

Manitoba Public Insurance (MPI)

2022 GRA Intervener Evidence

**MPI Information Requests to
Taxi Coalition (TC)**

September 28, 2021

MPI (TC) 1

Part and Chapter:	2.1 Serious Loss Loading	Page No.:	3
PUB Approved Issue No:	12. Vehicles for Hire (VFH) class, including rates		
Topic:	Regulatory Principles		
Sub Topic:	Cost of Service Standard		

Preamble to IR (If Any):

The Public Utilities Board (PUB) operates on the basis of established regulatory principles, including the *Cost of Service Standard*. The PUB defines this principle as the heart of rate regulation, and further defines it as follows:

"Under this principle, a utility is permitted to set rates that allow it to recover its costs for regulated operations, including a fair rate of return on its investment devoted to those regulated operations — no more and no less. In most cases, rates are set in anticipation of future costs. If the regulated entity over-recovers those costs, it keeps the excess. If it under-recovers, it bears the cost of the deficiency of its projections."

For Manitoba Public Insurance (MPI), this principle needs to be analyzed through the lenses of its break-even mandate. Moreover, the Basic compulsory insurance rates needs to be kept stable, predictable and affordable, allowing MPI to provide high quality insurance services to Manitobans at the lowest possible cost.

Question:

- a) What are the costs that MPI will recover by increasing Passenger VFH rates loading Serious Losses now, should the Passenger VFH class remain with no serious losses within the 2022/23 rating year?
- b) What would be the consequence, in a long-term, for Passenger VFH rates should MPI maintain the recommended approach of applying a discretionary Serious Loss

loading in the following rating years, assuming this class will remain with no actual serious losses throughout the same period?

Rationale for Question:

Understand whether applying a serious loss loading now is coherent with the PUB's rate setting principles and MPI's break-even mandate.

RESPONSE:

- a) The loading of serious losses is an assumption regarding its "true" underlying cost. By adding it now, it is more appropriately estimating its future risk. We do not believe Passenger VFH will have no serious losses – the Private Passenger Major Class that it is based upon, has serious losses. Break-even means charging the appropriate premium for the risk. A serious loss loading is in line with this mandate as it attempts to measure its "true" cost.

- b) Serious Loss loadings are discretionary. The consequence of applying the recommended loading could mean a predicted pure premium that is higher than its "true" cost. This consequence is also present for classes which currently have a loading applied. For example, it is possible that Taxicab VFHs could experience no serious losses in the following rating years but the risk is still present. Similarly, not applying a loading could mean a predicted pure premium that is lower than its "true" cost.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

TC to insert rationale for refusal here.

MPI (TC) 2

Part and Chapter:	2.1 Serious Loss Loading	Page No.:	4
PUB Approved Issue No:	12. Vehicles for Hire (VFH) class, including rates		
Topic:	Regulatory Principles		
Sub Topic:	Cost of Service Standard		

Preamble to IR (If Any):

The Pre-Filed Testimony of Sylvain Dion states, in its page 4, the following:

"At the time of writing, MPI has not provided the impact on Passenger VFH by applying the loadings suggested in Options 1 and 2 [TC (MPI) 2-9 part b) and TC (MPI) 2-9 part d)]."

MPI filed an updated response to TC (MPI) 2-9 on September 24.

Question:

Please update the recommendation related to serious loss loading as and if necessary, bearing in mind the updated response to TC (MPI) 2-9.

Rationale for Question:

Understand whether the updated response to TC (MPI) 2-9 affects to any degree Dion Strategic's recommended approach.

RESPONSE:

The recommendation is the same. The calculated indicated rate in TC (MPI) 2-9 with the addition of the loss loading to VFH more closely resembles its historical loss ratio.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

TC to insert rationale for refusal here.

MPI (TC) 3

Part and Chapter:	2.3 Passenger VFH Rate Increases and Capping	Page No.:	6
PUB Approved Issue No:	12. Vehicles for Hire (VFH) class, including rates		
Topic:	PUB Order 148/04		
Sub Topic:	Normal Circumstances		

Preamble to IR (If Any):

The Pre-Filed Testimony of Sylvain Dion states, in its page 6, the following:

"Opinion 1 – The 20% cap on yearly rate increases is reasonable under normal circumstances. It is not ideal to have rates fluctuating greatly from year to year based on an additional year of experience and assumption changes."

Question:

Please further define "normal circumstances".

Rationale for Question:

Better understand views of Dion Strategic's report.

RESPONSE:

Normal circumstances would mean the absence of any large disruptions outside of the regular rate making process to adjust current rates. Besides the addition of a new class, another example would be the impact of the Pandemic.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

TC to insert rationale for refusal here.

MPI (TC) 4

Part and Chapter:	2.2 Serious Loss Loading – Recommendation	Page No.:	4
PUB Approved Issue No:	12. Vehicles for Hire (VFH) class, including rates		
Topic:	Similar driving risk		
Sub Topic:	Driver Profile		

Preamble to IR (If Any):

The Pre-Filed Testimony of Sylvain Dion states, in its page 4, the following:

"Option 1 – Per TC (MPI) 2-9 part a), MPI confirms that the average Serious Loss per Taxi VFH unit is \$428 over the last 10 years. Given that Passenger VFH are most similar to Taxi VFH (both carry passengers for a fee) – while Taxis may transport more passengers daily, it may be offset by Passenger VFH drivers being less familiar with the routes – a Serious Loss loading of \$428 per Passenger VFH unit could be appropriate."

Question:

- a) Please explain the various ways in which Taxi VFH and Passenger VFH differ, including, but not necessarily limited to, vehicle ownership and the volume of passengers transported on a daily basis and how same affects the risk that each use presents.

- b) Please explain how the knowledge of the routes would offset the higher volume of passengers transported daily by Taxi VFH.

Rationale for Question:

Better understand the rationale of Dion Strategic's Serious Loss Loading recommendation.

RESPONSE:

- a) In general, compared to Passenger VFH, Taxi VFH drivers:
- Do not own their vehicle – so Passenger VFH may care more about their personal vehicle.
 - Are likely on the road longer and transport more passengers – as reflected by Taxi loss costs being higher than Passenger VFH. However, Passenger VFH have the option to drive as much as a Taxi if desired.
 - Likely have greater knowledge of routes – could be an advantage for Taxi drivers.
 - From https://www.gov.mb.ca/mr/taxicab/print_driver.html#driver , Require Driver and Passenger Safety Training – could be an advantage for Taxi drivers.
- b) The offset would come from greater experience and awareness of the risks posed for the different routes. In our opinion, driving on unfamiliar routes while following a GPS increases the risk of an accident. Our understanding is Passenger VFH have the option to transport passengers and drive as much as a Taxi.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

TC to insert rationale for refusal here.

MPI (TC) 5

Part and Chapter:	2.2 Serious Loss Loading – Recommendation	Page No.:	4
PUB Approved Issue No:	12. Vehicles for Hire (VFH) class, including rates		
Topic:			
Sub Topic:			

Preamble to IR (If Any):

In page 4, the Taxi Coalition stated *"In our opinion, Passenger VFH and Public Vehicles are most similar in its driving risk."*

In the initial response to TC (MPI) 2-9, MPI stated *"The equivalent per unit Serious Loss costs for the Public and Private Passenger major classes are \$157 and \$62."*

The Public major class includes U-Drive/Rental vehicles.

Question:

- a) Please comment on the similarities between Passenger VFH and U-Drive/Rental vehicles.
- b) Should a fair and appropriate Serious Loss Load for Passenger VFH be \$157?

Rationale for Question:

To gain a better understanding of the comparison made between Passenger VFH insurance use and the Public major class.

RESPONSE:

a) Similarities include:

- Rental vehicles could be used to drive unfamiliar routes (e.g., rented by tourists)
- Rental vehicles could be used to transport cargo (furniture versus people for Passenger VFH)

b) In our opinion, based on the current information, the Serious Loss Loading for Passenger VFH should be between the range of Option 2 \$258 and Option 1 \$428. In our opinion, the Serious Loss Loading for Passenger VFH should at minimum, be the average applicable to all VFH. The limited data of Passenger VFH, the types of vehicles driven, the loss experience of Taxis in the industry which has never been a "good" risk, and the industry sentiment about Passenger VFH, does not lend Passenger VFH to have preferential treatment and would warrant a more conservative loading for Serious Losses, in our opinion.

\$157 falls outside of our range and as such, we do not feel it is an appropriate loading. However, we do understand that others may come up with a different range of loadings than Dion Strategic.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

TC to insert rationale for refusal here.

MPI (TC) 6

Part and Chapter:	2.2 Serious Loss Loading – Recommendation	Page No.:	4
PUB Approved Issue No:	12. Vehicles for Hire (VFH) class, including rates		
Topic:			
Sub Topic:			

Preamble to IR (If Any):

In page 4, the Taxi Coalition stated, “Given that Passenger VFH are similar to other VFH in its use, a Serious Loss loading of \$258 per Passenger VFH unit is fair, appropriate, and the minimum that should be considered.” Further, “Applying a Serious Loss Loading to Passenger VFH does not mean subsidizing Taxicab VFH.”

The following table shows the calculation of the per unit Serious Loss costs for Taxicab VFH and all VFH combined presented in TC (MPI) 2-9.

Insurance Use	Total Units	10-Years Serious Losses*	Serious Losses per Unit
Passenger VFH	2,218	0	0
Accessible VFH	1,201	0	0
Limousine VFH	1,176	0	0
Taxicab VFH	6,978	2,986,022	428
Total VFH	11,572	2,986,022	258

*Reported to Date as of March 31, 2021

Question:

- a) Excluding Taxicab VFH, the per unit Serious Loss costs for all VFH combined is \$0. Please comment on the appropriateness of using \$258 as the per unit Serious Loss costs for Accessible VFH and Limousine VFH, given that these insurance uses have no Serious Losses in the most recent 10 years.
- b) Given that the per unit Serious Loss costs for Taxicab VFH is \$428, please comment on whether it is appropriate to use \$258 for this insurance use.

Rationale for Question:

To understand the Taxi Coalition's position on a Serious Loss loading for other insurance uses.

RESPONSE:

- a) The loading should be tied to its risk. The type of vehicle driven (along with the type of use) is one of the biggest indicators of the risk. Therefore, Accessible VFH and Limousine VFH should have an appropriate loading applied.
- b) If comparing the last 3 years of data to be similar to the amount of Passenger VFH data, the Serious Loss Loading is \$273 for Taxi VFH. This is very similar to the overall VFH average of \$258 (if defined to be within 10%), and could be appropriate. However, the 10-year historical data suggests a larger loading for Taxi VFH.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

TC to insert rationale for refusal here.

MPI (TC) 7

Part and Chapter:	2.3 Passenger VFH Rate Increases and Capping	Page No.:	6
PUB Approved Issue No:	12. Vehicles for Hire (VFH) class, including rates		
Topic:			
Sub Topic:			

Preamble to IR (If Any):

In Page 6, it is noted that the Passenger VFH loss ratio for 2018-2019 is 128.9%. Further, in page 7, the Taxi Coalition stated "*The rate increases applicable to Passenger VFH should not be capped at 20%.*"

In 2021, Passenger VFH rates were increased by 20% based on Board Order 1/21.

Question:

- a) Assuming rates for Passenger VFH were 20% higher in 2018 and 2019, please confirm that the loss ratio would be 107.4% (i.e. 128.9% / 1.20).
- b) Assuming rates for Passenger VFH were 62% higher in 2018 and 2019, please confirm that the loss ratio would be 79.6% (i.e. 128.9% / 1.62).
- c) Recognizing that Passenger VFH rates were already increased by 20% in 2021, what increase would be recommended for 2022?
- d) Based on the response to (c), please comment on the potential impacts of such an increase on Passenger VFH.

Rationale for Question:

To further understand the Taxi Coalition's position on rate capping.

RESPONSE:

- a) Confirmed
- b) Confirmed
- c) 44% ($1.2 * 1.2 - 1$) to get to the rate based on Order 1/21 faster.
- d) Potential impacts include:
 - Less or no subsidization of Passenger VFH – assuming loss experience remains similar
 - Passenger VFH drivers could exit the market or slow its growth
 - May reduce adverse selection if the market message is Passenger VFH rates are increasing and (bad) taxi drivers do not switch to Passenger VFH

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

TC to insert rationale for refusal here.

MPI (TC) 8

Part and Chapter:		Page No.:	
PUB Approved Issue No:	12. Vehicles for Hire (VFH) class, including rates		
Topic:			
Sub Topic:			

Preamble to IR (If Any):

The following table shows the raw and current relativities for Taxicab VFH for the 2021 and 2022 GRAs.

	Taxicab VFH	
	Balanced Raw Relativity	Balanced Current Relativity
2021 GRA	4.2339	3.8862
2022 GRA	3.8405	3.9177

Question:

- a) Based on the table in the preamble, please confirm that if a larger credibility (>10%) was assigned to the Taxicab VFH insurance use, that the rates for the insurance use would see greater year-over-year changes. In particular, relative to the rate change for the Public major class, the 2021 rates for Taxicab VFH would see a larger increase followed by a larger decrease in 2022.
- b) Please provide the author's opinion on rate stability versus rate responsiveness.

Rationale for Question:

To understand the author's perspective on year-over-year rate changes.

RESPONSE:

- a) The relativities alone are not a good measure of rate stability. They are just one part of the equation to determine what the policyholder is charged. The relativities are also balanced meaning if an insurance use within the major class was removed or added, all the balanced raw relativities would change simply from the change in weights.

- b) It is always a trade-off between stability and responsiveness. The credibility currently assigned to Taxi VFH, or any other insurance use assigned 10% credibility, means it is very slow to respond. Taxi VFH would benefit from an increase in the recognition of its experience at the cost of some stability.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

TC to insert rationale for refusal here.