utilities Board — Régie des services publics

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3. BOARD FINDINGS

Pursuant to the Board's Rules of Practice and Procedure, and in particular, Rules 36(1) and 40(2) thereof, the Board may on application or on its own initiative review, rescind, change, alter or vary any decision or Order it has made. The Board's jurisdiction in that regard flows from section 44(3) of *The Public Utilities Board Act* (the *Act*).

In accordance with Rule 36(4), upon receipt of an application for review and variance, the Board is to determine, with or without a hearing, in respect of an application for review, the preliminary question of whether the matter should be reviewed and whether there is reason to believe the order or decision should be rescinded, changed, altered or varied.

After determining the preliminary question under Rule 36(4), pursuant to Rule 36(5), the Board may:

a) Dismiss the application for review if,

   i. In the case where the applicant has alleged an error of law or jurisdiction or an error in fact, the Board is of the opinion that the applicant has not raised a substantial doubt as to the correctness of the Board's order or decision; or

   ii. In the case where the applicant has alleged new facts not available at the time of the Board's hearing that resulted in the order or decision sought to be reviewed or a change of circumstances, the Board is of the opinion that the applicant has not raised a reasonable possibility that the new facts of change in circumstances as the case may be, could lead the Board to materially vary or rescind the Board's order or decision; or

b) Grant the application; or

c) Order that a hearing or proceeding be held.

The Board has considered the information and positions advanced by MPI with respect to each of the Directives sought to be varied, in accordance with Rules 36 and 40(2), and has considered the comments filed by CAC and CMMG.

The Board has determined that a hearing is not required in order to issue a decision on MPI's application for a review and variance.

3.1. Directive 13.7(a)

MPI provided additional information to the Board regarding the processes and timing that will influence its progress towards a decision on a new DSR model. The Board has taken into account that a decision on the DSR model engages potential regulatory changes, may require Treasury Board approval, and requires coordination with MPI's IT changes.

The Board has also taken into account that MPI has not asked that Directive 13.7(a) be held in abeyance at its sole discretion. As has been the case in recent GRAs, the Board will continue to monitor MPI's progress towards implementation of driver premiums more statistically consistent with the average claims cost per driver and vehicle premium discounts fully supported by actuarial indications, and issue further directives as appropriate.

The Board is therefore satisfied that Directive 13.7(a) should be varied to read as follows:

> 13.7 With respect to the Driver Safety (DSR) system, the Corporation shall:
>
> (a) File information in the 2021 GRA as to the timeline and major milestones for the determination of which rating model it intends to proceed with;

The Board points out, however, that the need for progress towards a new DSR model was raised by it following the 2018 GRA. In Order 130/17, the Board stated that it expected in future applications MPI would use more robust analytical tools to provide a

Public Utilities Board Régie des services publics

more statistically-driven and performance-based evaluation systems to support driver premiums and vehicle premium discounts. The Board's directives on DSR in Order 130/17 were subject to an application for review and variance by MPI, which was granted by the Board, permitting MPI more time to analyze the issue. Taking this history into account, the Board expects that MPI will set its timeline and milestones in response to Directive 13.7(a) with a view to progressing on a new DSR model in a timely manner.

The Board finds that it is premature to direct the manner in which MPI should bring proposed changes to the DSR before it for approval. The Board will review and consider the evidence in the 2021 GRA, and issue any directives on procedure as appropriate at that time.

3.2. Directive 13.10

The Board has taken into account the new information provided by MPI, that it intends to file the 2021 GRA in mid-May 2020. Accordingly, the deadline for the meeting required by Directive 13.10 has already passed. The Board finds that it would be beneficial for the meeting to take place following the MPI Board of Directors' decisions on the first of the project "gates", which are expected to take place in February 2020.

The Board is therefore prepared to vary Directive 13.10 to require the meeting to take place on a date to be agreed, but no later than April 30, 2020.

The Board agrees with MPI's recommendation that it meet with Board staff and/or Advisors, in advance of the meeting required by Directive 13.10, to clarify the depth and detail required for each initiative. The Board expects that the parties will proceed to make arrangements to meet at a time satisfactory to them.

Lastly, the Board noted the comments from MPI on IT benchmarking and road safety, and looks forward to receipt of the evidence on those issues in the 2021 and 2022 GRAs respectively.

4. IT IS THEREFORE ORDERED THAT:

1. Directive 13.7(a) of Order 176/19 be varied to read as follows:

   13.7 With respect to the Driver Safety (DSR) system, the Corporation shall:

   (a) File information in the 2021 GRA as to the timeline and major milestones for the determination of which rating model it intends to proceed with;

2. Directive 13.10 of Order 176/19 be varied to read as follows:

   13.10 The Corporation shall meet with the Board Advisors on a date to be agreed, but no later April 30, 2020, wherein the Corporation will provide the Board with an update on the following Information Technology (IT) initiatives:

   (a) Project Nova, including an update on all aspects of the project including but not limited to resourcing, training, component progress, budget and prototypes;

   (b) IT staffing and consultant strategy and progress towards reduction;

   (c) IT Strategy;

   (d) Progress on IT Information Security, IT Risk Management Process, IT Technology Risk Management, and Enterprise Architecture;

   (e) Agile implementation, training, key performance indicators and overall progress within the Corporation, and discussion of an additional pilot project using Agile;

TAB 6

Public Utilities Board
Régie des services publics

Order No. 1/21

MANITOBA PUBLIC INSURANCE (MPI OR THE CORPORATION): COMPULSORY 2021/2022 DRIVER AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS

January 5, 2021

BEFORE: Irene A. Hamilton, Q.C., Panel Chair
Robert Gabor, Q.C., Chair
Carol Hainsworth, Member

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10.0 IT IS THEREFORE ORDERED THAT: 96

justified a deviation from the CMP in those applications, but the Board does not anticipate that this will be an ongoing feature of the CMP and indeed, if that were to be the case, an amendment to the CMP would be required.

The Board accepts the Corporation's proposed 5% Capital Release provision, in line with the provisions of the CMP. The Board will continue to assess the performance of the CMP and the Basic target capital level over the trial period, after which the Board will undertake a detailed review of the CMP. The Board has directed that in the 2022 GRA, MPI file material to assist in its review of the CMP. This shall include an analysis supporting the level of the Basic target capital level (100% MCT) or the use of a single target capital level (vs. a range) to promote rate stability, consistent with the purpose of the RSR. Should the Board revert to a scenario-driven Basic target capital range or level (which the latest evidence from the 2019 GRA suggests is below 100% MCT), the Board acknowledges the practical impact of the current decision on the Basic target capital level would be to defer the otherwise appropriate Capital Release, given the current level of the Basic MCT ratio.

The CMP contains a commitment from MPI to transfer Extension retained earnings over 200% MCT to Basic. The evidence in this Application shows that MPI did not follow this commitment in the past year and instead issued a rebate to ratepayers. MPI also gave evidence in the public hearings indicating that while there were no current plans to do so, it is possible that Extension retained earnings could be used for purposes other than transfers to Basic during the fiscal year. It is of concern to the Board that within the first year of this two-year trial period MPI has already departed from its commitment to Extension transfers and is acknowledging the possibility this could happen again.

Driver Safety Rating

In the 2018 GRA, the Corporation applied for an increase to the premiums on the demerit side of the Driver Safety Rating (DSR) system. The Board approved the Corporation's application in that regard, however it directed the Corporation to undertake further work toward the implementation of more actuarially sound DSR premiums and vehicle premium discounts. In the 2020 GRA, the Corporation provided an update on its public consultation efforts and analysis of the cost of data collection for alternative rating models. In Order 176/19, the Board directed that in this GRA the Corporation provide its analysis of pricing, including the financial impact on premium revenue and the cost of modifying the system, and that MPI provide an update on which vehicle premium discount model it intends to implement. The Corporation applied to vary the latter directive, and in Order 6/20 the Board granted MPI's application. As a result, in this GRA, rather than reporting on which model it intends to implement, MPI was required to provide information as to the timeline and major milestones for a change to the DSR system. MPI also filed a pricing examination of its current DSR model.

Since the 2018 GRA, the Board has expressed concern with the evidence that the DSR scale does not accurately reflect risk. In Order 130/17, the Board approved an increase to rates on the demerit side of the DSR scale, however it made clear that MPI should strengthen its analytical tools in the determination of driver premiums.

The pricing examination in this Application confirmed that further refinement is required in order for rates to accurately reflect risk. In addition, using the Registered Owner rather than Primary Driver DSR model means that good drivers who are registered owners of vehicles are subsidizing bad drivers who are not. Given the history outlined above, the Board finds that sufficient time and examination has taken place in order for MPI to move towards more actuarially sound driver premiums and vehicle premium discounts by the 2022 GRA.

Further, given the evidence that the Primary Driver model would more accurately reflect risk, in the 2022 GRA the Corporation must bring forward a plan, including timelines, major milestones and implementation date, for any changes to the DSR model, including a date by which MPI file an application for any such changes with the Board The timeline for MPI's major Information Technology initiative, Project Nova, requires that MPI move forward on DSR changes without delay. The Board has also directed that in the 2022

GRA, the Corporation shall file proposed driver premium rates and vehicle premium discounts that are more statistically consistent with the estimated claims cost per driver for each level of the DSR scale, including incorporating DSR into its minimum bias analysis used to set rating relativities.

Expenses

The Board has in the past characterized one of the key elements of its independent review function and rate-setting role as ensuring that actual and projected costs incurred are necessary and prudent, in the context of setting just and reasonable Basic rates.

In this GRA the Board reviewed MPI's expenses against the backdrop of the COVID-19 pandemic. It appears that the Corporation has been prudent in its efforts to contain costs. However, the significant savings experienced in fiscal year 2020/21 to date have been due in large part to the impact of the pandemic, evidenced not only by the financial results reported in this Application but also by SRA I filed in April 2020, and SRA II filed shortly after the conclusion of the public hearings in this Application.

Therefore, fiscal year 2020/21 can be seen as unique and there may be little benefit to comparing its expenses to any other year. The Board will again review MPI's financial results in the 2022 GRA, by which time there may be a return to relative normalcy.

With respect to Information Technology expenses, the Board intends to engage in a detailed review of Project Nova, MPI's major initiative, in the 2022 GRA. In the public hearing, the Corporation advised that it intended to undertake a re-baseline of the project after the conclusion of the hearing. This deprived the Board of the ability to assess crucial factors, such as the updated project budget and contingency. The increased project costs of $22.6 million to date are of concern to the Board.

Due to the timing of the re-baseline, understanding how MPI will respond and manage risks of Project Nova going forward is unknown. Project Nova is a significant undertaking, with many moving parts and the Board is concerned about MPI's progress to date. While

On December 31, 2019, MPI made an application to the Board for a review and variance of one directive in Order 176/19 related to the DSR system. In particular, MPI asked that the Board vary the directive requiring it to file information in this Application as which rating model it intends to proceed with. As part of the request for a variance, MPI advised the Board that changes to the DSR might have an impact on one or more of the *Automobile Insurance Plan Regulation*, *Driver Safety Rating System Regulation* under *The Manitoba Public Insurance Act*; and the charges for licences, registrations, permits and other services regulation under *The Highway Traffic Act*. MPI also stated that it must coordinate the impact of DSR changes on its major IT initiative, Project Nova. According to MPI, its Board of Directors would not be in a position to decide on a direction for the DSR any earlier than mid-2020, and following that decision, the process for any regulatory amendments would take approximately 12 months.

MPI therefore asked for a variance so that it would not be required to advise in this Application as which DSR rating model it intended to proceed with, but instead that it would file information in this GRA as to the timeline and major milestones for such a decision. The Board granted MPI's request in Order 6/20 dated January 21, 2020. The Board pointed out in Order 6/20, however, that the need for progress towards a new DSR model was raised by it following the 2018 GRA and that given the history of this matter, it expected that MPI would set its timeline and milestones with a view to progressing on a new DSR model in a timely manner.

6.2 Current Application

In this Application, MPI filed a pricing examination of its current Registered Owner rating model, which applies vehicle premium discounts and surcharges based on the registered owner of the vehicle.

MPI reported that at the individual vehicle level, the Registered Owner model does not consider the relative risk of the vehicle based on the actual driver(s) of the vehicle. Instead, the model determines the relative risk (and the vehicle discount) simply based on who owns the vehicle. However, at the overall vehicle level, the vehicle discounts provided (at each DSR level) are based on the collective loss experience of the drivers of vehicles registered to owners with the same DSR level. For example, the vehicle discount at DSR level +15 reflects the collective loss experience of the drivers of vehicles registered to owners with DSR level +15. The vehicle discount is an adjustment (to the base rate) to reflect the relative risk of all drivers of vehicles registered to owners with DSR level +15 versus all drivers of vehicles registered to owners with DSR level 0 (i.e. the base DSR level).

In terms of methodology for the pricing examination, MPI used the minimum bias procedure to determine DSR level relativities. This method isolates the effect of DSR level on loss costs by adjusting for exposure correlations with other rating variables (i.e. territory, use and rate group).

MPI found as a result of the pricing examination that its current vehicle premium discounts and surcharges do not reflect the relative risks of drivers at different DSR levels. For drivers at the highest level of merits on the DSR system, the actuarially-informed discount would be 56.7% compared to the base premium, whereas the current discount is 33%. If MPI were to incorporate changes to the DSR discounts and surcharges as a result of the pricing examination, DSR levels +11 through +15 would see decreases in rates, with level +15 seeing a decrease of 22.1%. DSR levels under +10 would all see increases. Implementation of changes to DSR discounts would also result in changes to other relativities, such as Major Use or vehicle categories.

MPI did not file any proposed changes to the existing DSR discount scheme in this Application, and the relativities generated by the pricing examination were not incorporated into MPI's rate request.

MPI advised that it is developing recommendations for the future of the DSR system but it does not plan to make any changes prior to the completion of Project Nova. The future state recommended by MPI to government may require regulatory changes. Although it does not plan to implement any changes in the near term, the requirements of the future state of the DSR system must be developed within the next 12 months to ensure that it can be coordinated with any planned changes to legacy systems.

MPI anticipated that by mid to late 2021, an internal decision on changes to the DSR would be made. MPI will be the leader of the initiative, but any changes to the DSR would require approval by the Government of Manitoba before implementation. MPI advised that it does not currently know the capabilities of software that will be implemented in Project Nova to rate risk for individual drivers or owners. Based in part on the capabilities of the new system, and the willingness of the government to make changes to the DSR system, MPI advised it would soon make a decision on how to proceed.

MPI also stated that the findings from the DSR pricing examination cannot be understood in isolation from revised relativities, especially as they relate to territories and uses. When consideration of the DSR is included in the minimum bias procedure, the relative rates between different uses (such as All Purpose and Pleasure) become more similar.

Lastly, MPI's position was that, while in theory, the Primary Driver model enables it to provide more accurate pricing, it must take into account that it would cause a disruptive overhaul of the DSR system while still relying upon the honour system for customers to provide accurate information as to the primary operator of a vehicle within a household, if that person is someone other than the registered owner.

6.3 Interveners' Positions

CAC

CAC argued that the pricing examination conducted by MPI demonstrated that there is a material cross subsidy, where the best drivers with registered vehicles (at DSR levels +11 to +15) are paying rates that appear to be unduly discriminatory. CAC's position was that MPI could begin to address that cross subsidy within the current DSR system, without undermining any recommendation to proceed to the Primary Driver model in the future.

In any event, such a process should be coordinated with adjustment to the relativities for all variables with the same timing, to ensure correlations are accounted for. CAC argued that MPI should present options in the 2022 GRA, which consider addressing the existing subsidies in time periods of three and five years, and indicate its plan to mitigate against excessive dislocation. CAC pointed out that government approval would not be required for MPI to address the dislocation for customers at level +15 of the DSR.

CAC took the position that the Board should recommend that MPI ask for government consideration in replacing the existing Registered Owner approach with a Primary Driver model, or a blended model. In addition, location is a significant driver of a difference in risk in most jurisdictions. CAC noted that ICBC recently updated its territorial data to better reflect different regions within that province and that MPI has not conducted a territory review since the introduction of the DSR.

Lastly, CAC noted that MPI had not indicated a concern with moving towards a rate indication incorporating minimum bias based on DSR and other variables for the 2022 GRA.

CMMG

CMMG argued that changes to the DSR system must coincide with the implementation of Project Nova, and the changes need to happen on a timely basis. The Primary Driver model is fair, better reflects risk, and would result in reductions in collision frequency. CMMG noted that MPI saw improved experience when the DSR model was implemented.

In addition to a change to the model, CMMG supported improvement of the current DSR model to better align discounting methodologies to risks posed by insurance, until such time as the Primary Driver model is implemented. Similar to CAC, CMMG commented that the current discount for DSR level +15 results in overcharging of those ratepayers and in turn, those ratepayers are subsidizing others at lower merit levels.

CMMG also recommended that the Board direct MPI to collect data for Primary Driver model and provide a pricing analysis of the Primary Driver model, including a comparison with the Registered Owner model, in the 2022 GRA.

6.4 Board Findings

The Board outlined the recent history of the DSR in past GRAs above. Since the 2018 GRA, the Board has expressed concern with the evidence that the current DSR scale does not accurately reflect risk. In Order 130/17, the Board approved an increase to rates on the demerit side of the DSR scale, but made clear that MPI should strengthen its analytical tools in the determination of driver premiums.

The pricing examination in this Application confirms that further refinement is required in order for rates to accurately reflect risk. In addition, using the Registered Owner rather than Primary Driver model means that good drivers who are registered owners of vehicles are subsidizing bad drivers who are not. By way of example, there are approximately 70,000 motorcycle licences for 17,000 registered motorcycles, which makes clear the need for a rating system based on the primary driver.

Given the history outlined above, the Board finds that more than sufficient time and examination has taken place in order for MPI to move towards more actuarially sound driver premiums and vehicle premium discounts by the 2022 GRA.

Further, given the evidence that the Primary Driver model would more accurately reflect risk, in the 2022 GRA the Corporation must bring forward a plan, including timelines, major milestones and implementation date, for any changes to the DSR model, including a date by which MPI file an application for any such changes with the Board. The timeline for MPI's major Information Technology initiative, Project Nova, requires that MPI move forward on DSR changes without delay.

The need for government approval for changes to the DSR rating model should not be a deterrent to initiating any such change. Further, Project Nova provides MPI with an opportunity to coordinate changes to the rating model with new IT systems. The Board is concerned that if MPI does not take proactive steps to move to the Primary Driver model now, such a change will be more difficult to implement after completion of Project Nova.

Lastly, the Board directs that in the 2022 GRA, the Corporation shall incorporate DSR into its minimum bias analysis used to set rating relativities.

7.0 PROGRAM COSTS

The costs associated with providing Basic insurance to Manitoba motorists fall into the following major categories:

	Total Estimated Expense 2021/22 ($ millions)	Percentage of Total Program Costs
Net Claims Incurred	$915.0	74.5%
Claims Expenses	144.0	11.7
Road Safety/Loss Prevention	13.7	1.1
Operating Expenses	72.4	5.9
Commissions	43.7	3.6
Premium Taxes	33.6	2.7
Regulatory/Appeal expenses	5.2	0.4
Total Program Costs	$1,227.6	100.0%

7.1 Basic Claims Incurred

Claims Incurred represents the costs that are paid or forecast to be paid to claimants for the various benefits provided under the Basic insurance program. Net Claims Incurred were $761.5 million in 2019/20, which was $95.1 million or 11.10% over the budget presented at last year's GRA.

Net Claims Incurred for 2020/21 in this year's Application were originally forecast to be $846.9 million. MPI revised its Net Claims incurred forecast for 2020/21 on October 9,

TAB 7

MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2021/2022 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Robert Gabor, Q.C.	-	Board Chairperson
I Hamilton, Q.C.	-	Panel Chair
C. Hainsworth	-	Board Member
(by Teleconference)		

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 27, 2020

Pages 1443 to 1657

increase or something like that.

Would the change, using your earlier definition of rate shock of 2 percent, is that what you're sort of looking at, which is if we're going to adjust it moderately, that's the sort of moderation we're talking about? Or is that a completely different category?

MR. LUKE JOHNSTON: That could be -- we talked about a few different, you know, possibilities for -- for doing this.

The -- something like that could -- could work, so we could -- like, so we mentioned -- my discussion with Mr. Williams -- maybe we put a limit on how much of a DSR change you can have in a particular year until this is implemented. That would be one (1) option.

THE CHAIRPERSON: In terms of the time to take effect, are you talking about something -- if you wanted to bring it in in a moderate fashion, something like over a five (5) to ten (10) year period?

MR. LUKE JOHNSTON: That would seem -- that would seem reasonable.

I guess, what -- what we didn't really talk about much is the scale -- on an actuarial basis really seems to be the most problematic on the extremes. The -- you know, like, the very top and the very bottom. The middle part is actually surprisingly close to just the policy-based numbers that were put in place. So there's not actually a ton of movement that's required there.

Most of what would be happening is to just gradually move that very top of the scale to a lower rate. It would be at, I guess, the expense of others. But it's not really at the expense of others, if -- if they're paying too much. Right?

So -- but five (5) to ten (10) years would seem very reasonable, recognizing that if we went that route and we happened to have, as Mr. Williams mentioned, a rate decrease anyways, that could perhaps be moved forward faster.

THE CHAIRPERSON: Thank you, Madam Chair. That's -- those are my questions. Thank you, Mr. Johnston.

THE PANEL CHAIRPERSON: Thank you. Ms. Hainsworth, do you have any questions?

MS. CAROL HAINSWORTH (by phone): No, Madam Chair. I do not.

THE PANEL CHAIRPERSON: I have one (1) question for you, Mr. Johnston. Just to confirm my understanding of your evidence.

You were talking about the driver's licence premiums and indicated that they were an effective way of changing driver behaviour.

Would that same comment be applicable to a Primary Driver Model, where primary drivers who perhaps didn't have a good merit rating would then have to pay more money to license their car?

MR. LUKE JOHNSTON: To the extent that we could, you know, properly enforce that behaviour and get that correctly identified, you would assume that there would be more incentive to not just ride under the cover of someone else's, you know, plus 15 rating, knowing that you're going to have to pay that -- that bill as the primary driver.

So I would expect some form of incentive there for -- for better behaviour. Can't guarantee it, of course, but -- yeah.

THE PANEL CHAIRPERSON: Thank you.

Mr. Scarfone...?

RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thank you. So the panel kind of stole my thunder and asked a lot of the same questions I had.

But the -- the last question that you just fielded, I think is similar to the one I put to you yesterday, where -- perhaps you can answer it again. Because we've seen that there's been a decline in frequency over the past couple -- three (3) years. And the Corporation has attributed that to -- at least, in part, to the deterrent under the Driver Safety Rating program.

And so, following up on Madam Chairperson's question, do -- does the Corporation risk losing that frequency reduction if it moves to a -- to the Primary Driver Model?

MR. LUKE JOHNSTON: I -- I don't believe that would be the case, especially if we're moving to more sound pricing on an actuarial basis rather than policy-based pricing.

MR. STEVE SCARFONE: Thank you. And then I also had a question on the excluded data in the pricing examination.

As I recall, Mr. Johnston, you used the passenger vehicles and light trucks, and, you know, Ms. Meek is there saying, Oh, you've again forgotten about my motorcycle client, excluding them.

But I'm wondering, if you had included some of the excluded classes, would that have rendered