

**Manitoba Public Insurance
2022 General Rate Application**

**Closing Submission
of the
Taxi Coalition**

29 October 2021

1 **TAXI COALITION: SUMMARY OF RECOMMENDATIONS**

2 For matters outlined in the Taxi Coalition’s (TC) application for standing and for matters
3 that emerged through the course of the proceeding, the Taxi Coalition provides its closing
4 submission with 20 key recommendations for the Public Utilities Board’s (PUB)
5 consideration.

6
7 Briefs detailing the issue, recommendations, and discussion on each recommendation
8 below are contained in the subsequent sections of this submission. It is the submission of
9 the Taxi Coalition that the PUB should:

10
11 **1. Find that MPI’s approach to increasing Passenger VFH rates in 2022/23 is**
12 **inconsistent with its direction in order 1/21.**

13
14 **2. Direct MPI to increase Passenger VFH rates for 2022/23 by the full 20%, as**
15 **was done in compliance with PUB Order 1/21.**

16
17 A full rate adjustment of 20% for Passenger VFH is warranted in the present
18 circumstance. (See Issue Brief 1)

19
20 **3. Find that a serious loss loading for Passenger VFH is appropriate.**

21
22 **4. Direct MPI to study and report on the appropriate serious loss loading that**
23 **should be applied to Passenger VFH in the 2023 GRA.**

24
25 **5. Direct MPI to examine appropriate serious loss loadings for other insurance**
26 **uses that have no serious losses in the past 10 years.**

27
28 **6. Direct MPI to include a \$428 serious loss loading for Passenger VFH, until**
29 **such time as MPI has a developed a comprehensive approach to serious loss**
30 **loading.**

31
32 A serious loss loading for insurance uses with no history of serious losses is
33 actuarially appropriate. MPI’s methodology for serious losses requires study and
34 revision. (see Issue Brief 2)

35
36 **7. Find that MPI improperly and unlawfully transferred Extension surplus**
37 **capital to DVA in 2020/21, and that further planned transfers in 2021/22 are**
38 **also improper and contrary to the approved Capital Management Plan.**

39
40 **8. Order that the \$60 million transfer to DVA be reversed and treated as per the**
41 **auditor’s recommendations; the proposed transfer of \$53 million to DVA not**

1 **be implemented; and the total amount of \$113 million be transferred to Basic**
2 **and be added to the amounts to be rebated to MPI customers.**

3

4 The Basic and Extension lines of business are inextricably linked, MPI's Basic line
5 of business will still meet the PUB's approved capital adequacy test, and MPI's
6 transfer of Extension Surplus to DVA unfairly benefits some customers over others,
7 and creates unjust and unreasonable rates. (see Issue Brief 3)

8

9 **9. Direct MPI to examine the issue of credibility weighting and propose**
10 **adjustments to the credibility weighting methodology for the 2023 GRA, to**
11 **make small insurance use rates more responsive, and paying particular**
12 **attention to the interplay between credibility methodology and the results of**
13 **the VFH framework review.**

14

15 **10. Approve a one-time adjustment to Taxi VFH to fully recognize the credibility**
16 **of Collision, and Property Damage in 2022/23 rates.**

17

18 **11. Direct MPI to re-examine the way it chooses the size of subsets of customers**
19 **sharing the risk of serious losses and report back to the PUB.**

20

21 More credibility should be assigned to small insurance uses, and the evidence on
22 the record permits the PUB to act on Taxi VFH credibility now. MPI must revise its
23 credibility methodology so as not to impede improved incentives in a revised VFH
24 Framework. (see Issue Brief 4)

25

26 **12. Direct MPI to immediately begin development of GLMs for pricing, and to**
27 **present a plan with the 2023 GRA to implement GLM-based rate making.**

28

29 **13. Direct MPI to prioritize this work, with a goal of a filing for the PUB a**
30 **preliminary set of GLMs using existing rating factors, and a plan to study**
31 **additional rating factors and interactions in order to address the question of**
32 **territorial subsidies among others.**

33

34 **14. Direct MPI to begin collecting additional data relevant to the VFH framework**
35 **review, and any further such data that may inform GLM modelling, forthwith.**

36

37 **15. Reinforce that MPI is to comply with all of the sub-directives to Directive 8 of**
38 **the PUB Order 1/21, by the time it files the 2023 GRA, and certainly in advance**
39 **of finalizing the VFH framework review.**

40

41 **16. Require MPI to report quarterly on the progress in dealing with its Directives.**

1
2 MPI's ratemaking relies on methods developed in the 1960s, GLMs are now
3 industry standard and allow more rating variables and complex interactions to be
4 incorporated into pricing, and also provide 'diagnostic' information about the value
5 of a rating variables. MPI must also collect and analyse data to understand the
6 high relativities, collision experience, and operational characteristics of VFH and
7 should be understood as a prerequisite to developing a revised VFH Framework.
8 (see Issue Brief 5)
9

10 **17. Find that notwithstanding the ongoing redevelopment of the VFH**
11 **Framework, that MPI has not adequately responded to directives contained**
12 **in Order 1/21, related to the VFH insurance uses.**

13
14 **18. Re-issue each of its sub-directives in Directive 8 in Order 1/21, thereby**
15 **confirming the continued relevance of the directives and the PUB's**
16 **expectation of compliance.**

17
18 **19. Order MPI to file its proposed VFH framework in the 2023 GRA.**

19
20 **20. Require MPI to file quarterly status of compliance reports.**

21
22 MPI has not complied with PUB directives, with respect to VFH and other matters,
23 such as DSR and the CMP. (see Issue Brief 6)
24

25 The following issue briefs are provided below:

- 26 1. Passenger VFH Required Rate Increase
27 2. Passenger VFH Serious Loss Loading
28 3. Transfer of Excess Extension Reserves to DVA
29 4. Credibility Assignments
30 5. Generalized Linear Models (GLM) and Territorial Differentials and Data Collection
31 Passenger VFH Adjustment to Break-Even Indicated Rates
32 6. MPI's Compliance with PUB Directives

33 Issues briefs may also have appended additional transcript excerpts relevant to the
34 content of the brief.

1 **ISSUE TOPIC #1: Passenger VFH Required Rate Increase**

2
3 **ISSUE:**

4
5 Whether MPI's approach to increasing Passenger VFH rates in 2022/23 is supported
6 by the loss experience evidence, is consistent the PUB's Order 1/21.

7
8 **TC SUMMARY AND/OR RECOMMENDATION:**

9
10 The PUB should find that MPI's approach to increasing Passenger VFH rates in
11 2022/23 is inconsistent with its direction in order 1/21.

12
13 MPI used the following approach:

- 14
- 15 • Apply 100% credibility weighting to Passenger VFH raw relativities, which were
 - 16 19.6% higher than the current relativities;
 - 17 • Apply the usual experience adjustment capping rules (15%); and
 - 18 • Apply the usual final rate capping rules (20%).
- 19

20 MPI submitted that it complied with PUB orders via the 100% credibility assignment to
21 Passenger VFH raw relativities, but application of the experience adjustment capping
22 rules had the effect of reducing the Passenger VFH rate increases to something less
23 than 20%.

24
25 MPI claims that applying experience adjustment capping rules generates the evidence
26 that Passenger VFH are no longer being subsidized. This logic is circular and flawed,
27 and ignores the PUB's directive to achieve fairness in Passenger VFH rating.

28
29 Dion Strategic has demonstrated how the reliable (pre-pandemic) loss experience of
30 Passenger VFH continues to show that an increase of 20% for 2022/23 is warranted.
31 Further increases in 2023/24 are likely to be warranted, but that issue will be properly
32 dealt with in the 2023 GRA.

33
34 Based on the above, the Taxi Coalition submits that the PUB should direct MPI to
35 increase Passenger VFH rates for 2022/23 by the full 20%, as was done in compliance

Issue Topic #1: **Passenger VFH Required Rate Increase**

- 1 with PUB Order 1/21. This step will better remediate the mispricing and unfairness that
- 2 the PUB found to be present in Passenger VFH rates.

1 **DISCUSSION AND SUPPORT:**

2
3 **MPI properly applied the 20% increase to Passenger VFH rates in the 2021 GRA**
4 **Compliance Filing, as directed by the PUB**

5
6 Directive 3 of PUB Order 1/21 states:

7
8 2. There shall be a rate increase of 20% from current rates for the Passenger
9 Vehicle For Hire (VFH) category, with appropriate off-balance applied to the
10 remainder of the Private Passenger Major Class, which rate increase BE AND
11 IS HEREBY APPROVED.

12
13 3. There shall be consecutive rate increases of 20% for the Passenger VFH
14 Major Class in the 2022/2023 and 2023/2024 General Rate Applications
15 (GRAs), unless MPI can demonstrate that the Passenger VFH Major Class is
16 no longer being subsidized.¹

17
18 In response to this directive, through its compliance filing to the 2021 GRA, MPI
19 increased the rates for Passenger VFH by 20%, by multiplying the final rates by a
20 factor of 1.2. The following exchange between counsel for MPI and MPI's witness Mr.
21 Phoa explains this process:

22
23 RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE: Mr. Phoa, you'll
24 recall that, Mr. Hacault, asking you questions about the 20 percent Order from
25 last year's rate application?

26
27 MR. TAI PHOA: Yes, I do. MR. STEVE SCARFONE: And as I understand it,
28 you initially applied 20 percent to the premiums, at that first instance. Correct?

29
30 MR. TAI PHOA: **The 20 percent was applied to the 2021 rates, that's**
31 **correct.**² [emphasis added]

¹ Order 1/21, page 97.

² Tx 1235

1 And to further elaborate on the straightforward method that MPI applied to increase
2 Passenger VFH rates in the 2021 GRA Compliance Filing, Mr. Scarfone and Mr. Phoa
3 explained:

4
5 MR. STEVE SCARFONE: Okay. Thank you. And I don't want to belabour this
6 point. So if I'm understanding the order from last year -- and -- and there you
7 see it before you:

8
9 "There shall be consecutive rate increases of 20 percent."
10 You see that there, sir?

11
12 MR. TAI PHOA: Yes, I do.

13
14 MR. STEVE SCARFONE: "Unless MPI can demonstrate that it's not -- no
15 longer being subsidized." Do you see that?

16
17 MR. TAI PHOA: Yes, I do.

18
19 MR. STEVE SCARFONE: **Okay. So the first go-around, if we're using a**
20 **hundred dollars, you would, by my crude math, multiply that by point two**
21 **(.2), you get twenty dollars (\$20), and now it's one twenty (120)?**

22
23 MR. TAI PHOA: **That is correct.**³ [emphasis added]

24
25 The result of this approach was a 20% increase in final rates for Passenger VFH in
26 the 2021 GRA.

27
28 **MPI did not apply the 20% increase to Passenger VFH rates in the 2022 GRA, as**
29 **directed by the PUB**

30
31 The exchange between Mr. Scarfone and Mr. Phoa continued, to explain that MPI did
32 not use the same methodology for Passenger VFH rate increases in the 2022 GRA:

³ Tx 1236 to 1238

1 MR. STEVE SCARFONE: And then going forward, you would use one twenty
2 (120), multiply it by point two (.2), which is twenty-four (24), and now it's one
3 forty-four (144)?

4
5 MR. TAI PHOA: That is correct.

6
7 MR. STEVE SCARFONE: **Okay. You didn't do the one forty-four (144)**
8 **step?**

9
10 MR. TAI PHOA: **No, I did not do the one forty-four (144) step.**⁴ [emphasis
11 added]

12
13 What MPI did instead is explained **partially** in the 2022 GRA at part VI – Ratemaking,
14 at Page 48 of 61:

15
16 For the Passenger VFH (Passenger Vehicle) insurance 1 use, MPI did not
17 apply the credibility formula as discussed above. Per PUB Order 1/21, Order
18 #3, “There shall be consecutive rate increases of 20% for the Passenger VFH
19 Major Class in the 2022/23 and 2023/24 GRAs, unless MPI can demonstrate
20 that the Passenger VFH Major Class is no longer being subsidized.” In
21 response to this PUB Order, and given that the raw relativity (2.8181) is 19.6%
22 higher than the current relativity (2.3558), MPI applied the full 100% credibility
23 to the raw relativity (and 0% to the current relativity).

24
25 At the hearing, MPI’s ratemaking panel fully explained in their opening presentation⁵,
26 reproduced below, that after assigning full credibility to the Passenger VFH Raw
27 Relativity, “thereafter, MPI applied the same experience adjustment rules as
28 applicable to all insurance uses.

⁴ Tx 1238

⁵ MPI Exhibit 63, slide 11.

October 18, 2021

MPI Exhibit #63

Passenger VFH Rates

Order 1/21, directive 10.3 – “There shall be consecutive rate increases of 20% for the Passenger VFH Major Class in the 2022/23 and 2023/24 GRAs, unless MPI can demonstrate that the Passenger VFH Major Class is no longer being subsidized.”

- For the 2022/23 GRA, MPI applied the full 100% credibility to the raw relativity for the Passenger VFH (Passenger Vehicle) insurance use:
 - Fully recognize the actual loss experience for the insurance use (relative to the Private Passenger major class)
- Thereafter, MPI applied the same experience adjustment rules as applicable to all insurance uses:
 - Experience adjustments for Passenger VFH (Passenger Vehicle) between 13% to 15% (maximum) depending on territory

11



1
2
3 **MPI’s rationale for not increasing 2022/23 Passenger VFH rates the full 20% is**
4 **circular and flawed**

5
6 The application of experience adjustments, after assigning full credibility to the
7 Passenger VFH raw relativity is contrary to the intent of PUB’s directive, yet MPI relies
8 on this step **as the evidence** that it no longer needs to increase Passenger VFH rates
9 by the full 20% in 2022/23.

10
11 MPI elaborates on how it believed it had ‘evidence’ that Passenger VFH rates did not
12 require a full 20% adjustment, in an exchange between counsel for MPI, and Mr. Phoa:

13
14 MR. STEVE SCARFONE: Can you explain just very simply why the
15 Corporation didn't do the second part?

16
17 MR. TAI PHOA: So, again, like I said, the Corporation didn't do the second --
18 the -- the Corporation took somewhat of a different approach this year. We fully
19 recognize the -- the actual loss experience which is for -- for the group. And
20 then -- and then -- which resulted in the -- the adjustment that we did. The order
21 suggested that, you know, we need -- we need to increase the 20 percent if
22 MPI can demonstrate that -- sorry, unless MPI can demonstrate that the
23 passenger VFH major class is no longer being subsidized, **based on the**

1 **evidence that we have, we do not believe that -- that the 20 percent is**
2 **required based on how we did the methodology.**

3
4 MR. STEVE SCARFONE: **So the evidence that you used didn't support a**
5 **second 20 percent. Is that an accurate summation?**

6
7 MR. TAI PHOA: **That is an accurate -- accurate summation, yes.**⁶ [emphasis
8 added]

9
10 However, a further exchange between Mr. Gabor and Mr. Phoa, provided clarification
11 for the basis of MPI's claims:

12
13 THE CHAIRPERSON: Yeah, I've got one (1), sorry, further question based on
14 Mr. Scarfone's questions, which I thought were going in a certain direction, but
15 he didn't ask the -- the one (1) question. Mr. Phoa, on the screen we've got this
16 passage. Line 4 says:

17
18 "Unless MPI can demonstrate that the Passenger VFH major class is no longer
19 being subsidized."

20
21 **Is it the position of MPI that applying the full 100 percent credibility to the**
22 **raw relativity demonstrates that the Passenger VFH major class is no**
23 **longer being subsidized?**

24
25 MR. TAI PHOA: My take on this is that, for -- for -- when -- when it comes to
26 insurance, there's -- there's always going to be like some small cross-
27 subsidization happening, especially when it comes to very small uses. Having
28 -- so -- so what we've done here is that we fully recognize the -- the actual loss
29 experience for -- for the Passenger VFH, and then applied the same
30 adjustments that we do to every insurance use in the interest of fairness.

31
32 **And -- and to the extent that the methodology is correct for every -- every**
33 **other insurance use, then it is also correct for Passenger VFH, and that**

⁶ Tx 1235 to 1239

1 **it is no long -- that it is -- that, while it is no longer being subsidized as --**
2 **that it is no longer being subsidized.**

3

4 THE CHAIRPERSON: **Okay. So your answer is...**

5

6 MR. TAI PHOA: **Yes.**⁷ [emphasis added]

7

8 In summary, MPI's reasoning for not applying the full 20% rate increase to Passenger
9 VFH in 2022/23, is that they applied the experience adjustment capping rules to
10 Passenger VFH loss experience (after assigning full credibility), and the capping rules
11 resulted in less the 20% required rate increase...hence ***MPI's own methodology***
12 ***generated the evidence that a full 20% rate increase was not required.***

13

14 This logic is baffling, for two reasons:

15

16 1) The very intent of the PUB's directive 3 in Order 1/21, was to avoid the
17 experience adjustment capping rules. The PUB stated in Order 1/21:

18

19 Although the Board has determined that a significant increase in
20 Passenger VFH rates is warranted, it is not persuaded that it should
21 exceed the overall rate increase cap of plus or minus 20% established
22 in Board Order 148/04.⁸

23

24 By employing the 15% experience adjustment cap, MPI has ignored the intent
25 of the PUB's order, which was to increase rates by 20%, three times over, or
26 until it was no longer required.

27

28 2) MPI further claims to base its evidence for not increasing Passenger VFH rates
29 the full 20% on the Passenger VFH loss ratios, as evidenced in this exchange
30 between counsel for MPI and Mr. Phoa:

31

32 MR. STEVE SCARFONE: And you said in your direct evidence that you
33 recalled the genesis of this order was the loss ratios, correct?

34

⁷ Tx1244-1245

⁸ Order 1/21, page 58.

1 MR. TAI PHOA: Yes, that's correct.

2

3 MR. STEVE SCARFONE: Is there a range of loss ratios that the
4 Corporation worked within that's acceptable to them?

5

6 MR. TAI PHOA: I -- I would say around 80 percent loss ratio, 70 or 80
7 percent loss ratio is -- is about right.

8

9 MR. STEVE SCARFONE: So the range is 70 to 80 percent that's
10 acceptable to the Corporation?

11

12 MR. TAI PHOA: Yes, that's correct.⁹

13

14 However, the loss ratio evidence cannot lead to the conclusion that less than
15 a full 20% increase is required in 2022/23 Passenger VFH rates.

16

17 **The reliable (pre-pandemic) loss experience does not support anything less**
18 **than a full 20% increase for Passenger VFH in 2022/23 rates**

19

20 The evidence of Dion Strategic indicates that the loss experience of Passenger VFH
21 does not support anything other than a full 20% increase in rates for the 2022/23
22 insurance year. MPI which has the onus of proof did not adduce evidence rebut the
23 Dion Strategic evidence and did not cross-examine on Dion's analysis which led to
24 Dion's opinion that a full 20% increase was required in this GRA.

25

26 Slide 10 from TC Exhibit 9, the direct evidence of Dion Strategic, lays out the rational
27 for increasing Passenger VFH rates the full 20% in this application:

⁹ Tx 1235 to 1239.



Order 1/21 Directive 10.3

- ✓ “There shall be consecutive rate increases of 20% for the Passenger VFH Major Class in the 2022/2023 and 2023/2024 General Rate Applications (GRAs), unless MPI can demonstrate that the Passenger VFH Major Class is no longer being subsidized.”
- ✓ Dion Strategic understands MPI’s position of a 13% to 15% adjustment. However, Dion Strategic’s position is a range of indications needs to be considered.
 - 1) Historical data
 - Historical data for 2018 and 2019 shows that two 20% rate increases brings the 18/19 loss ratios to 89.5% (not break-even). Three 20% rate increases would bring the 18/19 loss ratios to 74.6% (break-even). This assumes no serious losses.

October 22, 2021

10

1
2
3 Mr. Wong explains this slide as follows:
4

5 Our opinion is to look at a range of indications. There's the indications using,
6 say, Vehicles for Hire itself. There's the indications in the original 2020 GRA.
7 And in this slide, first, we look at the historical data.
8

9 So if we look at just the historical data for 2018 and 2019, **we know that if you**
10 **add two (2) 20 percent rate increases, then the 2018 and '19 loss ratios**
11 **are 89.5 percent, which is not breakeven.**
12

13 So this is the -- we're talking about '18 and '19 because this is pre-pandemic.
14

15 **If you add a third 20 percent rate increase, then the 2018 and 2019 loss**
16 **ratios become 74.6, which is breakeven.** Breakeven being between 70 to 80

Taxi Coalition Closing Submission
Manitoba Public Insurance
2022 General Rate Application
Issue Topic #1: **Passenger VFH Required Rate Increase**

1 percent, as MPI has stated. And, again, this assumes no serious losses
2 because none of have happened yet.¹⁰ [emphasis added]

3
4 These calculations were illustrated TC Exhibit 6, at pages 7 and 8. MPI was cross-
5 examined on this exhibit and did not disagree with any of the metrics and calculations
6 in in TC Exhibit 6. The Columns E and H are reproduced below. These two calculations
7 show that if earned premium in 2018 and 2019 were increased by 20% and again by
8 20%, that the loss ratios for 2018 and 2019 would still be above break even. In
9 particular, the combined loss ratio for 2018 and 2019 would be 89.5%. Recall that a
10 loss ratio above 70%-80% indicates that MPI is **losing money** – not collecting enough
11 premiums and the Private VFH is being subsidized.
12

Excerpt from TC(MPI) 1-18 C - Appendix 2 VFH Major Class Loss Experience

Line No.	Classification	A Incident urance Year	B Total Incurred	C Earned Unit	D Earned Premium	E (Note 2) Earned Premium +20% (x2)	F Average Premium	G (Note 3) Loss Ratio	H (Note 4) Loss Ratio +20% (x2)
1	Passenger Vehicle-for-Hire (Passenger Vehicle)	2018	1,000,744.56	452.86	816,906.80	1,176,345.80	1,803.87	122.50%	85.07%
2	Passenger Vehicle-for-Hire (Passenger Vehicle)	2019	1,864,057.88	746.16	1,405,817.14	2,024,376.68	1,884.08	132.60%	92.08%
3	Passenger Vehicle-for-Hire (Passenger Vehicle)	2020	1,370,277.18	974.09	2,034,075.33		2,088.19	67.37%	
	2018 & 2019 Total (Note 1)		2,864,802.44		2,222,723.94			128.89%	89.50%

Notes

- 1 Sum of 2018 and 2019 values
- 2 D x 1.2 x 1.2
- 3 B/D expressed as percentage
- 4 B/E expressed as percentage

13
14
15 When this table was put to Mr. Phoa for confirmation, he accepted that it was correct:

16
17 MR. ANTOINE HACAULT: Now, if I go to the next page in this PDF, it's, again,
18 an extract from Taxi Coalition-1-8. And by the way, thank you. It -- it just makes
19 my job a lot easier to have these aids instead of going to little lines in -- in those
20 tables. The -- would you agree that if the earned premiums for the two (2)
21 years, 2018 and 2019, were increased by two (2) consecutive increases of 20
22 percent, that the loss ratio would become 89.5 percent?

23
24 MR. TAI PHOA: Yes, I would agree with that.¹¹

¹⁰ Tx 2128

¹¹ Tx 1199

Taxi Coalition Closing Submission
 Manitoba Public Insurance
 2022 General Rate Application
 Issue Topic #1: **Passenger VFH Required Rate Increase**

1 The next table in TC Exhibit 7, at page 8, shows the effect on loss ratios from 2018
 2 and 2019 if three consecutive increases were applied to earned premiums.
 3

Excerpt from TC(MPI) 1-18 C - Appendix 2 VFH Major Class Loss Experience

Line No.	Classification	A	B	C	D	E	F	G	H
		Incident urance Year	Total Incurred	Earned Unit	Earned Premium	(Note 2) Earned Premium +20% (x3)	Average Premium	(Note 3) Loss Ratio	(Note 4) Loss Ratio +20% (x3)
1	Passenger Vehicle-for-Hire (Passenger Vehicle)	2018	1,000,744.56	452.86	816,906.80	1,411,614.96	1,803.87	122.50%	70.89%
2	Passenger Vehicle-for-Hire (Passenger Vehicle)	2019	1,864,057.88	746.16	1,405,817.14	2,429,252.02	1,884.08	132.60%	76.73%
3	Passenger Vehicle-for-Hire (Passenger Vehicle)	2020	1,370,277.18	974.09	2,034,075.33		2,088.19	67.37%	
	2018 & 2019 Total (Note 1)		2,864,802.44		2,222,723.94			128.89%	74.59%

Notes

- 1 Sum of 2018 and 2019 values
- 2 D x 1.2 x 1.2 x 1.2
- 3 B/D expressed as percentage
- 4 B/E expressed as percentage

4
 5
 6 Here, after three consecutive increases of 20% the earned premiums for Passenger
 7 VFH produce a loss ratio of 74.59%, almost exactly in the middle of Basic's break-
 8 even range.

9
 10 Mr. Phoa again agreed with the accuracy of the calculations:

11
 12 MR. ANTOINE HACAULT: Sir, I would suggest to you that if we had -- now,
 13 three (3) -- as you can see on the top right-hand corner -- consecutive
 14 increases of 20 percent that this would bring the loss ratio in the 74.58 -- sorry,
 15 .59 -- percent range, correct?

16
 17 18 MR. TAI PHOA: Yes. That is correct based on the average for the 2018 and
 18 2019.¹²

19
 20 **2020 data is not reliable experience on which to evaluate Passenger VFH rates**

21
 22 It is notable that Dion Strategic has not relied on the loss experience data from 2020,
 23 for the reasons articulated in slide 11 from TC Exhibit 9:

¹² Tx 1200



Order 1/21 Directive 10.3

2) 2020 data

- 2020 is generally accepted as an “exception” year.
- MPI excludes 2020 for various calculations but 2020 contributes to the Passenger VFH relativities. 2022 assumes a return to normal.
- Dion Strategic opinion – 2020 should not be used to reduce Passenger VFH differentials.
- Dion Strategic observation from TC (MPI) 1-18 – Loss Ratios for Passenger VFH have not improved relative to Taxi VFH between 2018 to 2020

Year	Taxi VFH Loss Ratio (1)	Passenger VFH Loss Ratio (2)	(2) / (1)
2018	84.23%	122.50%	1.45
2019	78.73%	132.60%	1.68
2020	44.56%	67.37%	1.51

October 22, 2021

11

1
2
3 Mr. Wong explains the meaning of this slide as follows:
4

5 MR. JASON WONG (by Teams): In our opinion, **I don't think 2020 is very**
6 **representative of passenger Vehicle for Hire differentials. All the classes**
7 **benefited.** And if we observe, from TC-MPI-118, the loss ratios -- so I've
8 presented a chart there -- if you look at '18, '19, and '20, while the loss ratios
9 have improved, if you compare, say, passenger Vehicle for Hire relative to
10 taxis, there hasn't been much change between '18, '19, and '20. Next slide,
11 so –

12
13 MR. ANTOINE HACAULT (by Teams): Can you go back -- sorry, can you go
14 back to slide 11? I'm not so sure I understand the table and when you say it
15 really hasn't changed. What were you trying to do here and how do I
16 understand this table?

1 MR. JASON WONG (by Teams): Okay. So the column 1 is the loss ratios for
2 taxis for each of '18, '19, and '20. Column 2 is the loss ratios for passenger
3 Vehicle for Hire, each of '18, '19, and '20.

4
5 **So we see loss ratios improved quite a bit in 2020. But it's all relative. If**
6 **you compare, say, passenger Vehicles for Hire loss ratios relative to taxis**
7 **is around one-point-five (1.5) higher.**¹³ [emphasis added]

8
9 What this means is that even though Passenger VFH loss ratios decreased in the
10 pandemic year, loss ratios for Taxi VFH decreased by about the same proportion.

11
12 MPI explained that this improved loss experience occurred across many other
13 insurance uses in response to TC(MPI) 1-11 (a) & (b), which sought to confirm 2020
14 reports losses:

15
16 b) MPI confirms the 26.5% decrease for Passenger VFH (Passenger
17 Vehicle) reported losses. For All Purpose Passenger Vehicle, the
18 decrease is 23.0%.

19
20 c) The decrease in reported losses for Taxicab VFH for 2020 is substantial.
21 However, the reported losses for 2020 represents only one of the five
22 years that MPI uses to determine the rates for Taxicab VFH. Further, **the**
23 **decrease MPI witnessed for Taxicab VFH extends to many of the**
24 **other insurance uses, though not at the same magnitude (e.g. 43.5%**
25 **for Taxicab VFH vs. 23.0% for All Purpose Passenger Vehicles).**
26 [emphasis added]

27
28 In Summary, the 2020 loss experience, which impacted loss ratios, can't be reliably
29 used as a marker of improving Passenger VFH experience, because simply put – with
30 fewer kilometers driven during the pandemic – everyone was having fewer accidents
31 overall.

¹³ Tx 2129 to 2130

Taxi Coalition Closing Submission
 Manitoba Public Insurance
 2022 General Rate Application
 Issue Topic #1: **Passenger VFH Required Rate Increase**

1 To the extent that anything can be gleaned from the 2020 COVID experience in the
 2 Private Passenger Major Class, page 6 of TC Exhibit 7 suggests that Private VFH
 3 continue to be substantially riskier than the Private Major Class.
 4

Excerpt from TC(MPI) 1-18 C - Appnendix 2 VFH Major Class Loss Experience

Line No.	Classification	A	B	C	D	E	F
		Incident urance Year	Total Incurred	Earned Unit	Earned Premium	Average Premium	Loss Ratio
1	Passenger Vehicle-for-Hire (Passenger Vehicle)	2020	1,370,277.18	974.09	2,034,075.33	2,088.19	67.37%
2	Taxicab Vehicle-for-Hire	2020	2,198,801.41	635.10	4,934,226.05	7,769.25	44.56%
3	Public Major Class	2020	12,265,833.49	11,837.57	24,387,265.74	2,060.16	50.30%
4	Private Passenger Major Class	2020	432,630,967.85	887,971.62	1,071,234,978.89	1,206.38	40.39%

Notes

5 1 B/D expressed as percentage

6 At 67.37% loss ratio compared to the class average of 40.39% the experience shows
 7 that even in COVID the Passenger VFH's loss ratio continued to exceed the Class
 8 ratio by about 27%.

9
 10 Finally, the Balanced Indicated Adjustment for all Passenger VFH was indicating
 11 adjustments of 22.91% to 35.56% being required as per TC Exhibit 6. A capped
 12 increase of 20% does not allow rates to go up to the Balanced Indicated required
 13 adjustment.

Extract from		Part VI - RM Appendix 4, p. 1 of 12					Balanced Indicated Adjustment	% Change	Applied for Adjustment	% Change
		Terr	Veh.	Original rate						
Passenger Vehicle-for-Hire (Passenger Vehicle)		1	933	\$ 2,647.00		\$ 3,253.41	22.91%	\$ 3,097.51	17.02%	
Passenger Vehicle-for-Hire (Passenger Vehicle)		2	79	\$ 2,322.28		\$ 2,856.46	23.00%	\$ 2,672.22	15.07%	
Passenger Vehicle-for-Hire (Passenger Vehicle)		3	12	\$ 2,219.42		\$ 3,008.66	35.56%	\$ 2,613.50	17.76%	
Passenger Vehicle-for-Hire (Passenger Vehicle)		4	23	\$ 2,165.96		\$ 2,927.78	35.17%	\$ 2,545.87	17.54%	
Passenger Vehicle-for-Hire (Passenger Vehicle)		5	40	\$ 2,641.45		\$ 3,279.01	24.14%	\$ 3,069.55	16.21%	

16 **No serious loss loading**

17
 18 In addition, the above Balanced Indicated Adjustments contain no loss loading. With
 19 proper loss loading the Balanced Indicated Adjustments would be even higher.
 20

21 **PUB should direct MPI to increase 2022/23 Passenger VFH rates by a full 20%**

1 Based on the above, the Taxi Coalition submits that the PUB should direct MPI to
2 increase Passenger VFH rates for 2022/23 by the full 20%, as was done in compliance
3 with PUB Order 1/21. This step will better remediate the mispricing and unfairness that
4 the PUB found to be present in Passenger VFH rates.

5

6 A further issue of fairness, given MPIs intention to bring a revised VFH Framework in
7 the 2023 GRA, is that all VFH insurance uses should be properly priced going into a
8 new insurance framework. Starting out second generation of VFH pricing with
9 Passenger VFH once again underpriced, and having to play catch-up is neither just
10 nor reasonable.

1 **ISSUE TOPIC #2: Passenger VFH Serious Loss Loading**

2

3 **ISSUE:**

4

5 Whether MPI should include serious loss loading for Passenger VFH, and by extension
6 all insurance uses that do not have serious loss experience in the last 10 years.

7

8 **TC SUMMARY AND/OR RECOMMENDATION:**

9

10 The PUB should find that a serious loss loading of \$428 for Passenger VFH is appropriate.
11 The PUB should direct MPI to study and report on the appropriate serious loss loading
12 that should be applied to Passenger VFH in the 2023 GRA. The PUB should also direct
13 MPI to examine appropriate serious loss loadings for other insurance uses that have no
14 serious losses in the past 10 years.

15

16 The evidence before the PUB is conclusive. Serious losses are destined to occur in
17 Passenger VFH insurance use, and the absence of prior serious losses is not a good
18 indicator of the Passenger VFH insurance use being free from that risk.¹

19

20 MPI's position that the serious loss loading would be judgemental is not a reason to ignore
21 the requirement for a loading, nor is MPI's concern that it would be required to devise a
22 loading for other insurance uses without serious losses.

23

24 MPI has not examined or studied serious losses in any detail, and should produce an
25 analysis of serious loss loadings to establish appropriate serious loss loadings for
26 insurance uses that are currently priced without a serious loss loading.

27

28 PUB should direct MPI to include a \$428 serious loss loading for Passenger VFH, until
29 such time as MPI has a developed a comprehensive approach to serious loss loading.
30 Without the 20% capping ordered by the PUB, this would result in an approximate increase
31 of 11% to the indicated rate for Passenger VFH. The lack of serious loss loading is a
32 further reason why the full 20% increase ought to be applied to current rates. In any new
33 VFH framework, Passenger VFH should have the same serious loss loading as taxis as a
34 starting point for the calculation of the indicated rate for Passenger VFH.

35

¹ DS evidence – p.3

1 **DISCUSSION AND SUPPORT:**

2
3 **Serious losses are the valid risk, that require a loading**

4
5 It seems odd that we even need to have this discussion. In this hearing, MPI has paid for
6 excess insurance to protect it for low probability, serious loss events at a significant cost.
7 An additional \$100 million in re-insurance coverage was obtained at a cost of \$1.7 million
8 (see slide 35 CAC Exhibit 11 for a criticism of this choice). That cost is borne by all its
9 customers – not specific small subsets of its customers. Yet MPI deals with its own serious
10 loss claims in a drastically different manner.

11
12 MPI's defines serious losses as incidents where total PIPP claims costs exceed \$500,000.
13 In general, serious losses are infrequent, random, and high severity. MPI's ratemaking
14 methodology attributes these costs to insurance uses that have experienced such losses,
15 by averaging the losses over 10 years to smooth the impact of the large and random
16 events.

17
18 The flaw in MPI's ratemaking methodology is that it only applies a loading to insurance
19 uses that have a history of serious losses. No serious loss costs (loading) are applied to
20 insurance uses, where there is no history of serious loss.

21
22 This approach ignores the risk that serious losses can occur in insurance uses with no
23 prior history, and omitting a serious loss loading understates the risk of that insurance use.
24 Dion Strategic has provided evidence that:

25
26 "the absence of serious losses is not a good indicator of an insurance use
27 being free of the risk of serious losses."²

28
29 Messrs. Wong and Dion offer the following insights:

30
31 MR. JASON WONG (by Teams): We note that passenger Vehicles for Hire,
32 they were introduced in 2018. And one (1) of our main points that we note is
33 that, in our opinion, **the absence of serious losses is not a good indicator**
34 **of an insurance use being free of the risk of serious losses.**

² Dion Strategic Evidence, page 3.

1 If an insurance use does not have a serious loss, that does not mean we put
2 a zero loading. We believe you should put some loading to it.

3
4 MR. SYLVAIN DION (by Teams): I think, if I may add to this, this is quite an
5 issue that is common in many of the work that we do where **clients say I**
6 **haven't had any claims above five hundred thousand (500,000), so I'm**
7 **risk free.**

8 **Not quite. There's always a need to reflect a loading for the absence of**
9 **data or lack of data.**³

10
11 Mr. Wong also provides insight into the flaw in the MPI's ratemaking methodology, that
12 only assigns serious loss loading to insurance uses that have experienced serious losses:

13
14 MR. JASON WONG (by Teams): As far as the farm example, **that is quite a**
15 **bit loading, but that is mostly due, I think, to the methodology. So if there**
16 **is a serious loss, then there's a loading. And our understanding is if**
17 **there's no serious loss, then there's not a loading.**

18
19 **That's kind of counter-intuitive if you're trying to price for the future.**

20
21 It's like when you're trying to price for the best expected cost, you don't want
22 to wait for the event to happen, then price for it.

23
24 **You want to price for it in advance so that when an actual event does**
25 **happen, you have enough or adequate rates.**⁴ [emphasis added]

26
27 Determining an appropriate large loss loading is a subjective exercise, particularly given
28 the randomness of the serious losses, but Mr. Wong provides some context for
29 understanding this randomness:

30
31 MR. JASON WONG (by Teams): I think large losses are random. If I think back
32 to when I started in the industry, one of my mentors said, Large losses may
33 be random, but some insurance uses might be more prone to large losses
34 than others.⁵

³ Tx 2114

⁴ Tx 2125-2126

⁵ Tx 2125

1
2 Dion Strategic also provided reference to Canadian actuarial standards of practice, that
3 can inform the actuary's thinking on serious losses, which were presented at slide 4
4 through 6 of TC Exhibit 9:

5
6 **CIA Standards of Practice, Insurance Part 2000, 2600 Ratemaking: Property**
7 **& Casualty Insurance**

8
9 2620 Method: 2620.09 Unusual events

- 10 • The actuary would consider that subject experience and related experience
11 **may or may not** have been subject to catastrophes, large losses, or other
12 unusual events.

13
14 While American Actuarial Standards of Practice (ASOP), provide some guidance with
15 respect to Catastrophic losses that is informative in the context of serious losses for MPI:

16
17 **ASOP 39, Treatment of Catastrophe Losses in Property/Casualty Insurance**
18 **Ratemaking**

19 3.3.1 Use of Historical Insurance Data

- 20 C. Adjustments to Historical Insurance Data to Reflect Future Conditions: **The**
21 **actuary should consider making adjustments to the historical insurance**
22 **data to reflect conditions likely to prevail during the period in which the**
23 **rate will be in effect.** Such adjustments should take into account the impact of
24 changes in the exposure to loss, including coverage differences, the underlying
25 portfolio of insured risks, building codes and the enforcement of these codes,
26 and building practices; population shifts; costs; and demand surge during both
27 the historical period and the period for which the rate will be in effect. These
28 considerations become more important when a longer experience period is
29 used because they can have a greater effect over longer time periods.

30
31 3.4 Using a Provision for Catastrophe Losses

32 In ratemaking, actuaries generally use historical data or modeled losses to form
33 the basis for determining future cost estimates. **The presence or absence of**
34 **catastrophes in any historical data used to form future cost estimates can**
35 **create biases that diminish the appropriateness of using that data as the**
36 **basis for future cost estimates. The actuary should address such biases**
37 **by adjusting the historical data used to form future cost estimates and**

1 **determining a provision for catastrophe losses** (after consideration of the
2 issues and practices found in sections 3.1–3.3). [emphasis added]

3

4 It is good actuarial practice to account for risk on a prospective basis, which in MPI's case
5 means applying a serious loss loading to insurance uses where there is no historical
6 experience.

7

8 In principle, MPI appears to agree that it is indeed good actuarial practice, in this exchange
9 between counsel for TC and MPI's witness Mr. Phoa:

10

11 MR. ANTOINE HACAULT: So, my first question, I would suggest to you that
12 it's important to charge a premium, which is correlated to losses. Do you
13 agree?

14

15 MR. TAI PHOA: It is -- it is important to charge a premium that is reasonable,
16 adequate, not excessive to cover the losses for a -- a particular group. Yes.

17

18 MR. ANTOINE HACAULT: Okay. And I would also suggest to you that it's
19 important to charge a premium, which is reflected -- reflective of the risk of
20 loss.

21

22 15 MR. TAI PHOA: I agree.⁶

23

24

25 Dion Strategic explained the goal as follows ():

26 MR. ANTOINE HACAULT (by Teams): So are you able to comment on whether
27 the goal is, firstly, to get the premium right and then move it up or down as
28 required?

29 MR. JASON WONG (by Teams): Yes.

30 MR. SYLVAIN DION (by Teams): Yes. Yes. Absolutely.

31 MR. ANTOINE HACAULT (by Teams): And why is that so?

⁶ Tx 1158

1 MR. SYLVAIN DION (by Teams): It's a question of fairness with the other
2 insureds in the pool and it's a question of stability for the future, including that
3 group that may deserve a significant correction⁷

4

5

6 Nevertheless, MPI resists a serious loss loading for Passenger VFH which would translate
7 in collecting a premium reflective of the risk of serious loss on the grounds that do not
8 withstand scrutiny.

9

10 **MPI cannot ignore a serious loss loading for Passenger VFH because it is subjective**

11

12 MPI's first main objection to serious loss loadings for Passenger VFH insurance is that
13 applying a serious loss loading would be subjective.

14

15 Indeed, determining a serious loss loading for Passenger VFH would be a subjective
16 exercise which Dion Strategic has indicated would be the case, and why Dion Strategic
17 included a range of reasonable options.

18

19 Mr. Wong addresses both the subjectivity and the range of reasonable options:

20

21 MR. JASON WONG (by Teams): **On the high range, we use the taxi**
22 **Vehicles for Hire serious loss per unit, which is four-twenty-eight (428).**
23 **The logic being that passengers Vehicle for Hire can drive twenty-four**
24 **(24), seven (7) and operate just like a taxi.**

25

26 What is the real loading? I don't know. But in terms of the range of reasonable
27 outcomes, that's what we would propose. Now, there are some numbers that
28 might be lower, say, using public major class. But if you think about public
29 major class, that includes, say, buses.

30

31 When we think theoretically in terms of when a serious loss happens, you have
32 to look at, kind of, the vehicle type. You know, the bus is much heavier. People
33 might not be wearing seatbelts, but that bus is going to plow into a smaller
34 vehicle and your odds of injury should be lower on a bus as opposed to a
35 regular sedan.

⁷ Tx. 2290

1
2 **So that's why we think the range of outcomes should be between two-**
3 **fifty-eight (258) and four-twenty-eight (428).** But we also understand other
4 parties will come up with a different range. I mean, if you were to put ourselves
5 -- Oliver Wyman, Eckler and MPI -- together in a room, I'm sure we would all
6 have a different loading. And we understand that.⁸ [emphasis added]
7

8 **MPI should consider a serious loss loading for every use without a history of**
9 **serious losses**

10
11 MPI's second main objection to loading serious losses on Passenger VFH is that they
12 would be logically required to apply a serious loss loading to all insurance uses without a
13 history of serious losses.

14
15 To this we say: of course.

16
17 A serious loss loading to reflect future risks is good actuarial practice, so it stands to
18 reason that MPI should investigate and determine loadings for all insurance uses without
19 a history of serious losses.

20 Dion Strategic did not provide recommendations for other insurance uses, but did indicate
21 that MPI should develop reasonable estimates for serious loss loadings, that should vary
22 with the expected risk:

23
24 MR. JASON WONG (by Teams): I think that comes back to the subjectivity
25 and it comes back to, say, the flood example I brought up. **There's, obviously,**
26 **going to be some subjectivity into choosing an appropriate loading.** But
27 you have to think of it in terms of, say, overall ratemaking. You're trying to
28 group similar risks together. **So if you notice that some risks have a higher**
29 **odds of a serious loss, they should get a higher loading than one that**
30 **has less risk of a serious loss.**

31
32 **I don't believe that passenger Vehicles for Hire will never have a serious**
33 **loss.** If, say, a private passenger vehicle, which has serious losses and it's
34 supposed to be a better risk than passenger Vehicles for Hire, **I do not see**
35 **why a passenger Vehicle for Hire will never have a serious loss. So it's**

⁸ Tx 2123 to 2124

1 **important to address that now. And, similarly, for the twenty (20) other**
2 **classes that don't have it, it's important to come up with a, I guess,**
3 **reasonable number.** But it depends on how you want to group those risks
4 together.⁹ [emphasis added]
5

6 **MPI should study the issue of serious losses more thoroughly, to understand how**
7 **to load risk where there is no experience, and where there is**
8

9 In order to arrive at an informed, if inherently judgemental, serious loss loading for
10 insurance uses without any prior history of serious losses, MPI must investigate the nature
11 of serious losses.
12

13 Under cross examination by counsel for the TC, Mr. Phoa indicated that MPI has not
14 gathered data or conducted analyses to understand the nature of serious losses on a
15 number of dimensions:
16

17 MR. ANTOINE HACAULT: Has MPI gathered data for each serious loss claim
18 over any time period **to see if there is reliable data on which it can rely to**
19 **justify differential loading, firstly, on different owners?** And then I'll have
20 a different question.
21

22 MR. TAI PHOA: And I -- I would have to say no to the question.¹⁰
23

24 And,
25

26 MR. ANTOINE HACAULT: Okay. So, to be a little bit more explicit in my -- my
27 question, if I understood your answer correctly, for example, **MPI didn't look**
28 **to determine whether those serious loss claims happened in a particular**
29 **territory or two (2) particular territories?** They didn't gather that data for the
30 last ten (10) years, correct?
31

32 MR. TAI PHOA: No, we -- we did not look at the -- sort of the risk characteristics
33 of the serious losses. We have -- but we do, for ratemaking purposes, allocate
34 it to the insurance use that resulted in those serious losses.

⁹ Tx 2126 to 2127

¹⁰ Tx 1169

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MR. ANTOINE HACAULT: I understand that. And, for example, it wouldn't have in **those seventy (70) to a hundred claims per year looked at the driver safety record, the DSR, or the driver of the vehicle that was involved in the serious loss?** It wouldn't have gathered that data, correct?

MR. TAI PHOA: We have the capability to collect that, but no we haven't done so.¹¹

And,

MR. ANTOINE HACAULT: Did you then **analyze it to see if there's a correlation between the type of vehicle and the risk of a high serious loss?**

MR. TAI PHOA: No, we have not done the analysis.¹²

And,

MR. ANTOINE HACAULT: Did you – did you analyze the data, and, again, for the last ten(10) years, as to **whether the serious loss was caused by the registered owner or by the driver?**

MR. TAI PHOA: No, we did not.¹³

In effect, MPI relies on little information beyond the insurance uses involved in the accident to allocate serious losses, and MPI has little understanding, if any, about how the characteristics of serious that could be used to make inferences about the potential for serious losses in other insurance uses, with not current history of serious losses.

The TC submits that MPI's current methodology, relying only on historical experience, is leads to absurd results for instance, in 24 Farm Passenger vehicles being allocated a single \$505,000 loss in the past 10 years. That loading averages to \$2000 per vehicle:

MR. ANTOINE HACAULT: Okay. And if we have them side by side, we will be able to see that this group of twenty-four (24) vehicles has added to it some fifty thousand dollars (\$50,000) of serious losses.

¹¹ Tx 1170 to 1171
¹² Tx 1171
¹³ Tx 1172

1 MR. TAI PHOA: Yes, That's correct.¹⁴

2

3 It is notable that in 3 years time, that single accident will slide out of the 10 year rolling
4 average, and Farm Passenger Vehicles will have no serious loss loading. It is also
5 important to remember that the roughly \$2000 serious loss loading is not actually \$2000
6 in premium charged to the customer, but a \$2000 loading applied to the pure premiums
7 of the insurance use, before the relativities are calculated via the Minimum Bias
8 Procedure.

9

10 Similarly, Dion Strategic's recommended range of \$258 to \$428 per Passenger VFH does
11 not mean that rates would increase by that amount, only that an amount per vehicle would
12 be added to pure premiums prior to calculating insurance use relativities.

13

14 **Alternative approaches to the analysis proffered by PUB counsel should be**
15 **considered**

16

17 Under cross examination, PUB counsel brought Dion Strategic through a detailed
18 comparison of the ratios of serious losses to pure premiums for different insurance uses
19 and major classes, as compared to the same ratios for Dion Strategic's recommended
20 loss loading range of \$258 to \$428 for Passenger VFH.

21

22 In response to the question by PUB counsel to explain the apparent differences, Messrs.
23 Dion and Wong offered the following:

24

25 MR. SYLVAIN DION (by Teams): Passenger Vehicle for Hire, that the twenty-
26 three hundred dollars (\$2,300) that I think comes from that calculation is a
27 depressed number. It's not high enough.

28

29 MR. JASON WONG (by Teams): Yes.

30

31 MR. SYLVAIN DION (by Teams): It's a subsidized number. That's why you get
32 11 to 18 percent.

33

34 MR. JASON WONG (by Teams): Partially, yes. I think there's different ways
35 to look at. When we tried to respond to this question is -- give me one (1)

¹⁴ Tx 1179

1 second. This question is PUB-TC-1-1 on part 'E'. So, what we are trying to
2 illustrate, that there's different aspects. There's -- there's the different
3 frequency and relative frequency of your lower losses. And then there's
4 differences in the severity. There's different ways to come up with a different
5 number.

6
7 There's also ways to come up with a number different than two fifty-eight (258)
8 if you look at, I guess, relative ratios of other items. In part -- part 'I', I presented
9 a -- I guess a similar reason of using relative loss cost, and then came up with
10 a loading of two hundred and seventeen dollars (\$217).

11
12 (...)

13
14 MR. JASON WONG (by Teams): There's different ways to do this range of
15 reasonableness. What we presented is, I guess, a simple, intuitive. We're
16 trying to group all Vehicles for Hire together and coming up with a serious loss
17 unit.¹⁵

18
19 Certain additional facts about the analysis should be noted:

- 20
21 1) The values in Table 12 are 'suppressed' for Passenger VFH, with only three years
22 of data, and one a pandemic year.
23
24 2) The calculations related table 9 to table 10, however, these two tables are on
25 different time frames.
26
27 3) Table 10 includes a serious loss loading, which means the serious losses appear
28 in both the numerator and denominator.
29
30 4) The analysis does not consider earned units, which is relevant because Dion
31 Strategic's recommended loadings were on a per unit basis.
32
33 5) The ratio of Table 9 to Table 10 gives a ratio of an insurance uses' serious losses
34 to total losses (noting of course, the numerator and denominator issue in item 3),

¹⁵ Tx 2275 to 2276

1 which is not the same thing as an average serious loss, nor does it infer the risk of
2 serious loss, nor does it infer a loading.

3
4 6) The ratio of table 9 to Table 10 does not consider the exposures.

5 a. Taking School Buses for instance,¹⁶ there are 3 serious loss years
6 (2011,2015, and 2016) totalling \$3.137 million. Taxis by contrast have 5
7 serious loss years (2012, 2014, 2016, 2017, 2018) totaling \$2.986 million.
8 The annual averages in these calculations assume there is only a single
9 loss per year.

10
11 The exposures (earned units) from Table 11 show 12,563 school buses
12 over 5 years, and 3,345 Taxis over 5 years.

13
14 So, three serious losses over 12,563 school bus exposures (units), versus
15 5 serious losses over 3,346 Taxi exposures, suggesting that school buses
16 are a lower risk than Taxis. Intuitively school buses have fewer small
17 claims, so the % of serious loss might be higher.

18
19 On re-exam, Mr. Dion indicated that he did not see the relevance of the calculation
20 exercise by PUB counsel.¹⁷

21 In addition, on re-exam when the issue of the depressed number of \$2,300 was
22 addressed, Mr. Dion concluded, after considering premiums for Passenger VFH at the
23 level they should be, that the loading of \$258 would be equivalent to an increase of about
24 7 percent and a loading of \$428 would be equivalent to an increase of about 11 percent.
25 These amounts correlated fairly closely to the ratios calculated by PUB counsel in his
26 mathematical exercise.

27 My question to you is if you use the base premium which was put here -- and
28 we did the percentages -- would that lead to different answers, and why might
29 it be inappropriate (sic) to use these premiums, as opposed to the artificially
30 low premiums?

31 MR. SYLVAIN DION (by Teams): Well, I'll answer the first part. So, if you look
32 at the two fifty-eight (258) part of the three-thousand six sixty-nine (3,669),
33 that's about equivalent to a 7 percent, which would be more aligned to -- to
34 the numbers mentioned. And the four twenty-eight (428) as part of the three

¹⁶ Part VI RM Appendix 9 page 97.

¹⁷ Tx 2287, 2288

1 nine forty-three (3,943), again, it's around 11 percent. So that seems to align
2 with the numbers that were quoted.¹⁸

3 **PUB should direct MPI to include a \$428 serious loss loading for Passenger VFH,**
4 **until such time as MPI has a developed a comprehensive approach to serious loss**
5 **loading**

6
7 The Taxi Coalition submits that the PUB should direct MPI to apply a serious loss loading
8 of \$428 per Passenger VFH, based on the facts that:

- 9
10 i. that Passenger VFH and Taxi VFH are in the industry, performing the same
11 functions, and have the same risk profile;¹⁹ and
12 ii. Passenger VFH have the opportunity to operate 24/7 as a taxi might, and time
13 band selection demonstrates that most Passenger VFH select all four time
14 bands.²⁰

15
16 The Taxi Coalition submits that MPI should be directed to apply this loading until MPI
17 develops an alternative methodology to estimate serious loss loadings for insurance uses
18 with no 10 year history of serious loss.

¹⁸ Tx 2286

¹⁹ Tx 2217 lines10-13

²⁰ 2021 GRA, TC(MPI) 1-4

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 **ISSUE TOPIC #3: Transfer of Excess Extension Reserves to DVA**

2
3 **ISSUE:**

4
5 Whether MPI should effectuate a rebate to customers in 2021 that includes the \$60
6 million in excess extension reserves that were transferred to the DVA line of business
7 prior to fiscal year end 2020/21, and whether MPI should be directed to rebate to
8 customers the \$53 million MPI plans to transfer to DVA in 2021/22.

9
10 **TC SUMMARY AND/OR RECOMMENDATION:**

11
12 The PUB should find that MPI improperly and unlawfully transferred Extension surplus
13 capital to DVA in 2020/21, and that further planned transfers in 2021/22 are also
14 improper and contrary to the approved Capital Management Plan.

15
16 The Basic and Extension lines of business are inextricably linked by the material
17 advantage bestowed on Extension by way a common customer base, shared point of
18 sale platform, and integrated claims handling experience.

19
20 The Capital Management Plan recognized this link, and properly included the
21 requirement to transfer Extension surplus capital to Basic. The PUB and Ratepayers
22 relied on representations by MPI that Extension surplus would be transferred to Basic.

23
24 MPI's Basic line of business will still meet the PUB's approved capital adequacy test
25 if the amounts transferred and planned to be transferred to DVA are directed to Basic
26 and returned to customers through an increased capital rebate.

27
28 MPI's transfer of Extension Surplus to DVA unfairly benefits some customers over
29 others, and creates unjust and unreasonable rates. There is also no demonstrated
30 urgency, there need not be any financial hardship to the DVA line of business, and
31 there would be no proven DVA fee shock to associated with generating the DVA
32 revenues through DVA operations.

33
34 We recommend to the PUB that it order that:

- 35
36 a. the \$60 million transfer to DVA be reversed and treated as per the auditor's
37 recommendations;

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

- 1 b. the proposed transfer of \$53 million to DVA not be implemented; and
2
3 c. the total amount of \$113 million be transferred to Basic and be added to the
4 amounts to be rebated to MPI customers.
5

6 **DISCUSSION AND SUPPORT:**
7

8 **Transfer from Extension to DVA unlawful**
9

10 The Taxi Coalition refers to the extensive legal submission of CAC on whether the
11 transfer from Extension surplus to DVA is unlawful.
12

13 We say the evidence supports the following findings of fact and findings of mixed fact
14 and law:
15

- 16 a. DVA is a government undertaking which is administered by MPI.
17 b. MPI, as an agent, administers this government undertaking and collects from
18 Manitobans fees which are then remitted to the Government. (s. 2 of *The*
19 *Drivers and Vehicles Act* which designates MPI as an administrator for the
20 Government).
21 c. Government has sufficient revenues from DVA to fully refund to MPI its costs
22 of administering the DVA services (MPI Ex. 71) but has chosen not to do so.
23 d. Extension surpluses are one or more of “moneys, funds, reserves ... or
24 personal property ... possessed or held by” MPI or “profits earned by the
25 corporation in the activity of automobile insurance” (see. 14(2) of *The MPI Act*)
26 e. As a result of MPI transferring Extension moneys or profits to the MPI DVA
27 division to cover the MPI costs to provide DVA, the Government is reducing
28 the amount it needs takes from its profits generated from DVA and its
29 consolidated revenue. The Government is avoiding paying to MPI, its agent
30 and administrator, the costs of running DVA.
31 f. The Government has asked MPI to use Extension profits for Government
32 purposes - that is, using those Extension profits for a government undertaking
33 and purpose.
34 g. When MPI uses Extension surpluses in DVA, it is using those profits for a
35 Government purpose. It is using those funds in its capacity as an agent for the
36 Government delivering DVA services.

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 h. The transfer of \$60 million and the proposed transfer of \$53 million are
2 inconsistent with the Capital Management Plan approved by the PUB in Order
3 176/19. Unless varied by the PUB, the Capital Management Plan must be
4 followed by MPI including the transfer of surpluses from Extension to Basic.

5

6 We submit that the PUB has a broad jurisdiction which, given the existence of and
7 approval of the Capital Management Plan and its role to ensure consumers are paying
8 just and reasonable rates, allows it to exercise its discretion with respect to the
9 transfers of surplus from the MPI Extension line of business to Basic.

10

11 **The Capital Management Plan recognizes the inextricable link between**
12 **Extension and Basic**

13

14 The capital management was approved as part of the 2020 GRA, in part, because of
15 the transparency and accountability over where and how Extension surplus is used.

16

17 The PUB found in Order 176/19, at page 62:

18

19 While the Board recognizes that it does not have jurisdiction over Extension,
20 given the anticipated transfers from Extension to Basic contemplated by the
21 Capital Management Plan, the magnitude of Extension's reserves is of concern
22 to the Board. The evidence is that MPI holds approximately 95% of the market
23 share for non-compulsory insurance products. The transfers from Extension to
24 Basic will be automatic under the Capital Management Plan for any amounts
25 over 200% MCT held by Extension in its reserves.

26

27 The submission of MPI in that hearing was that Extension benefits from being closely
28 associated with Basic, sharing customers, a point of sale platform, and integrated
29 claims handling. MPI's Closing Submission in the 2020 GRA included the following
30 slide. The second bullet links the need to make capital transfers from Extension to
31 Basic so that Extension is not subsidized by Basic. Customers in Basic should not
32 have their premiums used to subsidize Extension. We submit that the failure to transfer
33 surplus from Extension to Basic would result in an unfair and unjust subsidization by
34 Basic in favour of Extension:

October 24, 2019

MPI Exhibit # 103

Objective Evaluation by CAC Expert John Todd

- Capital Management Plan addresses two common regulator concerns: avoiding cross-subsidization and limiting anti-competitive activity
- Benefits derived by Extension are offset with capital transfers from Extension to Basic
- Transfers should first be used to ensure Basic capital target is met

36



1
2 Not only did the PUB find that Extension derived benefits from Basic, but MPI
3 acknowledged as much in stating “benefits derived by Extension are offset with capital
4 transfers from Extension to Basic.”
5
6 MPI’s position then, as it should be now, is that Extension and Basic Lines of business
7 are inextricably linked, and that Extension benefits from the Basic monopoly.
8
9 Although the discussion of the link between Extension and Basic only emerged in the
10 last few years, there is no reason to believe this link didn’t exist for as long as Basic
11 and Extension have existed. Given that in the past, the existence of the transfers from
12 Extension to DVA was not disclosed, it is disingenuous for MPI to imply that this
13 somehow makes the previous transfers to DVA lawful.
14
15 So MPI’s presentation of the history of transfers from Extension to DVA (See excerpt
16 from MPI Exhibit 122 below), as both unobjectionable and ‘business as usual’ is
17 incorrect.

October 27, 2021

MPI Exhibit #122

Basic and DVA– A History of Subsidization (11/14)

Undertaking #34 - Figure 1 Transfers between Extension & DVA

Line No.	(\$000s)	Retained Earnings Transferred from Extension to DVA	Retained Earnings Transferred from Extension to Basic
1	2004/05	-	4,287
2	2005/06	125	11,031
3	2006/07	6,090	-
4	2007/08	10,856	-
5	2008/09	17,998	-
6	2009/10	27,552	-
7	2010/11	27,678	-
8	2011/12	27,781	-
9	2012/13	4,500	-
10	2013/14	12,087	-
11	2014/15	-	75,500
12	2015/16	(577)	72,729
13	2016/17	-	27,825
14	2017/18	-	37,300
15	2018/19	-	60,000
16	2019/20	-	-
17	2020/21	60,000	-
18	Total	194,090	288,672

24



1
2
3 The Taxi Coalition submits that the PUB should find that the only appropriate line of
4 business to which Extension excess capital should be transferred is the Basic Line of
5 Business.

6
7 On Wednesday October 27, 2021, under questioning by the Panel Member Mr.
8 Watson, Mr. Scarfone, on behalf of MPI conceded that the PUB had jurisdiction to deal
9 with this issue as a result of the Capital Management plan being an integral part of
10 rate setting:

11
12 MR STEVE SCARFONE: I guess the simple answer at the risk of offending
13 the board is, before the Capital Management Plan, Mr. Watson, the Board
14 had no jurisdiction at all over the Extension line of business.

15
16 And so, I – and this even predates my time with MPI. But my understanding
17 was there was a lot of push-back when the Board said, well, what's Extension
18 doing over there, right, and – and what's happening there?

1 And we always said, no, it has nothing to do with the Basic line of business.
2 And then that was why the Capital Management Plan gave the Board some
3 insight into the Extension line of Business, because it's now relevant.¹
4

5 That statement is consistent with the evidence:
6

7 MS. KATHLEEN MCCANDLESS: Having looked at what was initially provided
8 to the Board in 2019, is it MPI's position that the capital transfers were not a
9 fundamental aspect of the Capital Management Plan?
10

11 MR. MARK GIESBRECHT (by Teams): They are an integral part. They -- they
12 have a material impact on the -- the plan and the outcome, yes.
13

14 MS. KATHLEEN MCCANDLESS: So are they -- do they remain fundamental
15 as part of the Capital Management Plan?
16

17 MR. MARK GIESBRECHT (by Teams): They do. They do. Yeah, they -- they
18 -- Extension, to the extent there's excess capital, you know, will have a
19 meaningful impact on -- on the overall plan.²
20

21 We say the link between the Capital Management Plan and the PUB's authority to set
22 just and reasonable rates is apparent. If rates are too low and more capital is required
23 to meet financial condition tests, MCT tests and solvency tests, the PUB in considering
24 the financial health of MPI can choose to increase rates. If rates are too high and less
25 capital is required to meet financial condition tests, MCT tests and solvency tests, the
26 PUB in considering the financial health of MPI can choose to decrease rates.
27

28 **The evidence supports a finding that both the PUB and ratepayers relied on the**
29 **representation by MPI that surpluses from Extension would be transferred to**
30 **Basic**
31

32 During cross-examination by PUB counsel and CAC counsel there were extensive
33 references to surpluses in Extension being automatically transferred to Basic and
34 formed the basis for PUB analysis of forecasted financial stability. MPI has also

¹ Tx 2661

² Tx. 1300 to 1301

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 conceded that it has used the Extension excess capital for DVA which is not the use
2 which was contemplated by the Capital Management Plan.

3
4 For example, at Tr. 1277:

5
6 MS. KATHLEEN MCCANDLESS: And that, unlike previous GRAs, as of the
7 2020 GRA in the proposed plan, the Extension capital transfers were
8 forecasted as part of the GRA?

9
10 MR. TAI PHOA: Yes, that is correct.

11
12 And at Tr. 1280:

13
14 MS. KATHLEEN MCCANDLESS: And, ultimately, as we know, there was a
15 decision made to transfer the Extension excess capital over to DVA instead of
16 use it as contemplated by the Capital Management Plan?

17
18 MR. MARK GIESBRECHT (by Teams): Yes.

19
20 It is apparent from Mr. Herbelin's testimony that the decision not to increase DVA fees
21 a was political one. It was easier and more politically acceptable to not increase DVA
22 fees and instead use profits from Extension (Tr. 263).

23
24 I think from the timing perspective, it is not a time that is proper to ask
25 Manitobans to pay additional, so this option has not been validated, at least for
26 the time being. Some are -- other options were the ability of government to
27 simply forego some of their revenues that are generated through the driver and
28 licensing -- driver and vehicle licensing activities. That again, based on where
29 the government's budget is, is not something that is necessarily realistic, and I
30 don't want to speak for government, but I -- I don't think that is going to help
31 much.

32
33 This evidence also links to the legal argument that insurance funds are being used for
34 the Province's purposes contrary to s. 14(2) of *The MPI Act*. Instead of foregoing some
35 of its revenue, the Province has used the insurance Extension line surplus to pay MPI
36 for its services.

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 As will be set out, for consumers like Taxis over 7 years the increased cost of DVA
2 would have been between \$119 to \$154. In other words in the range of \$20 per year
3 per Taxi.

4
5 **PUB jurisdiction on reviewing rates**

6
7 *The Crown Corporations Governance and Accountability Act* C.C.S.M. c. C336
8 provides:

9
10 **Hydro and MPIC rates review**

11 [25\(1\)](#) Despite any other Act or law, rates for services provided by Manitoba
12 Hydro and the Manitoba Public Insurance Corporation shall be reviewed by
13 The Public Utilities Board under *The Public Utilities Board Act* and no change
14 in rates for services shall be made and no new rates for services shall be
15 introduced without the approval of The Public Utilities Board.

16
17 **Definition: "rates for services"**

18 [25\(2\)](#) For the purposes of this Part, "rates for services" means
19 (b) in the case of The Manitoba Public Insurance Corporation, rate bases and
20 premiums charged with respect to compulsory driver and vehicle insurance
21 provided by that corporation.

22
23 **Application of Public Utilities Board Act**

24 [25\(3\)](#) *The Public Utilities Board Act* applies with any necessary changes to a
25 review pursuant to this Part of rates for services.

26
27 **Factors to be considered, hearings**

28 [25\(4\)](#) In reaching a decision pursuant to this Part, The Public Utilities Board
29 may

30 (a) take into consideration:

- 31 (i) the amount required to provide sufficient funds to cover operating,
32 maintenance and administration expenses of the corporation;
33 (ii) interest and expenses on debt incurred for the purposes of the
34 corporation by the government;
35 (iii) interest on debt incurred by the corporation;
36 (iv) reserves for replacement, renewal and obsolescence of works of
37 the corporation;

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 (v) any other reserves that are necessary for the maintenance,
2 operation, and replacement of works of the corporation;

3 (vi) liabilities of the corporation for pension benefits and other employee
4 benefit programs;

5 (vii) any other payments that are required to be made out of the
6 revenue of the corporation;

7 (viii) any compelling policy considerations that the board considers
8 relevant to the matter; and

9 (ix) any other factors that the Board considers relevant to the matter.

10 (b) hear submissions from any persons or groups or classes of persons or
11 groups who, in the opinion of the Board, have an interest in the matter.

12
13 **MPIC**

14 [25\(5\)](#) In the case of a review pursuant to this Part of rates for services of the
15 Manitoba Public Insurance Corporation, The Public Utilities Board may take
16 into consideration, in addition to factors described in subsection (4), **all**
17 **elements of insurance coverage affecting insurance rates.** (emphasis
18 added)

19
20 *The Public Utilities Board Act*, C.C.S.M. c. P280 provides:

21
22 **Power to require doing of acts**

23 [28\(1\)](#) In matters within its jurisdiction, **the board may order and require any**
24 **owner of a public utility**, person, municipality, or other corporation **to do**
25 **any act, matter, or thing** that the owner of the public utility, person,
26 municipality, or other corporation is or may be required to do under this Act
27 or any other Act of the Legislature or **under any order**, regulation, **direction,**
28 **or agreement.**

29
30 **Method of performance**

31 [28\(2\)](#) Any act, matter, or thing ordered and required to be done under
32 subsection (1) shall be done.

33 (a) forthwith, or within or at any time specified in the order; and

34 (b) in any manner prescribed by the board, so far as it is not inconsistent
35 with this Act or any other Act of the Legislature conferring jurisdiction
36 upon the board.

1 **Power to order partial or other relief**

2 44(1) Upon any application to it, the board may make an order granting the
3 whole or part only of the application or **may grant such further or other**
4 **relief in addition to** or in substitution for that applied for, as fully and in all
5 respects as if the application had been for such partial, further or other relief.
6 (emphasis added)

7
8 **Orders as to utilities**

9 77 The board may, by order in writing after notice to, and hearing of, the
10 parties interested:

- 11 (a) fix just and reasonable individual rates, joint rates, tolls, charges, or
12 schedules thereof, as well as commutation, mileage, and other special
13 rates that shall be imposed, observed, and followed thereafter, by any
14 owner of a public utility wherever the board determines that **any**
15 **existing individual rate**, joint rate, roll, charge or schedule thereof or
16 commutation, mileage, or other special rate **is unjust, unreasonable,**
17 **insufficient, or unjustly discriminatory or preferential**; and
18 (b) fix just and reasonable standards, classifications, regulations,
19 practices, measurements, or service to be furnished, imposed,
20 observed, and followed thereafter by any such owner.

21
22 **Changes in rates to be approved by board**

23 84(1) No change in any existing individual rates, joint rates, tolls, charges, or
24 schedules thereof or any commutation, mileage, or other special rates shall
25 be made by any owner of a public utility, nor shall any new schedule of any
26 such rates, tolls, or charges be established until the changed rates or new
27 rates are approved by the board, when they shall come into force on a date
28 to be fixed by the board; and the board may, either upon written complaint or
29 upon its own initiative, hear and determine whether the proposed increases,
30 changes, or alterations are just and reasonable.

31
32 **Onus**

33 84(2) The **burden of proof** to show that any such increases, **changes, or**
34 **alterations are just and reasonable** is upon the owner seeking to make the
35 increases, changes, or alterations. (emphasis added)

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 *The Interpretation Act C.C.S.M. c. 180 provides:*

2

3

Exercising powers under an Act or regulation

4

32(1) The power to do a thing or to require or enforce the doing of a thing
5 **includes all necessary incidental powers.** (emphasis added)

6

7 We submit that the PUB has the incidental power to issue directives with respect to
8 the approved Capital Management plan and to order that MPI's commitment
9 ("agreement") in that Plan to transfer surpluses from Extension to Basic be honoured.

10 We submit that the transfer from Extension to DVA was unlawful and inconsistent with
11 the approved Capital Management Plan which was not reviewed or varied.

12

13 **Backdrop to PUB dealing with transfers from Extension to Basic**

14

15 For the PUB's convenience we reproduce some extracts from Order 176/19 by which
16 it started to approve and provide directives related to the Capital Management Plan
17 including an important component of that Plan, being transfers from Extension to Basic
18 which in turn allowed the PUB to set just and reasonable rates.

19 In Order 176/19 the PUB noted:

20

21

The Board notes the Corporation's efforts to provide details in support of the
22 Extension financial forecasts to allow the Board to assess the reasonableness
23 of forecasted transfers from Extension to Basic, a key determinant of a need
24 for any Capital Build or Capital Release provision. (p. 10)

25

26

In this Application, the Corporation filed historical financial information and
27 forecasts for Extension operations in conjunction with its applied-for Capital
28 Management Plan, which assumes the transfer of excess retained earnings
29 from Extension to Basic, to assist with capital rebuilding of Basic capital. (pp.
30 26 and 27)

31

32

MPI indicated that the operating results for Extension are relatively stable and
33 profitable due to the nature of its products: with respect to premium income,
34 the Corporation has a consistent market share, and due in part to the ease in
35 the writing Extension coverages in conjunction with Basic, MPI holds 95% of
36 the market for Extension products. (p. 27)

1 The Corporation sought the Board's approval of the proposed Capital
2 Management Plan, which incorporates:

3
4 • A single Basic target capital level based on a 100% MCT ratio (based on the
5 Reserves Regulation);

6 • **A commitment to transfer excess Retained Earnings from the Extension**
7 **line to Basic, where excess is determined relative to the single Extension**
8 **target capital level of a 200% Minimum Capital Test ratio as set by the**
9 **Regulation;** (emphasis added)

10 • A phase-in approach to move towards the Basic target capital level over a
11 number of years through Capital Build or Capital Release provisions; and

12 • **Determination of the need for any Capital Build or Capital Release**
13 **provisions in each GRA after consideration of the Basic rate level change**
14 **indication and the expected capital transfers from Extension.** (emphasis
15 added) (pp. 54 and 55)

16
17 **The Corporation committed** to transferring excess retained earnings over
18 200% MCT from Extension to Basic, **regardless of the Basic MCT ratio** at
19 the time. (emphasis added) (p. 56)

20
21 ... the Board finds the proposed Capital Management Plan, and the proposed
22 Basic target capital level reflecting a 100% MCT ratio, to be just and
23 reasonable in the circumstances. (p. 61)

24
25 While the Board recognizes that it does not have jurisdiction over Extension,
26 given the anticipated transfers from Extension to Basic contemplated by the
27 Capital Management Plan, the magnitude of Extension's reserves is of concern
28 to the Board. (p. 62)

29
30 Included within the Project Nova budget is \$36.6 million in direct costs related
31 to Driver and Vehicle Licensing (DVL) operations (\$45.7 million with the 25%
32 contingency). MPI has indicated that it is currently in discussions with the
33 Province of Manitoba on how to fund this portion of the project. The
34 expenditures for the DVL portion of Project Nova do not form part of the Basic
35 expenses. (p. 77)

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 13.6 The Board hereby approves the Corporation's proposed Capital
2 Management Plan as presented, including the 100% Minimum Capital Test
3 Basic target capital level, for the 2020/21 and 2021/22 insurance years. (p.
4 131)

5

6 The PUB correctly notes that it has no jurisdiction to review and set rates charged by
7 MPI in its extension line of business.

8

9 However, given that the Extension surplus transfers, both present and future, are a
10 key element of the Capital Management Plan and the level of rates required to meet
11 100% MCT threshold for Basic, we submit that control over the Capital Management
12 Plan is incidental to its approval of rates for Basic.

13

14 If MPI wanted to vary and review the approved Capital Management Plan, it should
15 have done so. It took no steps to do so with respect to the \$60 million transfer to DVA.

16

17 On reading Board Order 176/19 as a whole and the record in this proceeding, we
18 submit that:

19

20 a. MPI knew there was a portion of Project Nova expenses which needed to be
21 funded in the DVA it administered for the Government and MPI was in
22 discussions to address how those expenses would be funded;

23 b. There was an expectation that Extension would continue to generate
24 surpluses;

25 c. The PUB and the parties understood that the Capital Management Plan
26 included a commitment by MPI to transfer surplus from Extension to Basic.
27 Forecasts reproduced for the PUB confirm the amounts of the expected
28 transfers;

29 d. The PUB made a finding on whether the Capital Management Plan was a just
30 and reasonable plan; and

31 e. Based in part on the Capital Management Plan, the PUB made a finding in
32 Order 176/19 on what it considered to be just and reasonable rates.

33

34 As is further detailed, we submit the evidence demonstrates that the failure to transfer
35 Extension surplus to Basic results in an unjust and unreasonable allocation of costs
36 to the Taxi Vehicles for hire resulting in unfair and unreasonable rates to them.

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 There is a significant adverse effect to the amounts of individual rates taxis would be
 2 required to pay for Basic insurance if the transfer and proposed transfer from
 3 Extension to DVA is not ordered to be reversed.

4
 5 The Capital Management Plan which includes a requirement to automatically transfer
 6 the surpluses from Extension to Basic should not be amended with respect to that
 7 component of the Plan.

8
 9 **MPI still meets its MCT after reversing the \$60 million transfer from Extension**
 10 **Surplus to DVA and by prohibiting the proposed \$53 million transfer from**
 11 **Extension surplus to DVA**

12
 13 MPI's transfer of Extension surplus to DVA had the effect of diverting funds from the
 14 Basic line of business, and removing the possibility that those funds could be returned
 15 to Basic customers, through a capital rebate.

16
 17 The PUB needs to consider the financial health of MPI should it decide to not to amend
 18 the Capital Management Plan and order compliance with the Plan related to the
 19 transfer and proposed transfer from Extension and then order a rebate to customers.

20
 21 Reversing the \$60 million transfer and prohibiting the \$53 million proposed transfer
 22 and then rebating those amounts to customers will not cause MPI to fail the capital
 23 adequacy test of 100% MCT for Basic.

24
 25 MPI Exhibit 100, presents the response to Undertaking number 36, which updates
 26 PUB(MPI) 1-26 for the October updated Financial Forecast. Figure 1 from MPI Exhibit
 27 100 is presented below.

Figure 1 Basic MCT % after Rebate and Capital Management Plan

Line No.	Scenario	Capital Build / (Release) Provision	Rebate (in million)		Transfer from Extension (in million)				MCT % After Basic Rebate, Transfer from Extension and Capital Build / Release			
			20/21**	21/22	20/21	21/22	22/23	23/24	20/21	21/22	22/23	23/24
1	Rate Update - PUB 1-26 a)	-5.00%	(155.4)	(180.0)	60.0	53.6	44.3	45.4	114.9%	127.0%	120.1%	119.4%
2	Rate Update - PUB 1-26 a)*	-9.81%	(155.4)	(180.0)	60.0	53.6	43.8	46.5	114.9%	126.9%	115.1%	109.0%
3	Rate Update - PUB 1-26 b)	5.00%	(155.4)	(297.0)	60.0	53.6	44.8	44.1	114.9%	100.0%	99.9%	106.1%
4	Rate Update - PUB 1-26 c)	5.00%	(155.4)	(297.0)	-	-	44.9	44.1	100.0%	73.0%	74.4%	82.1%

5 *uncapped Capital Release Provision, where 23/24 MCT% = Target MCT%

6 ** Excludes rebates approved from 2021 Special Rebate Applications

29

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 The Taxi Coalition submits that the relevant line from this table is line 3 – Rate Update
2 – PUB(MPI) 1-26(b), which is summarized as “the premium rebate that would result in
3 Basic MCT at 100.0% at the end of 2021/22 if the Extension retained earnings were
4 transferred to Basic instead of to DVA, and the additional capital was used for
5 purposes of a premium rebate” per the original wording of PUB(MPI) 1-26(b). The
6 following exchange between Mr. Phoa and Board counsel confirms this
7 understanding:

8
9 MS. KATHLEEN MCCANDLESS (by Teams): And then the next scenario
10 would have no capital release provision, just the maximum capital rebate in
11 2021/22, such as the MCT does not fall below 100 percent. Is that right?

12
13 MR. TAI PHOA (by Teams): If you don't mind, Kirsten, just scroll -- scrolling
14 up. I just want to make sure that I'm on the same page. No, scrolling all the
15 way up to the question. I just want to make sure I'm on the same page.
16 Question B... Yes, that's correct. Sorry.

17
18 MS. KATHLEEN MCCANDLESS (by Teams): Okay. And in that case the
19 rebate would be 155.4 million plus 297 million? I think for -- we could go to
20 figure 14. That might help.

21
22 MR. TAI PHOA (by Teams): Yeah, that is -- that is correct. So -- so, the rebate
23 will -- will go up by approximately the \$113 million not transferred to DVA.³

24
25 The key observation from this table, and exchange with MPI's witness is that if the \$60
26 million transferred to DVA in 2020/21, and the \$53 million **to be** transferred in 2021/22
27 to DVA, were instead directed towards the Basic line of business, as they properly
28 should be, the rebate to customers overall could be \$297 million in 2021/22, or
29 approximately \$117 (\$297 - \$180) million more than otherwise and still meet the
30 required MCT test. Therefor a rebate of a lesser amount of \$113. 6 will not cause non-
31 compliance with the 100% MCT.

32
33 Of course, this isn't complicated: if the money goes where it should, then Basic
34 ratepayers benefit from larger rebate checks. If the money goes to DVA, the benefits

³ Tx 2083-2084

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 to Basic customers are reduced by that amount, and any indirect benefit to Basic
2 customers from DVA are much less apparent, if present at all.

3
4 **Transferring Extension Surplus to lines of business other than Extension**
5 **unfairly benefits some customers over others**

6
7 Having considered the financial health of MPI, the question arises as to whether a
8 transfer to DVA instead of Basic results in an unfair or unreasonable rate to Taxi VFH.

9
10 In collaboration with the Taxi Coalition outside of the hearing room, MPI prepared a
11 series of scenarios which were presented in MPI Exhibit 97 (and later corrected in MPI
12 Exhibit 114), which examines the various ways in which Taxi VFH might have paid
13 increased DVA fees to cover the DVA funding shortfall associated with ongoing
14 operations, and funding for Project NOVA.

15
16 If the answer to those proposed scenarios was that there was no material difference
17 to the ratepayers, then the transfer and proposed transfer from Extension to DVA
18 would arguably be fair and just. However, there is a material difference in the two
19 options as illustrated by each of the 3 scenarios which are intended to show what
20 might reasonably be thought to be the consequence of the DVA transfer option vs. the
21 Basic transfer option.

22
23 Key assumptions of this analysis include assumptions numbered:⁴

- 24
25 3. The \$60 million transfer from Extension to DVA would be reversed effective
26 March 31, 2022;
27 4. The proposed \$53 million transfer would not occur; and
28 6. Any increase in fees would be implemented effective April 1, 2022, would
29 remain in place for at least 7 years and, following 2028/29, the need for
30 same would be reassessed.

⁴ MPI Exhibit 97

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 And, the corrected assumption as follows:

2
3 10. The \$60 million transfer would instead be directed from Extension to Basic,
4 resulting in an additional rebate of \$930 per taxi registration as set out in
5 Undertaking #10.⁵
6

7 The scenarios analyzed different options for increasing DVA fees, including:

- 8
9 i) a simple \$17 increase to vehicle registrations;
10 ii) an increase registration and driver fees, as well as increases to driver
11 knowledge and road test fees; and
12 iii) an increase in driver fees, driver knowledge test fees and road test fees.
13

14 The results of the scenario analysis showed that over 7 years, Taxis would expect to
15 pay between \$119 under scenario 1, to a maximum of \$154 under scenario 3.
16

17 These amounts are in stark contrast to the \$930 average rebate that Taxis would
18 expect if the \$113 million in Extension surplus were transferred to Basic, instead of
19 DVA.
20

21 Under questioning by TC counsel, Mr. Phoa provided further clarity on the rebate
22 amounts for Taxi VFH, by Territory:
23

24 MR. TAI PHOA (by Teams): Yeah. And Mr. -- Mr. Hacault, I believe, in my
25 testimony just a while ago, that I agree with you on your calculations. The -- for
26 the total line, if we included both transfers of 60 million and 53 million, the
27 additional -- the rebate per unit will be about nine-hundred-and-thirty -- sorry,
28 nine-hundred-and- thirty dollars (\$930) per unit. And then -- and then, for the -
29 - for territory 1, that would translate to about a thousand-thirty dollars (\$1,030)
30 per unit, so.
31

32 MR. ANTOINE HACAULT (by Teams): Okay. And do you have the numbers
33 for the other one? A thousand-thirty dollars (\$1,030) for territory 1. What about
34 territory 2?

⁵ MPI Exhibit 114

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 MR. TAI PHOA (by Teams): Territory 2 would be about six hundred dollars
2 (\$600). Territory -- territory 3 will be about six-hundred-and-twenty-five (625).
3 MR. ANTOINE HACAULT (by Teams): Yes.

4
5 MR. TAI PHOA (by Teams): And territory 4 will be about six-hundred-and-
6 fifteen (615)⁶

7
8 The following table summarizes the rebates anticipated for Taxi VFH, by Territory,
9 where the 2020/21 transfer of \$60 million, and 2021/22 transfer of \$53 million to DVA,
10 in fact directed towards Basic.

11

TERRITORY	\$60 MILLION ADDITIONAL CAPITAL REBATE [1]	\$113 MILLION ADDITIONAL CAPITAL REBATE [2]
1	\$545	\$1030
2	\$318	\$600
3	\$331	\$625
4	\$326	\$615
AVERAGE	\$490	\$930

12 Note 1: Additional Capital Rebate per Undertaking 10, Updated TC(MPI) 2-2 Fig 2.

13 Note 2: Rebate to Taxi VFH under PUB(MPI) 1-26(b) scenario, confirmed on Tx 2014.

14
15 As compared to a total cost of between \$119 and \$154 in additional DVA fees **over 7**
16 **years**, the foregone rebates represent a material harm to Taxi VFH customers.

17
18 The estimated foregone rebate to Taxis is (see TC Ex. 8) \$566,263. The increased
19 DVA fees to Taxis required to cover the DVA costs are comparatively small.

20
21 Absent the transfer of Extension funds to DVA, the evidence shows that there were a
22 number of options available to MPI and government on how to address the funding
23 shortfall to DVA, as evidenced by the following exchange between Board counsel and
24 Mr. Herbelin:

25
26 MS. KATHLEEN MCCANDLESS: And then you mentioned in your direct
27 testimony that MPI has been engaged with Crown services to try and find a
28 solution for the DVA line of business?

⁶ Tx 2103-2104

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 MR. ERIC HERBELIN: That is correct.

2

3 MS. KATHLEEN MCCANDLESS: And to date, what's the status of those
4 discussions?

5

6 MR. ERIC HERBELIN: The status of the discussions to date are work in
7 progress. Crown services and MPI discussed possible options. **MPI was**
8 **asked to formulate those options and provide them for consideration to**
9 **Crown services.** And **we received indications that government of**
10 **Manitoba would not be compelled to entertaining an increase in fee or to**
11 **forego any revenues in the short time** but in the long-term sustainable
12 solution to the funding issue of the DVA program and also the timeframe of --
13 of the deficit or accumulative deficit as not let -- or not concluded. The
14 discussion is not closed. We have not come to an understanding of what
15 solution will or may look like.⁷ [emphasis added]

16

17 Despite the statement from Mr. Herbelin that increases in DVA fees were not a
18 preferred option for the Government of Manitoba, this option appears to be the only
19 credible alternative that would allow the government to maintain its revenue from DVA
20 fees, while also covering the ongoing operating cost deficit, and the additional costs
21 of Project NOVA.

22

23 The accounting implications of this hypothetical were explored in an exchange
24 between TC counsel and MPI witness Mr. Gandhi:

25

26 MR. ANTOINE HACAULT (by Teams): And as I understand it, Basic and DVA
27 are treated as separate business units, correct?

28

29 MR. MICHAEL GANDHI: That is correct.

30

31 MR. ANTOINE HACAULT (by Teams): And if this Board were to make a ruling
32 on the use of surplus funds requiring an accounting transaction correction,
33 what would the option be? For example, would it be one (1) possibility to show
34 it as an inter-business unit short-term loan, as a receivable? How would you
35 deal with an Order of the PUB saying, if it should so decide, that the surplus

⁷ Tx 232

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 funds and excess should have been put to Basic and not DVA? How would
2 you deal with that from an accounting perspective?

3

4 MR. MICHAEL GANDHI: We would need to take that away, consult with
5 internally and with our auditors on any possible adjustments.⁸

6

7 In response to this exchange, MPI submitted the following response as Undertaking
8 11:

9

10 MPI external auditors advise that the only allowable treatment would be for
11 MPI to transfer the excess retained earnings and offset this with a transfer of
12 investments, prior to the final month of the fiscal year [ended March 31st,
13 2021/22] as a prior period adjustment with additional note disclosures for
14 same.

15

16 This treatment is essentially the same as done previously by MPI to address
17 transfers from Extension to the Basic line of business.

18

19 Therefore, it would appear there are no unusual or onerous accounting treatments
20 required for MPI to unwind this transfer, and therefore nothing to prevent the PUB from
21 ordering a 2021/22 rebate including the full amount of transfers (actual and pending)
22 of Extension Surplus to DVA.

23

24 **There is no demonstrated urgency, financial hardship or increased DVA fee**
25 **shock**

26

27 As can be seen from the Taxi Coalition example (Ex. 97) the proposed fee increases
28 to DVA services were relatively modest and covered a 7 year time period.

29

30 MPI chose the assumptions for the Taxi Coalition scenarios in MPI Ex. 97 including
31 an assumption that any increase in fees would be implemented effective April 1, 2022
32 and would remain in place for 7 years. In addition, all funds associated with the
33 increased fees would flow back from the Government back to so as to cover its
34 projected deficits.

⁸ Tx 569

Issue Topic #3: **Transfer of Excess Extension Reserves to DVA**

1 In each of the scenarios nominal increases in fees would achieve the desired results
2 with increases in the range of \$9 to \$22.

3

4 Considering the amounts paid for basic insurance, none of these increased fee
5 scenarios would constitute a rate shock. Many Starbucks coffee drinkers probably
6 spend that much money in a short time frame.

7

8 Furthermore, in the context of MPI's business as a whole, the shortfall in DVA and
9 providing temporary inter-division loans does not cause any financial stress on MPI.

10

11 Although MPI views the transfer to DVA as prudent, it has not adduced any evidence
12 of financial hardship requiring an immediate transfer of funds in the DVA division. On
13 the contrary, the indication that the prefunding allows the accumulated and projected
14 deficits to be covered for several years suggests there is no urgency and that
15 alternatives can and should be allowed to continue to be explored and implemented.

16

17 **PUB should direct rebates reflecting the excess Extension transfers that were**
18 **and will be transferred to DVA**

19

20 For these reasons, we recommend to the PUB that it order that:

21

- 22 a. the \$60 million transfer to DVA be reversed; (that reversal can be treated by
23 MPI as per the auditor's recommendations);
- 24 b. the proposed transfer of \$53 million to DVA not be implemented; and
- 25 c. the amount of \$113 million be transferred to Basic and be added to the
26 amounts to be rebated to MPI customers.

1 **ISSUE TOPIC #4: Credibility Assignments**

2
3 **ISSUE:**

4
5 Whether MPI's current methodology to assign credibility to small insurance uses should
6 be amended to be more responsive to current experience on Collision and Property
7 Damage, and to send appropriate price signals.

8
9 **TC SUMMARY AND/OR RECOMMENDATION:**

10
11 The PUB should direct MPI to examine the issue of credibility weighting and propose
12 adjustments to the credibility weighting methodology for the 2023 GRA, to make small
13 insurance use rates more responsive, and paying particular attention to the interplay
14 between credibility methodology and the results of the VFH framework review.

15
16 In the interim, the PUB should approve a one-time adjustment to Taxi VFH to fully
17 recognize the credibility of Collision, and Property Damage in 2022/23 rates.

18
19 The evidence of Dion Strategic is uncontested. Under commonly used and accepted
20 credibility approaches, the loss experience of Taxi VFH would be fully credible for shor
21 tailed lines such as Collision and Property Damage, which accounts for 76% of Taxi VFH
22 incurred over the past 10 years.

23
24 An adjustment to the current credibility assignment to give Collision and Property Damage
25 full credibility, would mean assigning the Taxi VFH raw relativity a credibility of 100% to
26 that portion of losses within MPI's current ratemaking methodology. Such a credibility
27 assignment would more properly reflect the credibility of Taxi VFH loss experience for the
28 short tail losses, until MPI can develop a long-term solution to the low credibility problem
29 facing all small insurance uses, including Taxi VFH.

30
31 MPI's current approach results in rates for small insurance uses that are very slow to react
32 to changes in experience (whether positive or adverse changes in experience), and this
33 slow reaction sends incorrect price signals, as the PUB recognized in Order 1/21, citing
34 the need for three consecutive increases of 20% for Passenger VFH.¹

35

¹ Order 1/21, Page 58.

1 A major concern of the Taxi Coalition with respect to credibility weighting, is rate
2 responsiveness under a revised VFH Framework. MPI is developing, among other
3 options, a Risk and Incentive model² that “provides incentives and captures driver risk” by
4 lowering starting premiums and applying surcharges to at fault collisions.³

5
6 Should the new model provide the effective incentives, and VFH insurance uses respond
7 appropriately to those incentives, it is both likely and desirable that Taxi VFH collision loss
8 experience would improve, and perhaps rather quickly. It would be important for that
9 improved loss experience to be quickly reflected in rates.

10
11 Stated conversely, it would defeat the purpose for a revised VFH framework to put in place
12 an insurance model that addresses the unique risks and incentives that exist for Vehicles
13 for Hire, only to impede those results from manifesting in rates, because of unreasonable
14 rules around credibility assignment.

15
16 With respect to Serious losses generally, MPI should be re-examining the way it chooses
17 the size of subsets of customers sharing the risk of serious losses and report back to the
18 PUB.

19
20 The evidence is also clear that private automobile insurance markets would react quickly
21 to changing experience, for both competitive considerations and to limit adverse selection.
22 As a proxy for competition, the regulation of a monopoly insurer should recognize and
23 reflect this competitive practice.

24
25 **DISCUSSION AND SUPPORT:**

26
27 **Dion Strategic credible and reliable experts**

28 MPI has suggested little weight should be put on the testimony of Dion Strategic arguing
29 that they have little to no experience in the regulation of a Crown owned automobile
30 insurance monopoly. However, MPI has not identified in what ways Dion Strategic’s
31 expertise is lacking and why the principles of fairness, stability, risk assessment and
32 causation which applicable in the not for profit sector and the private insurance sector are
33 irrelevant to regulating MPI. Mr. Dion explained the ways there are similarities.⁴

² 2022 GRA, VFH Section 4.3, page 8.

³ 2022 GRA, VFH Section 4.3, page 8.

⁴ Tx 2288 and 2289

1
2 Dion Strategic expressly stated that their mandate was to be of assistance to the PUB in
3 this GRA.⁵ If they had been advocates for Duffy's and Unicity, they would not have pointed
4 out that the relativities between Territory 1 taxis and the taxis in the rural territories suggest
5 that the rural taxis are subsidizing the Winnipeg taxis. We say their advice was sound.

6
7 We note that MPI chose not to file any expert evidence to challenge the opinions and
8 recommendations of Dion Strategic. Although their opinions were tested on cross-
9 examination, MPI, which has the onus of proof, did not adduce any expert evidence to
10 support the positions it takes in its submissions.

11
12 **MPI's approach to credibility assignment is one of many approaches**

13
14 The evidence of Dion Strategic establishes several key facts about MPI's current approach
15 to credibility assignment.

16
17 First, MPI's approach is a form of Buhlmann credibility, and is valid approach using
18 exposures (or earned units). However, the most common approach used in insurance
19 ratemaking is called the classical credibility approach which relies on claims frequency.⁶

20
21 Dion Strategic explains that classical credibility theory typically relies on 1,082 claims
22 (typically of the short-tail variety, such as collision, comprehensive, or property damage)
23 to earn full credibility.⁷

24
25 Dion strategic then provides an example, based on the Taxi VFH loss experience
26 (provided in response to TC(MPI) 1-18) to show that claims for Collision and Property
27 Damage would be highly credible under a classical credibility approach.

28
29 Specifically, Dion Strategic highlights that the 3,594 claims for Collision and PD in
30 Territory 1 achieve full credibility, while Territories 2 though 5 achieve 70% credibility with
31 533 claims for Collision and PD.

⁵ Tx 2308

⁶ TC Exhibit 4, PDF page 9.

⁷ TC Exhibit 4, PDF page 9.

1 Together all territories are fully credible for Collision and Property damage claims, and
2 those claims represent 76% of Taxi VFH incurred losses from 2011 to 2020 (per the data
3 provided in MPI(TC) 1-18).

4
5 Dion Strategic explained the need to take different credibility approaches to different types
6 of losses as follows:

7
8 And in answering some of Mr. Watchman's questions, there appeared to be
9 perhaps a different approach taken to collision numbers and serious loss. Could
10 you expand on that and why, if so, if there isn't a difference? Please clarify.

11
12 MR. JASON WONG (by Teams): I would say both are different matters but they
13 also, I guess, intersect. If you have a serious loss, it will be -- it will most likely be
14 a shock to all the loss ratios, so you will need a lower minimum credibility to
15 balance that out.

16
17 So if there was a big, say, serious loss, if your minimum credibility is ten (10), that
18 will stabilize your rate. At the same time, even if the credibility -- minimum credibility
19 were to go up from ten (10) to maybe fifteen (15) or twenty (20), as long as that
20 number is, I guess, reasonably lower, it will help to reduce the impact of that
21 serious loss as well.

22
23 So when you're working on a serious loading, and you -- you do have to choose a
24 reasonable loading, and it's going to be a different loading, depending on your
25 insurance use. When you're looking at credibility, you're trying to balance how
26 much of that experience to count and how much of the more recent experience to
27 count. And lowering that credibility will balance off some of that shock from the
28 serious loss.

29
30 MR. SYLVAIN DION (by Teams): Maybe just to add to that in what Mr. Watchman
31 was saying. When we were looking at the credibility by line of business, the point
32 that collision comprehensive deserve a higher percentage of credibility was based
33 on the activity level that was there.⁸

⁸ Tx 2291 and 2292

1 The Taxi Coalition submits that given the evidence of Dion Strategic as a whole, the PUB
2 should direct MPI to assign a credibility weighting of 100% to the Collision and Property
3 damage claims in order to reflect the fact that 76% of Taxi VFH loss experience is fully
4 credible.

5
6 The Taxi Coalition proposes this as a one-time, interim measure until MPI can propose
7 amendments to its credibility approach in the 2023 GRA, discussed below.

8
9 **MPI's approach to credibility assignment is based on MPI's judgement**

10
11 MPI's Buhlmann credibility formula is valid but has several detracting features. First, the
12 parameters are substantially based on judgement. The $N/(N+K)$ formula, where N is the
13 5-year historical earned units, and K is a judgementally selected constant was designed,
14 by the selection of K equal to 60,000, to ensure that the All-Purpose Passenger insurance
15 use is at least 95% credible⁹.

16
17 This has the effect of giving **very** low credibility to small insurance uses, such as Taxi VFH
18 and Passenger VFH.

19
20 For example, the credibility weighting formula applied to Taxi and Passenger VFH is
21 approximately:

22
23 Taxi VFH $Z = N/(N+K) = 3,345/(3,345+60,000) = 5.28\%$

24
25 Passenger VFH $Z = N/(N+K) = 2,173/(2,173+60,000) = 3.50\%$

26
27 In contrast the credibility weighting for All Purpose Passenger vehicles is:

28
29 All Purpose Passenger $Z = N/(N+K) = 1,835,214/(1,835,214+60,000) = 96.83\%$ ¹⁰

30
31 As a result of this very low credibility weighting for small insurance uses, MPI has
32 judgementally selected a minimum 10% credibility weighting for any insurance use whose
33 calculated "Z" is less than 0.1 (or 10%).

⁹ 2022 GRA RM Page 47, lines 10-23.

¹⁰ 2022 GRA RM Appendix 9 Table 13, Major Class 1.

1 Credibility weighting relies on the judgement of the actuary, across a reasonable range of
2 options. Mr. Wong elaborates:

3
4 A lot of the ratemaking methodology, not just from MPI, even work we do normally,
5 is subjective. A lot of the actuarial work is subjective. It's not about say right or
6 wrong; it's a lot about a range of reasonable outcomes. As an example, we will talk
7 about credibility later. Credibility is a very subjective topic, even say the definitions
8 of major class, so it is subjective.¹¹

9
10 However, evidence before the board is that MPI's credibility assignment to small insurance
11 uses is not within that reasonable range. Mr. Dion elaborates:

12
13 MR. SYLVAIN DION (by Teams): But I think, generally speaking, from a business
14 point of view, the outcome of **the current methodology which results in the**
15 **minimum credibility to be applicable to many of the smaller classes was not**
16 **yielding a reasonable result.**

17
18 There should be more credibility to part of the experience as opposed to the
19 minimum credibility, or maybe increase the minimum credibility. But we think the
20 alternative approach would provide value if implemented.¹² [emphasis added]

21
22 For Taxi VFH MPI's approach to credibility weighting generates extremely different results
23 from the most commonly used "classical credibility" example provided above. The
24 following section illustrates this fact.

25
26 **MPI's approach to credibility assignment is slow to react and sends poor price**
27 **signals**

28 The Evidence of Dion Strategic included Appendix 5.2 provided an illustration of how the
29 credibility weighted relativities move from the "current" (meaning historical) to the "raw"
30 (meaning most current), under a 10% credibility weighting.

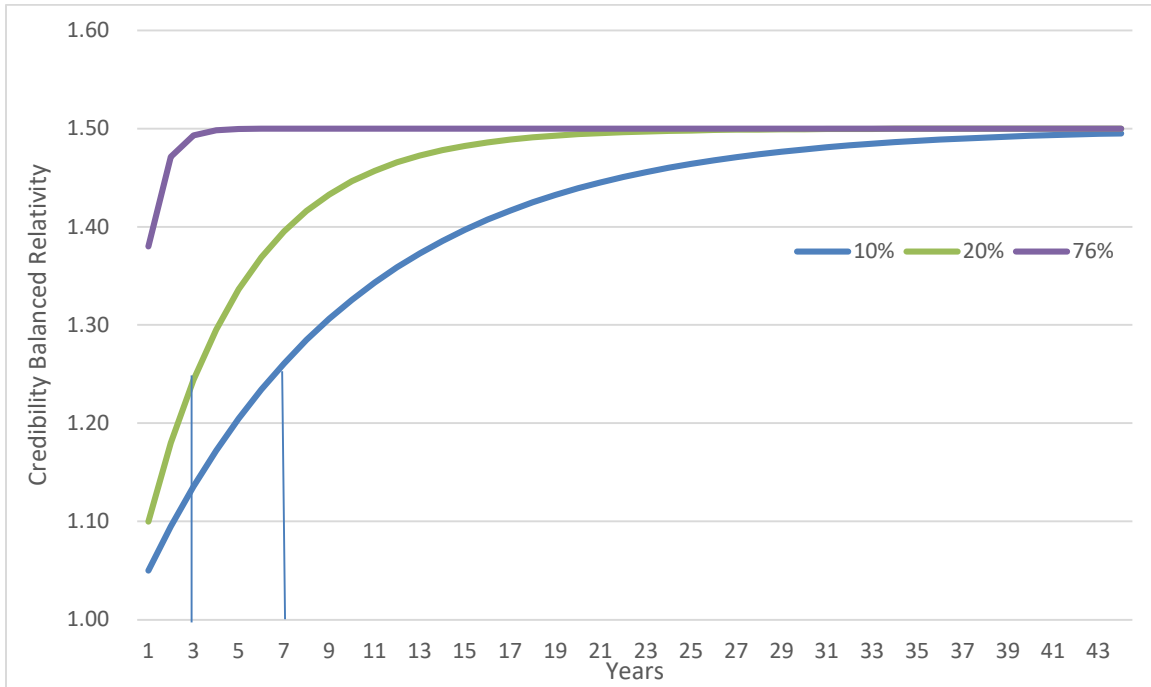
31
32 The following graphic presents the result of the table in Dion Strategic's Appendix 5.2,
33 which illustrated a 10% weighting. The figure also includes an illustration of a 20%
34 weighting and a 76% weighting approximating the classical credibility approach.

¹¹ Tx 2119 lines 6-14.

¹² Tx 2137, lines 1-17.

1
2

Figure 1: Credibility Balanced Relativity - Time to "True" Required Relativity



3
4

5 Figure 1 illustrates several important points:

6
7
8
9

1) The time to fully recognizing the raw relativity (or most current experience) at a 10% weighting is about 43 years.

10
11

2) At 20% weighting current experience is fully recognized in 20 years.

12
13

3) At 76% weighting, current experience is fully recognized in 4 years.

14
15

Also:

16
17
18

1) The time to recognize half the current experience is about 7 years at 10% credibility weighting, and at 20% weighting is about 3 years.

19
20

Note, these illustrations assume all else is equal over the time horizon.

21
22

The revised VFH framework depends in part on rates adjusting to reward good driving experience.

1 A key concern of the Taxi Coalition is how will the credibility assignments for Taxi VFH
2 assist or hinder improving loss experience under a revised VFH Framework. MPI has
3 indicated that it is considering a “Risk and Incentive” model that it describes as follows:

4
5 this model includes a new component to the VFH insurance use model (i.e., a
6 surcharge program) that provides incentives and captures driver risk. Under this
7 model, MPI would apply the surcharge to at-fault claims at the time of accident. As
8 such, the total annual premium for a customer would be the sum of:

- 9
10 - Annual Basic insurance premium; and,
11 - Cumulative annual surcharge insurance premium, if applicable.

12
13 **The intent of the surcharge program is to reduce the basic premium for**
14 **customers with no or fewer at-fault claims and redirect additional premium**
15 **to those drivers who cause more accidents.**¹³ [emphasis added]

16
17 While not finalized, the model MPI has proposed, correctly provides strong financial
18 incentives to VFH operators to reduce loss experience, both through positive rewards,
19 (reduced Basic premium) and negative consequences (premium surcharges for at-fault
20 collisions).

21
22 However, the status quo approach to credibility would severely blunt the positive rewards:
23 as VFH incur fewer losses the total cost of insurance will decrease, meaning as time
24 passes, the “reduced basic premium” will decline further still. Under the current credibility
25 assignment approach, those reductions in Basic premium would take years to be fully
26 realized for any of the VFH insurance uses.

27
28 Ideally, such a surcharge program employing positive and negative consequences
29 (carrots and sticks) would have a fast and material impact on the actual VFH loss
30 experience, which is beneficial for VFH, and all road users. Stated simply, the combination
31 of carrots and sticks should quickly incent VFH drivers to drive more carefully, reducing
32 collisions. MPI’s status quo credibility approach would turn a balanced “carrot and stick”
33 approach into a “mostly stick, very little carrot” approach.

34

¹³ 2022 GRA VFH Section 4.3, page 8, lines 2-10.

1 For this reason, the Taxi Coalition submits that MPI's credibility weighting approach should
2 be revisited, to create rates for small insurance uses that are more reactive, and in
3 particular, that where rates are designed to send strong price signals, as the "Risk and
4 Incentive" model is intended to, that the credibility model support, rather than impede the
5 pricing model incentives.

6
7 The Taxi Coalition submits that there are also approaches to modifying the existing rules,
8 under MPI's existing credibility model, which include:

- 9
10 1) Choosing a new value for K = 60,000; and
11
12 2) Choosing a new lower bound, higher than 10%.

13
14 Dion Strategic offered the following as it relates to an alternative lower bound in the
15 following exchange between MPI counsel and Dion Strategic:

16
17 MR. ANTHONY GUERRA: And is there any advice that -- that your -- your
18 organization can provide in terms of which of those numbers is most appropriate
19 for MPI going forward?

20
21 MR. JASON WONG (by Teams): It would depend -- well, this isn't our opinion. It
22 would depend on the Public Utility Board's I guess tolerance for responsiveness.
23 We understand that, yes, we're talking about long-term stability, but we're also
24 saying that, because it's at 10 percent, not just taxis, all the small insurance uses
25 will have -- will most likely never reach past the 10 percent. And **it would be very**
26 **slow to respond to any improvement or deterioration in loss ratio. So that**
27 **number is judgmental, just like the ten (10) was selected. So if you select**
28 **twenty (20), it will be slightly more reactive.** So it depends how much more
29 reactive you want to be. That is subjective. We would say that it's better to be more
30 reactive and look more at the recent year data as opposed to data ten (10) years
31 ago.

32
33 MR. SYLVAIN DION (by Teams): So maybe this is not actuarial advice. **This is**
34 **more business to increase the current standard of ten (10) to twenty (20) as**
35 **a first step would be a step in the right direction. Re-evaluate maybe two (2)**
36 **to three (3) years if more responsiveness should be included.**

1 MR. ANTHONY GUERRA: And when -- when you are more responsive, the -- the
2 downside perhaps is that your rates are a little more volatile. Would you agree with
3 that?

4 MR. JASON WONG (by Teams): I think that's fair. It depends on responsiveness
5 and pure stability. So –

6
7 MR. SYLVAIN DION (by Teams): Yeah.

8
9 MR. JASON WONG (by Teams): -- yeah. So rates will shift a bit. It's the same as,
10 if someone has a loss and then the rates don't shift that much, that lessens the
11 incentive for them to improve their driving experience.

12
13 MR. SYLVAIN DION (by Teams): Right, and the **less responsive means that**
14 **you're less paying your fair share of the deal. Maybe it's stable, but it doesn't**
15 **-- it doesn't -- it's not as responsive to your experience. So you're being**
16 **subsidized or you subsidize other group.**

17
18 MR. JASON WONG (by Teams): There's -- the answer we provided in TC -- MPI-
19 TC-8 is the -- there's a trade off between stability and responsiveness. That is a
20 judgment call. That is subjective. **Anything higher than ten (10) would be a step**
21 **in the right direction in our opinion. Twenty (20) seems very reasonable.**
22 **Even at 20 percent, it does take a lot of time for rates to reach their true**
23 **relativity, if nothing else changes.**¹⁴

24
25 The preceding excerpt highlights sage advice from Mr. Dion: that if an insurance use
26 experiences a large shift experience, but the credibility assignment means rates take a
27 long time to recognize that shift, then there is an unfairness, a subsidy, in that the
28 insurance use is not paying a rate that reflects its costs.

29 The TC submits that the PUB should direct MPI to review its credibility assignment
30 methodology to consider both classical credibility and any adjustments to the current
31 Buhlmann credibility, including increases to the lower limit of 10%. The examination should
32 also consider approaches to ensure that credibility weighting supports the price signals
33 that MPI rates are designed to send.

34

¹⁴ Tx 2240 to 2242.

1 **Credibility and serious losses**

2 The evidence confirmed that MPI views serious losses as random but assigns those
3 losses to subclasses based on actual experience. This leads to absurd results such as
4 extreme serious loss loadings on small insurance uses which have the unfortunate
5 random, low probability, large loss event occur in their insurance use. The example of a
6 serious loss loading of about \$2,000 per vehicle on about 24 Farm Passenger Vehicles is
7 discussed in Issue 2.

8

9 Also discussed in Issue 2 is the complete lack of analysis by MPI of serious loss risk
10 characteristics.

11

12 As explained by Dion Strategic, MPI's approach to serious loss is inconsistent with the
13 insurance sector. The insurance sector includes as a component of the premium an
14 amount which reflects the "price for the best expected cost," of this low probability high
15 value loss.¹⁵

16

17 Dion Strategic's opinion is that MPI should, as a starting point price the loss "in advance
18 so that when an actual event does happen, you have enough or adequate rates."

19

20 As set out in Issue 2, Dion Strategy also recommended that MPI assess which insurance
21 uses might be more prone to a serious loss in setting adequate rates for serious losses.

22

23 It seems fairly apparent that until MPI changes its approach on serious losses that there
24 is a role for a lower credibility assigned to serious losses and a need to average the loading
25 of serious losses over at least 10 years. This serves to protect the smaller insurance uses
26 from rate shock for a low probability, high cost event.

27

28 We submit that the real effect of allocating actual serious losses to such small groups is
29 to make the loss a pure cost sharing exercise – 24 Farm Passenger vehicles are forced
30 to share the cost of a random high cost event for 10 years. The whole purpose of insurance
31 is to spread the cost of random high cost events among a larger group of customers with
32 similar risk characteristics. Actual loss loading being shared by a small group is
33 inconsistent with that purpose.

34

¹⁵ Tx 2125 – 2126

1 This Farm Passenger vehicle example is a stark illustration of why MPI should move away
2 from only allocating serious losses to small groups of customers in the event of an actual
3 serious loss in that small group. If there is no serious loss loading and there is no actual
4 serious loss, the small group is not participating in the cost of serious losses when it
5 should. If there is an actual serious loss, the reverse is true. The small group is
6 unnecessarily paying a high premium for an extended period of time just because one of
7 the drivers in that group randomly happened to be in a serious loss accident.

8
9 MPI should be re-examining the way it chooses the size of subsets sharing the risk of
10 serious losses and report back to the PUB.

11
12 Dion Strategic, in considering the Farm Passenger Vehicle serious loss loading explained:

13
14 MR. ANTOINE HACAULT (by Teams): Okay. Arising from those questions that
15 Mr. Watchman and Mr. Guerra were asking, can you comment on the approaches
16 taken in the private sector with respect to whether, for example, they would rate a
17 group of twenty-four (24) farm vehicles based on actual experience in twenty-four
18 (24) vehicles for serious losses? Quite apart from the credibility. Would they only
19 spread the loss over twenty-four (24) vehicles?

20
21 MR. JASON WONG (by Teams): I will speak in general. Usually, first, they would
22 try to remove, kind of, the impact of the serious losses. You may set all your claims
23 and cap it at, say, five hundred thousand (500,000) and focus on that part. Then
24 you would decide on, okay, this is the amount of claims above five hundred (500)
25 K, how do I allocate it, and what loading do we put into the different uses?

26
27 So in this case, if it's, like, a --let's say the farm example, you would probably cap
28 other losses at five hundred (500K) K, then you would apply a loading on top of
29 that. That is not what they're actual -- because they randomly got hit with that one
30 (1) big claim. You would maybe balance it out with other farm vehicles or balance
31 it out with other insurance uses from that class.

32
33 So the loading is going to be different by the different insurance uses and how you
34 estimate that. You Could use historical or say in our case here, with passenger
35 Vehicles for Hire, we're using a proxy based on other Vehicles for Hire.

1 MR. SYLVAIN DION (by Teams): Currently, if I understand the example correctly,
2 to surcharge a group of twenty-four (24) insured because of one (1) large loss and
3 recognize that completely, that would not seem to be appropriate as an approach.
4

5 MR. JASON WONG (by Teams): Like, I would say the farm vehicles need to be
6 grouped with some other similar uses to have enough size. And then that other
7 group should have a similar loading applied.¹⁶
8

9 With respect to the credibility weighting for losses, Dion Strategy has recommended
10 moving slowly to increase credibility to 20%. As per the above explanation, we submit that
11 this cautious approach should be applied, as it relates to serious losses, because of the
12 randomness of the of the high cost low probability event. This cautious approach is
13 warranted until MPI moves away from direct serious loss allocation to small sub sets of its
14 clients based on whether one of the insured in that subset has a serious loss accident.

¹⁶ Tx 2293, 2294

1 **ISSUE TOPIC #5: Generalized Linear Models (GLM) and Territorial**
2 **Differentials and Data Collection**

3
4 **ISSUE:**

5
6 Whether MPI should be directed to adopt GLMs for pricing, develop more
7 sophisticated models to segment risks, as between urban and rural insurance uses,
8 and collect the appropriate data for the VFH framework review, and to fully harness
9 the power of modern GLMs.

10
11 **TC SUMMARY AND/OR RECOMMENDATION:**

12
13 The PUB should direct MPI to immediately begin development of GLMs for pricing,
14 and to present a plan with the 2023 GRA to implement GLM-based rate making.

15
16 The evidence on the record is clear: MPI's ratemaking methodology relies on methods
17 developed in the 1960s, when computing power was limited and simplicity was
18 required. Those constraints no longer apply.

19
20 GLMs are now standard across the industry, and have been for at least the last 15
21 years. They provide better opportunity for more rating variables and complex
22 interactions to be incorporated into pricing, and also provide 'diagnostic' information
23 about the value of a rating variables (the significance and confidence of the rating
24 variables).

25
26 MPI has committed to examining GLMs, but has made no commitments about when
27 such investigations will be complete. The PUB should direct MPI to prioritize this work,
28 with a goal of a filing for the PUB a preliminary set of GLMs using existing rating
29 factors, and a plan to study additional rating factors and interactions in order to
30 address the question of territorial subsidies among others.

31
32 The PUB should also direct MPI to begin collecting additional data relevant to the VFH
33 framework review, and any further such data that may inform GLM modelling,
34 forthwith. This data and analysis is essential to understanding the high relativities,
35 collision experience, and operational characteristics of VFH and should be understood
36 as a prerequisite to developing a revised VFH Framework.

1 The PUB should reinforce that MPI is to comply with all of the sub-directives to
2 Directive 8 of the PUB Order 1/21, by the time it files the 2023 GRA, and certainly in
3 advance of finalizing the VFH framework review.

4

5 The PUB should require MPI to report quarterly on the progress in dealing with its
6 Directives.

7 **DISCUSSION AND SUPPORT:**

8

9 **Quarterly Reporting**

10 The general problem which seems to arise with respect to directives is the lack of any
11 material progress and the inability to monitor the progress or lack thereof until the next
12 GRA. For example, the PUB has issued several directives on the issue of a driver
13 model instead of a registered owner model only to find out at a GRA that MPI has
14 decided that it hasn't made any progress. The same issue arose for CMMG which got
15 an unwanted analysis after the IR process was completed. The same problem has
16 arisen in the VFH frame work review. Directives are either not complied with or really
17 are responsive to the known purpose and intent of the Directives. There has to be a
18 better way of making more progress. Spending time, as PUB Board counsel has, in
19 cross-examining on compliance and putting previous evidence and previous PUB
20 decisions to MPI witnesses is an inefficient use of time.

21

22 We have therefore recommended quarterly reporting. If there are time limits and there
23 is interim non-compliance, parties would have the opportunity to file an application
24 seeking compliance or the PUB, on its own initiative, may wish to exercise its
25 jurisdiction under section 28 and 29 of The Public Utilities Board Act to enforce
26 compliance on an interim basis and to "authorize such person as it sees fit to do the
27 act, matter or thing."

28

29 We submit that it is an unsatisfactory state of affairs where a monopoly gets to drag
30 its feet and make little or no progress on important directives issued by the PUB.
31 Imposing time limits promotes accountability. If a utility had competition it would be
32 implementing best practices as dictated by competition. We therefore submit that one
33 of the regulatory roles of the PUB is to ensure that MPI's customers are not
34 disadvantaged by the fact MPI has a monopoly on basic automobile insurance. Normal

Issue Topic #5: **Generalized Linear Models, Territorial Differentials
and Data Collection**

1 competition would require MPI to offer premiums calculated on losses and risk of
2 losses and to provide its services and products in the most cost effective way.
3 Manitobans are entitled to expect the same of their Crown owned automobile
4 insurance monopoly.

5

6 **Generalized linear models are superior to the minimum bias procedure**

7

8 The issue of the minimum bias procedure has been raised in the context of apparent
9 subsidies between urban and rural insurance uses. In Order 1/21, the PUB directed
10 that the issue be reviewed in a VFH technical conference:

11

12 The report arising out of the Technical Conference shall include proposals on
13 how to deal with significant difference in relativities in the Top 20 relativity
14 listing and determine whether Taxi Vehicle For Hire in Territories 2, 3 and 4
15 are being overcharged and whether a reduction in rates for those
16 classifications should be accelerated.¹

17

18 However, the report on the VFH technical conference, was inconclusive on the issue
19 of Ratemaking methodology, given the consensus view that further review and
20 consultation was required². The discussion of the minimum bias procedure did result
21 in a suggestion of using a predictive model as a possible option.³

22

23 The evidence of Dion Strategic is that the minimum bias procedure has several
24 shortcomings, which are summarized in the following excerpt from *A Practitioner's*
25 *Guide to Generalized Linear Models*:

26

27 Once an optimal solution is calculated, however, the minimum bias procedures
28 give **no systematic way of testing whether a particular variable influences**
29 **the result with statistical significance**. There is also **no credible range**
30 **provided for the parameter estimates**. The minimum bias procedures **lack**

¹ PUB Order 1/21, Directive 10, PDF page 99.

² MPI Exhibit 38, PDF page 8.

³ MPI Exhibit 38, PDF page 8.

1 **a statistical framework which would allow actuaries to assess better the**
2 **quality of their modeling work.**⁴ [emphasis original]

3

4 The conventional alternative to the Minimum Bias Procedure is the Generalized Linear
5 Model (GLM).

6

7 The evidence of Dion Strategic is that GLMs are standard across the P&C insurance
8 industry and have been for at least the last 15 years.⁵ Dion Strategic explains that
9 GLMs are capable of modelling many rating variables and interactions among rating
10 variables with ease, and that GLMs are able to identify which rating variables are
11 valuable, by providing significance and confidence measures.

12

13 The Evidence of Dion Strategic states:

14

15 GLMs are superior to the MBP and would provide a systematic method to
16 determine rating variables, significance, and confidence measures. If modelled
17 properly, it would reduce the cross subsidization amongst subsets of risk.⁶

18

19 Dion Strategic's Peer Reviewer, Ms. Seto of Palm Canada, concurs with the
20 assessment that GLM models can be built to provide more robust and predictive
21 analysis, but cautions that such a transition may not be immediate,⁷ and would require
22 developing a plan to introduce new rating variables gradually, and monitor their impact
23 over time.

24

25 Dion Strategic recommends a similar course of action in response to CAC(TC) 1-1,
26 which asked for an outline of an 'immediate plan' to implement a GLM. The response
27 to this information request is instructive:

28

29 Important with any change is to get stakeholder feedback. If Dion Strategic
30 were designing a plan, it would include:

⁴ TC Exhibit 4, PDF page 14.

⁵ Tx 2416 line7-15.

⁶ TC Exhibit 4, Section 4.2 Minimum Bias Procedure Recommendations, PDF Page 15.

⁷ TC Exhibit 4, 5.4 Palm Canada Peer Review Document, PDF Page 31.

- 1 1. For the upcoming year, create a transition plan.
- 2 2. Run both GLM and MBP models for the coming year as a test.
- 3 i. Decide on the assumptions to be used for the GLM.
- 4 1. Simplified model as a start.
- 5 • For example, using only existing rating variables and not
- 6 adding new ones.
- 7 3. Formalize the Assumptions used, treatment of groups, etc.
- 8 4. Compare the GLM results to MBP.
- 9 5. Plan for a transition between MBP and GLM rating in coming years.
- 10 i. Decide on a capping and dislocation structure.
- 11 6. Plan for improvements to GLM models in following years.
- 12 i. Determine additional data to collect to add to the model.

13

14 Dion Strategic has further advised that the technology to develop a GLM model is now
15 commonly available, so much so that free open-source software (“r”) contains modules
16 for GLM development, and that the private sector is embracing this software.⁸

17

18 The evidence of MPI is that they are committed to examining GLMs, but at this time
19 can provide no timeline, no scope for the review, and presently no resources in place
20 to conduct the review, as evidenced by the following exchange:

21

22 MS. KATHLEEN MCCANDLESS: I stand corrected. Thank you. Lastly, I just
23 wanted to ask about the use of generalized linear models on ratemaking. In
24 your presentation, there was a commitment to reviewing the use of generalized
25 linear models. What is the time frame for that review?

26

27 MS. JING LANG: This is Jing speaking. So we are committed to start looking
28 at it as soon as possible.

29

30 MS. KATHLEEN MCCANDLESS: Does MPI have resources identified to look
31 at this work?

32

33 MS. JING LANG: I'm really glad you brought that question up. So, historically,
34 MPI has always had very lean resource when it comes to the insurance and

⁸ Tx 2248, lines 6 – 21.

1 risk management area, so we are looking at ways and -- secure resource in
2 order to make this happen.

3
4 MS. KATHLEEN MCCANDLESS: Does MPI have an initial scope for this
5 review?

6 MS. JING LANG: Not yet. Not yet defined.

7
8 MS. KATHLEEN MCCANDLESS: And as soon as possible can be a bit
9 subjective, so are there actual calendar time-lines right now for this review?

10
11 MS. JING LANG: We would like to look at it as soon as possible because that's
12 all I -- the specific I can provide at this point. To our CEO's remark on the 12th,
13 we do want to -- looking forward, we do want to be a fast-follower of industry
14 best practices, and this absolutely is aligned with that desire. So I can't give
15 you a time right now, counsel, because we currently don't have a concrete
16 scope. I also want to manage expectations because I don't want to over-
17 promise and under-deliver. But I can say, from an MPI perspective, we will be
18 looking to review this, and we would like to implement it as soon as feasible.⁹

19
20 **Territory differentials may exist, and should be addressed through**
21 **improvements to the algorithm**

22
23 In its evidence, Dion Strategic addressed the issue of territory differentials that the
24 PUB identified in Order 1/21. The recommendation of Dion Strategic acknowledged
25 that based on relativities and loss ratios, there appears to be subsidization between
26 urban and rural territories (not limited to the Taxi VFH insurance use):

27
28 3.4 Territory Differentials – Recommendations

29
30 MPI should investigate improvements to the rating algorithm, increase the
31 complexity, and minimize the cross subsidization amongst risks. The
32 relativities and loss ratios indicate that rural taxis are overcharged while urban
33 taxis are undercharged. This is not limited to taxis as other classes of business
34 could be seeing similar subsidization across territories. The contributing factors

⁹ Tx page 982 to 984.

1 could include: methodology, credibility, simplicity of rating, volume of business,
2 or the minimum bias procedure.¹⁰

3
4 However, Ms. Seto raised the possibility that the “mismatch between differentials and
5 loss ratios could simply be due to the randomness of claims”¹¹, but concurred that the
6 most appropriate response to these findings was to improve the rating algorithm.

7
8 In response to PUB(TC) 1-10 Dion Strategic addressed the issue of potential
9 randomness of claims driving the territorial differential, by creating a probabilistic
10 model to illustrate the following conclusions:

11
12 To conclude:

- 13 • There is a noise and volatility component. There are less than 160 earned
14 units for Taxi VFH in territories 2 to 4 combined – results can and will fluctuate.
- 15 • The longer-term historical data does suggest that Territories 2 to 4 have
16 outperformed Territory 1.
 - 17 - Yet small volume means fluctuations can occur. Taxi VFH Territory 1
18 loss ratios are better than Territory 2 for 2019 and 2020.
- 19 • As noted in the report, observed historical data suggests that urban taxis are
20 undercharged and rural taxis overcharged. Yet there is a credibility/low-
21 volume/noise argument which is valid, given the low exposures in territories 2
22 to 4.
- 23 • What Dion Strategic finds most important is that all stakeholders work
24 together to investigate improvements to Territories in relation to different
25 subsets of risks. Small subsets of risks are subject to noise/low-
26 volume/credibility issues. As noted in the report, there is a trade-off between
27 simplicity and complexity in a rating algorithm.¹²

28
29 The cause of the issue with territory differentials appears to lie in MPI’s simplistic rating
30 algorithm, and inherent limitations to the minimum bias procedure. The solution as
31 presented by Dion Strategic is to harness the analytical power of GLMs, and
32 investigate more sophisticated rating variables and interactions.

¹⁰ TC Exhibit 4, PDF page 13.

¹¹ TC Exhibit 4, PDF page 31.

¹² PUB(TC) 1-10(d).

1 **MPI has not begun collecting relevant data on VFH insurance uses, and it plans**
2 **to collect and analyze this data once it is too late**

3
4 PUB Order 1/21 provide directive 8(i) and directive 9 to MPI as follows:

5
6 8. The Corporation shall include the following matters in its Vehicle For Hire
7 framework review:

- 8 I. Collect and analyze, if available, relevant data on the composition of
9 and characteristics of the Passenger VFH Class, including (based on a
10 metric such as per week or per month) time available for fares, number
11 fares taken, time of day (e.g., evenings, weekends, etc.) on the road,
12 and kilometers driven; and

13
14 9. The Corporation shall file its Vehicle For Hire framework review in the 2022
15 GRA.

16
17 In response to directive 8(1) and 9 in the 2020 GRA filing, MPI stated:

18
19 While MPI has not collected this data on the Passenger VFH Class, it may be
20 able to address some of these characteristics when it refines the proposed
21 models and collaborates with the TNCs.¹³

22
23 Also worthy of note is MPI's statement that:

24
25 MPI is reviewing and revising the proposed models to better meet the needs
26 of VFH stakeholders and align with industry best practice. To achieve this, MPI
27 is currently engaged in ongoing consultations with these stakeholders and with
28 outside jurisdictions. With the benefit of the feedback received from these
29 consultations, MPI is in the process of developing an improved VFH
30 framework. MPI anticipates that it will present the results of its review and its
31 developed proposals within the 2023 GRA.¹⁴

¹³ 2022 GRA, Part II Vehicle for Hire, Page 10 of 11, lines 20-22, PDF page 91.

¹⁴ 2022 GRA, Part II Vehicle for Hire, Page 11 of 11, lines 20-22, PDF page 92.

1 The Taxi Coalition submits that MPI is putting the proverbial cart before the horse, in
2 preparing a VFH Framework, without having collected or analyzed any of the data to
3 better understand the causes of risk and the operation of VFH insurance uses.

4 The following exchange highlights the deficiencies in MPI's data collection efforts:

5
6 MR. ANTOINE HACAULT: Okay. Thank you very much, sir. That's a useful
7 piece of information. I'll move on to 8F, as in Frank, the collection of an analysis
8 of relevant data in order to better understand the causes of high relativities of
9 Vehicles for Hire and, in particular, taxicabs and their major class. I understood,
10 from asking questions generally, that there has not been the collection of data
11 such as time on the road, kilometres driven, time of day of accidents, and
12 things like that. Am I correct in understanding that MPI has not been able to
13 address its mind to the collection of relevant data?

14
15 MR. CURTIS PRYSTUPA: I would submit that we have not yet collected
16 relevant data.

17
18 MR. ANTOINE HACAULT: Okay. And how does complying with this directive
19 of collection of relevant data fit into your thought process and review of the
20 Vehicle for Hire framework?

21
22 MR. CURTIS PRYSTUPA: I'm sorry, can you repeat -- repeat the question, Mr.
23 Hacault?

24
25 MR. ANTOINE HACAULT: Okay. How does the collection of relevant data fit
26 into your Vehicle for Hire framework review process? Is it going to be part of
27 it? When is it going to be done? You know, because that's, kind of, independent
28 of consultation. It's the collection of data.

29
30 MR. CURTIS PRYSTUPA: So -- so you're asking about, in general, the
31 collection of data. But you're referencing 8F, which references the collection
32 and analysis of relevant data specific to the high relativities of VFH and, in
33 particular, taxicabs. This question is really about the -- the claims experience,
34 the high claims of -- of VFH. And, as it is asked in 8F, in particular, of taxicabs.
35 That specific aspect is something that MPI has not collected the data for at this
36 point. What I can share -- that you will be aware of, Mr. Hacault, is that MPI is

1 -- is collaborating with various stakeholders in determining the best root causes
2 of -- or, pardon me, the best root data to collect and the best methods to collect
3 this data in order to conduct this study.

4

5 MR. ANTOINE HACAULT: Okay. And we thank you for initiating that
6 discussion with the taxicabs. So I'll get back -- and perhaps my question wasn't
7 that clear. What's the time line and how does that fit into how you design the
8 Vehicle for Hire framework, which is going to be presented?

9

10 MR. CURTIS PRYSTUPA: I don't have a - a time frame that I can share at this
11 point with you on that, that I would be willing to commit to.

12

13 MR. ANTOINE HACAULT: Okay.

14

15 MR. CURTIS PRYSTUPA: But your question on how it relates to the overall
16 design -- high relativities is a -- is an issue that has existed for quite some time,
17 specific to -- to VFH and, in particular, of taxi cabs. The -- it is obviously an
18 important issue to MPI and to our stakeholders. And it's obviously a -- you
19 know, a driving -- or a -- a consideration when it comes to the overall -- overall
20 design. And that's -- That's what I would share on that.

21

22 MR. ANTOINE HACAULT: Okay. We've heard, on the record, that there's
23 about nine hundred (900) odd -- I think it was nine-hundred-and-thirty- three
24 (933) private Vehicles for Hire. Where is MPI at with respect to the collection
25 of relevant data to better understand the causes of the high relativities in the
26 private Vehicles for Hire?

27

28 MR. CURTIS PRYSTUPA: In a similar manner with taxis, MPI is collaborating
29 with stakeholders to -- to conduct the same level of analysis to understand the
30 causes of the high relativities.

31

32 MR. ANTOINE HACAULT: Okay. And apart from consultation, has MPI
33 identified the type of relevant data that it needs to better understand the causes
34 of high relativities for private Vehicles for Hire?

1 MR. CURTIS PRYSTUPA: **We're in the process of trying to -- trying to**
2 **refine that in greater detail through this collaboration.**

3
4 MR. ANTOINE HACAULT: Are you able to give me a little bit more information
5 on that? I'm just trying to refine it. I'm looking, you know, for example, does
6 MPI consider relevant data kilometres driven? Does it consider time on the
7 road? When the accidents occur? What does MPI view as relevant data that it
8 needs to collect?

9
10 MR. CURTIS PRYSTUPA: What I would say, Mr. -- Mr. Hacaault, **is MPI is in**
11 **the process right now in collaboration to trying to determine -- kind of in**
12 **-- kind of in parallel -- what information is available through our -- through**
13 **our stakeholders, as well as what might be some target areas of focus.**
14 And those -- those activities are happening in parallel to determine, like, what
15 types of information could be practically used in this type of study.

16
17 MR. ANTOINE HACAULT: Okay. **I'm going to press you a little bit more for**
18 **-- at least identifying for the record, which areas of data you're exploring,**
19 **sir.**

20
21 MR. CURTIS PRYSTUPA: **I -- I can't answer that at this point.**¹⁵
22 [emphasis added]

23
24 In summary, MPI has not yet identified what data should be collected, or what data is
25 available, at this late date, recognizing it is committed to presenting a revised VFH
26 framework with the 2023 GRA in June of 2022, and implementing said framework in
27 the first quarter of 2023.

28
29 MPI's failure to collect relevant data extends to the Passenger VFH insurance use as
30 well, which is captured by this exchange:

31
32 MR. ANTOINE HACAULT (by Teams): Okay. Ms. Schubert, could we then go
33 back to Directive 8(I) as in igloo? Is MPI able to report as to whether it has
34 been able to collect, firstly, the relevant data on the composition of and

¹⁵ Tx 1953 to 1957.

1 characteristics of passenger Vehicle for Hire class, including time available for
2 share -- fares, number of fares taken, time of day -- example, weekends and
3 evenings -- on the road, and kilometres driven?
4

5 MR. CURTIS PRYSTUPA: In line with our -- our response on this matter, we
6 have not collected this data on the passenger VFH class at -- at this point,
7 although we do hope to address some of these characteristics when we refine
8 the proposed models and in collaboration with the TNCs.
9

10 MR. ANTOINE HACAULT (by Teams): Okay. So -- sorry to try to pin you down
11 again on a time line, but you expect to be able to comply with Directive 8(l) at
12 least by the time of filing the next GRA. Is that correct?
13

14 MR. CURTIS PRYSTUPA: I think that -- MPI is going to determine that there
15 are -- I mean, this particular directive is fairly -- you know, we're talking about
16 time -- time available for fares, number of fares taken, time of day, you know,
17 metrics as time per week, time per month. I think that MPI will be in a position
18 to be able to provide some guidance on the composition and characteristics of
19 the class, and I do expect we'll be able to provide some -- some additional
20 context by the 2023 GRA.
21

22 MR. ANTOINE HACAULT (by Teams): Okay. But that, based on your answer,
23 will fall short of actually collecting that data in a meaningful way, input it into
24 software, and then analyze it under a general realized linear model or other
25 software model? Am I understanding that correctly?
26

27 MR. CURTIS PRYSTUPA: For 2023 in general, yes.
28

29 MR. ANTOINE HACAULT (by Teams): Okay. so MPI won't be able to comply
30 by collecting all that data and inputting it -- inputting it into risk analysis software
31 by the next GRA. Is that what I'm understanding, sir?
32

33 MR. CURTIS PRYSTUPA: I'm going to refer to Mr. -- Mr. Phoa on this.
34

35 MR. TAI PHOA: Mr. Hacault, can you -- sorry. Mr. Hacault, can you repeat that
36 question again?

1 MR. ANTOINE HACAULT (by Teams): I'm not sure if I'll phrase it exactly the
2 same way, but the essence was, firstly, there's a collection of data issue. To
3 your knowledge, will MPI be collecting the data? That's the first question.
4

5 MR. TAI PHOA: Mr. Hacault, so -- so first of all, just -- **within the MPI**
6 **framework right now, some of these data requested is -- is not actually**
7 **being collected.** And -- and some of this -- this particular directive refers to
8 only for one (1) particular insurance use. **So again, we -- we didn't -- given**
9 **our current systems right now, we're not collecting information like time**
10 **available for fares, number of fares taken, you know, and -- and, you**
11 **know, so on and so forth.** Mr. Prystupa has testified that we are looking at
12 the VFH framework. We're looking at it as a whole, you know. We're looking at
13 passenger VFH, we're looking at what we're doing -- what we're doing for
14 taxicab VFH, and the other two (2) VFH that we have not mentioned very much,
15 the accessible VFH and limousine VFH as well. **So once we have had a**
16 **chance to look at the VFH framework, and -- and if there's any further**
17 **data requirements, then we can sort of go back to the system and say we**
18 **need to start collecting this data. But as of this point, we -- we are not**
19 **collecting this data in the system, and until such a point when the VFH**
20 **framework review is complete, we are not -- we -- we probably will not be**
21 **changing the system.**
22

23 MR. ANTOINE HACAULT (by Teams): Okay. I'll suggest to you, sir, that the
24 directive was asking MPI to collect and analyze relevant data if it was available
25 at this time, which would help us better understand the risk of that particular
26 class, being the passenger Vehicle for Hire class. And it would be independent
27 of a framework. If I'm understanding your answer correctly, **MPI does not**
28 **intend to deal with this directive independently, but only deal with this**
29 **directive if, in the particular design it chooses, metrics such as time,**
30 **available for fares, number of fares taken, time of day is part of the model.**
31 **Am I understanding that correctly?**
32

33 MR. TAI PHOA: **Yeah. I think that's sort of -- that's sort of what I said in**
34 **my last response.** But again, some of this -- some of this information that --
35 some of this information certainly involves our collaboration with the taxicab
36 VFH group and also, you know, the -- the Ubers, the -- the other TNCs. And --

1 and some of this involves the data sharing that -- that could take place as a
2 result of the VFH framework. So Mr. Prystupa has clearly stated that we are
3 working in collaboration with all the groups involved in designing this new VFH
4 framework. We definitely want to help -- to help to under -- we definitely want
5 to understand, you know, given -- given that pricing is to understand all these
6 aspects, we definitely want to understand, you know, what they've got and
7 willing to share, what sort of collaboration we can have in -- in terms of the data
8 that we could share with them, how we could work on the, you know, prices,
9 so -- and any other -- and any other thing that could be involved as a result that
10 could out from this collaboration. So -- so, yes, we see this directive. Yes, we
11 do want to work on it, but we would like to work on it -- we are working
12 collaboratively with the stakeholders in regards to this directive on -- on what
13 will work for them and that can assist MPI and assist the stakeholders at the
14 same time.¹⁶ [emphasis added]

15

16 These lengthy exchanges highlight that fact that MPI has not made material progress
17 towards collecting and analyzing data in compliance with the PUB's direction, and
18 furthermore does not intend to do so until after it has developed a VFH framework.

19

20 Such an approach comes across as expedient rather than effective, and risks
21 undermining the entire effort. MPI proposes to develop the VFH framework prior to
22 collecting relevant data about the risks and operations of VFH insurance uses, and
23 prior to analysing and investigating the underlying issues that are driving, in part, the
24 need for a VFH framework review in the first place.

25

26 The Taxi Coalition submits that the PUB should re-emphasize its expectation that MPI
27 comply with legally binding directives, and again order MPI to complete not only the
28 data collection and analysis relevant to VFH insurance uses, but also all the sub-
29 directives contained in Directive 8 to PUB Order 1/21.

¹⁶ Tx 1967 to 1972.

1 **ISSUE TOPIC #6: MPI's Compliance with PUB Directives**

2

3 **ISSUE:**

4

5 Whether MPI should has adequately complied with PUB directives from Order 1/21.

6

7 **TC SUMMARY AND/OR RECOMMENDATION:**

8

9 The PUB should find that notwithstanding the ongoing redevelopment of the VFH
10 Framework, that MPI has not adequately responded to directives contained in Order
11 1/21, related to the VFH insurance uses.

12

13 As part of its Order, the PUB should re-issue each of its sub-directives in Directive 8
14 in Order 1/21, thereby confirming the continued relevance of the directives and the
15 PUB's expectation of compliance.

16

17 The PUB should order MPI to file its proposed VFH framework in the 2023 GRA.

18

19 The PUB should require MPI to file quarterly status of compliance reports.

20

21 **DISCUSSION AND SUPPORT:**

22

23 The Taxi Coalition is actively involved in the consultations with MPI on a VFH
24 Framework review. In order to carry out the consultations in a good faith manner, the
25 TC has avoided addressing matters that are presently the subject of consultation.

26

27 However, the TC is obligated to address MPI's compliance with PUB directives related
28 to the TC's intervention in the 2021 GRA. It is the submission of the TC that
29 compliance with key directives on collection of key data and analysis is a necessary
30 condition for the successful implementation of a sound framework which will lead to
31 just and fair rates and just and fair segmentation of VFH.

32

33 PUB Order 1/21 contained twelve directives related to VFH numerated directives 8 a-
34 j to 10. Directive 9 required that MPI file it's VFH framework review in the 2022 GRA.

35 This was not done.

1 Directive 8 contained ten separate sub-directives related to the research and analysis
2 that would be reasonably required to complete a comprehensive VFH framework
3 review. Few of these directives were completed, and fewer in a timely fashion.

4
5 In the 2022 GRA VFH Chapter, section VFH.5, MPI presented its compliance with
6 directive 8, wherein each of the sub-directives contained a response that was one
7 paragraph or less. Analysis and discussion was absent, and where a response was
8 offered, it was typically limited to a declaration consistent with MPI's position prior to
9 being directed by the PUB to further examine the issue.

10
11 The particulars of Directives 8(f) and 8(i) with respect to collection and analysis of data
12 related to VFH insurance uses, is discussed at length in Issue Brief 5.

13
14 With respect to two of the directives, 8(g) and 8(h), MPI committed at the time of filing
15 the GRA to prepare the analysis requested¹ during the summer of 2021.

16
17 Directive 8(g) required MPI to: "Analyze and report on whether it continues to be
18 appropriate to have Passenger VFH and Private Delivery services in different major
19 classes."

20 But in response to TC(MPI) 2-7, which required a motion to compel further, and better
21 responses be filed with the PUB, MPI only produced what we view as an incomplete
22 analysis for 8(g), and did so after the deadline for filing second round IR responses,
23 leaving little ability to review and test the material, except through hearing "pre-asks",
24 and leaving no opportunity for TC to file evidence on the issue. The Taxi Coalition
25 does not consider that it has adequately tested the material in response to directive
26 8(g), and will need to examine the issue of a VFH major class more fully in the next
27 GRA.

28
29 Under Cross examination by TC counsel,² Messrs Prystupa and Phoa confirmed the
30 status of the various sub-directives contained within Directive 8. Through this cross
31 examination it became clear that MPI has made limited progress on these directives,
32 could only provide answers in a general way, and could only provide high level
33 timelines to completion without any commitment on compliance.

¹ 2022 GRA VFH.5, PDF page 91.

² TX 1941 to 1980.

1 The Taxi Coalition observes that MPI has failed or otherwise resisted complying with
2 PUB directives in other areas, including with respect to the Capital Management Plan,
3 Driver's Safety Rating system and registration model. The TC is also aware that in
4 order 130/17, the PUB delivered the following reminder with respect to compliance
5 with PUB directives:

6

7 **It is of great concern to the Board that the Corporation chose to not fully comply**
8 **with a significant proportion of the directives in Order 162/16. When the Board**
9 **issues directives the Corporation may choose to file a request for variance or**
10 **seek leave to appeal from the Manitoba Court of Appeal. The Corporation may**
11 **not simply refuse or fail to comply with the directive. For the benefit of future**
12 **GRAs, the Board would remind the Corporation that the Board retains the**
13 **jurisdiction to impose financial penalties, and/or stay any future applications, in**
14 **the event that the Corporation does not fully comply with all or part of a Board**
15 **order.**³ [emphasis original]

16

17 Appendix A this issue brief contains Directive 8, it's sub parts and MPI's response as
18 filed in the 2022 GRA.

³ PUB Order 130/17, page 98.

1 **Appendix A taken from pages 8, 9 and 10 of MPI vehicle for hire filing (pp. 89 to**
2 **91 of the pdf of the GRA)**

3
4 **a. Whether MPI requires any regulatory or municipal by-law changes in order to**
5 **collect relevant information for the VFH rate design(s).**
6

7 Answer: MPI is currently revising the VFH Framework and, as a result, cannot confirm
8 at this time whether it will require any regulatory and municipal by-law changes in order
9 to collect relevant information for the VFH rate designs.

10
11 This is answer is unsatisfactory answer. The idea of having regulatory or municipal
12 by-law changes identified is to ensure that there is mandatory reporting of relevant
13 data and that the relevant data is made available to MPI. One of the current problems
14 identified by MPI is that collection of data is dependent on VFH agreeing to collect and
15 remit relevant data.

16
17 **b. Which DSR model(s) best reflect risk and incentives to reduce risk.**
18

19 Answer: See section VFH.4 for discussion on proposed models.

20
21 However, a review of VFH.4 (pp. 87 -89 of the pdf of the GRA) shows no discussion
22 of which Driver Safety Rating Models best reflect risk and no discussion of which
23 Driver Safety Rating best incent drivers to reduce risk. There is a section VFH.4.3
24 which discusses a possible model which is “model to assess risk independent of the
25 DSR”. We fail to see how MPI has purported to comply with the directive.

26
27 **c. Whether the fleet program, or some variation 1 of that program, which takes**
28 **into account the claims experience of multiple vehicles and multiple drivers is**
29 **appropriate for corporately owned VFH fleets of two or more vehicles.**
30

31 Answer: Under the current model, allowing corporately owned VFH fleets of two or
32 more vehicles into the fleet program would impose a heavy administrative burden on
33 MPI. As previously stated, MPI is exploring an alternative model that considers the
34 claims experience of multiple drivers.

1 No concrete details on what the alternative model might look like are provided. Based
2 on questioning in cross-examination, no steps were taken to see whether a computer
3 analysis might achieve a reduction in the “heavy administrative burden”. We note there
4 are only a limited amount of corporately owned VFH fleets. Again, it is difficult to see
5 any meaningful progress on resolving the inequity faced by corporately owned VFH
6 fleets of two or more vehicles. That inequity was raised in the last GRA and was the
7 genesis of this directive.

8
9 **d. Whether any one or more other metrics, such as time on the road or**
10 **kilometers driven or driver risk, are appropriate for designing VFH premiums.**

11
12 Answer: MPI believes that historical claims experience is the most appropriate metric
13 in designing VFH premiums. Additional metrics such as kilometers driven may be used
14 as a rate calculation method.

15
16 Response: MPI, in TC(MPI) 1-14 also answered that it was “aware that other insurers
17 use kms driven to set VFH premiums...” but provides no meaningful answer to the
18 directive an appears to have given little or no attention to the directive.

19
20 There apparently has been no analysis of what time of day the claims happen, what
21 types of drivers cause accident (age, DSR) and whether time on the road or kilometers
22 driven will assist in designing premiums which are actuarially sound for the driver in
23 question or vehicle in question.

24
25 **e. Whether time bands should be adjusted to better reflect the business**
26 **operations and risk of VFH.**

27
28 Answer: MPI is currently revising the VFH Framework and, as a result, continues to
29 assess the efficacy of the time bands.

30
31 As confirmed in cross-examination Taxis have requested adjustments to correspond
32 with their business realities but no apparent progress has been made in changing
33 them to correspond to the needs of the Taxis and VFH generally.

34 **f. Collection of and analysis of relevant data in order to better understand the**
35 **causes of high relativities of VFH, and in particular of Taxicabs, in their major**
36 **class.**

1 Answer: Akin to designing premiums, MPI uses historical claims data as the most
2 accurate metric in determining the appropriate relativities for all insurance uses within
3 their respective major class, including those of Taxicabs.

4
5 TC(MPI) 1-15 further indicates: “The underlying cause of this remains undetermined
6 as of this date” and “MPI is currently developing a plan to study the underlying cause
7 of the high relativities...”

8 We knew at the last GRA that MPI uses historical claims. The problem is there was
9 no data collection and no analysis of data to understand why the historical claims were
10 so high. There was apparently no attempt to start to collect data. There is apparently
11 a plan being developed to study the underlying cause. Again, we submit we are not
12 really further ahead than at the last GRA.

13
14 **g. Analyze and report on whether it continues to be appropriate to have**
15 **Passenger VFH and Private Delivery services in different major classes.**

16
17 Answer: Grouping Passenger VFH and Private Delivery services 1 vehicles into a
18 Major Class would not significantly impact their rates because MPI prices every
19 classification to break-even over time. However, grouping these vehicles together for
20 the purpose of comparing relative experience does make sense. MPI intends to
21 analyze the impact of splitting out all VFH vehicles into one group and will perform this
22 analysis in the summer of 2021.

23
24 We have commented in the body of this Issue Brief the unsatisfactory progress made.
25 We had to file a Motion to get a preliminary report on this issue. The September 24,
26 2021 response was provided after TC IRs and on the day we needed to file our
27 evidence resulting in no meaningful review of the “report”.

28
29 The alleged “report” which appears to have been hastily compiled simply sets our
30 tables as to a possible scenario as to what might happen to pure premiums if
31 Passenger VFH was grouped in the Public Class. There is no discussion on the
32 characteristics of Passenger VFH and whether those characteristics suggest it is more
33 appropriate to put Passenger VFH in the Public Class as opposed to the Private
34 Passenger Class. The report was non-responsive to the directive.

1 **h. Analyze and report on the relative probability, as between the Passenger VFH**
2 **and the other VFH classifications, as to whether there will be a serious loss**
3 **claims experience in the future.**

4
5 Answer: MPI will conduct an analysis of the serious losses by classification to
6 determine if rate stability can be improved by incorporating a different model for
7 allocation of serious losses. Specifically, the new model would address the significant
8 volatility of serious losses for low credibility rating classifications. This analysis will
9 occur in the summer of 2021.

10
11 Although Dion provide a report on serious losses, MPI provided no new model on
12 serious losses and it was confirmed on cross-examination that MPI had not looked at
13 relevant risk criteria to assess whether there was significant data to assist in creating
14 a new model which would not be solely based on actual experience of serious losses.

15
16 Again, there was no meaningful progress on this directive and there was no report on
17 the relative probability on serious loss claims. We are left with the evidence of TC on
18 this issue.

19
20 **i. Collect and analyze, if available, relevant data on the composition of and**
21 **characteristics of the Passenger VFH Class, including (based on a metric such**
22 **as per week or per month) time available for fares, number fares taken, time of**
23 **day (e.g., evenings, weekends, etc.) on the road, and kilometers driven.**

24
25 Answer: While MPI has not collected this data on the Passenger VFH Class, it may
26 be able to address some of these characteristics when it refines the proposed models
27 and collaborates with the TNCs.

28
29 There are over 1,000 Passenger VFH and MPI has made no progress in requesting
30 or receiving the required information. Instead of identifying the relevant data and
31 requiring the production of data so it can have actuarially sound rates MPI is
32 apparently designing its new model on what TNCs (Ubers) want to have as a metric.

33
34 Anecdotally, many Passenger VFH and Taxis have a similar composition and similar
35 characteristics. Most Passenger VFH choose all 4 time bands. How will MPI or the
36 PUB be able to make a meaningful assessment of whether Passenger VFH should be

1 in the same class as Taxis without knowing the similarities with or difference with the
2 Taxis?

3

4 In addition, from a premium design perspective, we say this is a flawed way of
5 proceeding. If the metrics sought and resulting premium design are not connect to loss
6 and risk of loss

7

8 **j. Report on whether and which parts, if any, of the proposed VFH framework**
9 **require regulatory changes or Board approval.**

10

11 Answer: The proposed VFH frameworks will require regulatory changes and approval
12 by the PUB.

13

14 Again, this response is unsatisfactory. Also, there will apparently not be any
15 meaningful consultation on any proposed changes. We fail to understand why MPI
16 would not seek to benefit from the insight of Taxis on the issue of appropriate
17 regulatory changes.