

Public Utilities Board (PUB)

**2022 GRA CAC Evidence Information Requests
September 28, 2021**

Responses filed October 4, 2021

PUB (CAC) 1-1

Part and Chapter:	CAC evidence	Page No.:	8
PUB Approved Issue No:	13. Driver Safety Rating (DSR) including but not limited to MPI's progress towards changes to the DSR system		
Topic:	DSR		
Sub Topic:			

Preamble to IR (If Any):

Oliver Wyman includes comments on Fairness, Data Required, and Conclusion, with the conclusion that "A primary driver model would better support the goals of the DSR program and the collection of information does not appear to be onerous."

Question:

- a) Is there only one goal of the DSR program, as stated in 4.1 Introduction, or are there any additional goals? If so please list and elaborate.
- b) Given each of the above goal(s), please explain to what degree each of the registered owner model and the primary driver model meet each of the goal(s).
- c) Please indicate what additional data that MPI would be required to collect for each registered vehicle in order to implement the primary driver model.

Rationale for Question:

To understand the underpinnings of the conclusion about the primary driver model.

RESPONSE:**Oliver Wyman response:**

- a) Our comments relate to the goal (singular) stated in Section 4.1 (Introduction).
- b) The goal in Section 4.1 references “improved driving behaviour.” We would expect that a primary driver model would directly influence driving behaviour.

The registered owner model indirectly influences driving behaviour when a registered owner has multiple vehicles. The indirect influence would occur when/if the registered owner conveyed the implications of the DSR rating to the primary driver. We are not aware of data available to measure the degree of influence.

- c) MPI would need to capture the principal driver for each vehicle in its policy records, and MPI would also need to capture the driver involved in claim reports.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

PUB (CAC) 1-2

Part and Chapter:	CAC evidence	Page No.:	11
PUB Approved Issue No:	13. Driver Safety Rating (DSR) including but not limited to MPI's progress towards changes to the DSR system		
Topic:	DSR		
Sub Topic:			

Preamble to IR (If Any):

Oliver Wyman recommends "that the PUB adopt actuarially indicated DSR credits with due consideration to the acceptability of year-over-year rates changes and the use of capping to address acceptability."

The DSR credits indicated in Part VI DSR are not based on all classifications of vehicles.

Question:

- a) Please discuss how implementation of this recommendation would take into consideration gradualism and rate shock.
- b) Given the DSR credits calculated are based on a subset of MPI's book of business, would CAC consider them equally applicable to the remainder of MPI's book of business, and how would CAC recommend that MPI take them into consideration when determining the other rating relativities such as classification and territory?

Rationale for Question:

To understand how the recommendations could be implemented.

RESPONSE:

Oliver Wyman response:

- a) We do not view gradualism and potential rate shock to be actuarial issues.
- b) As noted in Section 3.2 of Part VI – DSR Appendix 1, “MPI used historical reported losses and earned units for merit eligible passenger vehicles and light trucks. These two vehicle types account for more than 95% of total merit eligible vehicles.” Although 95% is a subset, it represents a *significant subset*.

We have not considered the issue of application to the remaining 5% of drivers.

To consider DRS ratings, MPI could include DSR level in its minimum bias model (note responses to PUB (MPI) 1-82) or in a generalized linear model fit to claims experience.

CAC Manitoba response:

CAC Manitoba expects that its final recommendation to the PUB will include a consideration of the elements referred to in this information request. CAC Manitoba notes that the record of the proceeding is still developing and expects to present its final recommendations in closing submissions, after consideration of the full evidentiary record.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

PUB (CAC) 1-3

Part and Chapter:	CAC evidence	Page No.:	12
PUB Approved Issue No:	2b. Ratemaking methodology		
Topic:	Ratemaking methodology		
Sub Topic:			

Preamble to IR (If Any):

Oliver Wyman reviews the pure premium trends in Table 6 that MPI uses to allocate the overall required rate change down to a Major Classification level.

MPI trend from Part V – Claims Incurred, (used to project overall required rate change) compared to Pure Premium trends in Table 6 (used to allocate the overall required rate change down to a Major Classification level):

Coverage	Sub Coverage	Part V – Claims Incurred		RM – Table 6
		Frequency	Severity	Pure Premium
Bodily Injury		-1.25-1.06% implied (project no trend in claim counts, with volume factor of +1.25-1.06% per year)	+4.76%	+2.40%
Property Damage	TP Deductible Transfer	-2.87%	+0.50%	+0.50%
	TP Loss of Use	0.00%	0.00%	
	All Other	-2.31%	3.75%	

Collision	Repair	-1.43%	3.73%- 4.51%	+3.75%
	Total Loss	0.00%	4.62%- 4.25%	
Comprehensive	Hail	-1.25%-1.06% implied	+3.5/3.0%	+2.00%
	Theft	0.00%	+1.25/3.0%	
	Vandalism	0.00%	+2.25/3.25%	
	Glass	+2.75%	+4.04%	
	Rodent	0.00%	+3.5/0.0%	
	All Other	0.00%	+4.0/3.75%	
Income Replacement		Approx. -1.5-1.6% (combination of HTA growth and claim count decrease of about 0.5%)	+4.55%	+0.25%
ABO Indexed		About -2.3%	+4.76%	0.00%
ABO – Non Indexed		-1.25-1.06%	+1.56%	0.00%

Question:

- a) Please confirm that the pure premium trends being discussed are only used to allocate the overall required rate change down to a Major Classification level and any change in these values would only result in offsetting changes between the Major Classes, with zero impact on the overall rate indication.

- b) Please comment on the reasonableness of the selected pure premium trends for each coverage, used for allocation to Major Classification, relative to the selected frequency and severity trends, used for calculating the overall required rate change.
- c) Does consideration of the selected frequency and severity trends, used for calculating the overall required rate change, have any impact on conclusions reached by Oliver Wyman on the reasonableness of the selected pure premium trends used for allocation to Major Classification?
- d) Given the selected frequency and severity trends, as shown in the Claims Incurred section and summarized in the preamble above, why does Oliver Wyman believe 0% trends are appropriate for income replacement and ABO-Indexed?
- e) Please provide any significant observations on the frequency and severity trends as shown in the Claims Incurred section, that are used to calculate the overall required rate change?

Rationale for Question:

To understand CAC's view on the reasonableness of the pure premium trends used for allocation to Major Classification.

RESPONSE:

Oliver Wyman response:

- a) Our analysis considered the data used by MPI in its trend analysis presented in Part VI - RM Appendix 9, Table 6.

We would further note that:

- Under Part VI – Ratemaking, RM.4.3, Item 6, states “Appendix 9 Table 6 - Pure Premium Trend – Other Than PIPP shows the *derivation* of the overall trends, by coverage.” (*emphasis added*) The use of “derivation” is inconsistent with “allocation” used in the Preamble to the IR.
- This analysis that we replicated is consistent with that described in the first three paragraphs in Part VI – Ratemaking, RM.4.3, Item 6.

Consistent with these items, the analysis of pure premium trends supports the *calculation* of the overall rate level, not only the allocation to Major Classification.

- b) As our assignment was based on an assessment of the assumptions for the overall rate level indication, we did not review the selected deviations for each major classification as described in the fourth paragraph of Part VI – Ratemaking, RM.4.3, Item 6.
- c) See response to part a); and only pure premium trends were selected by MPI for the overall rate level indication.
- d) See response to part a)
- e) See response to part a)

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

PUB (CAC) 1-4

Part and Chapter:	CAC evidence	Page No.:	15
PUB Approved Issue No:	2b. Ratemaking methodology		
Topic:	Ratemaking methodology		
Sub Topic:	Trending		

Preamble to IR (If Any):

Oliver Wyman indicates that a four data point trend is more appropriate for the collision pure premium trend.

Question:

- a) Given the number of observations, please explain how parameter uncertainty rises with a reduction in the number of observations used for trending.
- b) Given the collision severity trends, as shown in Figure CI-37, appear to exhibit significant upward movement over time, and appear to be statistically significant, with greater observed positive trend than the negative collision frequency trend shown in Figure CI-34, please explain why a statistically insignificant 0.62% pure premium trend is appropriate.

Rationale for Question:

To understand the relevance of the opinion.

RESPONSE:**Oliver Wyman response:**

- a) All else equal, reducing the number of observations included in the regression model increases the uncertainty of the value predictors. (Fewer data points results in a decrease to the model's error degrees of freedom and increases the uncertainty of the model predictors.)

- b) We conducted our loss cost trend analysis on the same data as MPI (see our response to PUB 1-3). We find a 0% loss cost trend consistent with the flattening in the loss cost experience since 2016. Although we find a 0% loss cost trend to be most reasonable, we present a 0.62% loss cost trend rate to be consistent with MPI's approach. MPI does not consider significance levels in their analysis.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

CAC to insert rationale for refusal here.

PUB (CAC) 1-5

Part and Chapter:	CAC evidence	Page No.:	16
PUB Approved Issue No:	2b. Ratemaking methodology		
Topic:	Ratemaking methodology		
Sub Topic:	Trending		

Preamble to IR (If Any):

Oliver Wyman states that due to a flattening since 2012, a different future trend rate of +1.00% would have been appropriate for Bodily Injury.

Question:

- a) Given the immaturity of the two most recent accident years, with the most recent year including the impacts of COVID-19, why does Oliver Wyman rely on them in the trending estimates?
- b) With average annual claim severities for Bodily Injury, as shown in Figure CI-29, exhibiting very significant year to year volatility, why does Oliver Wyman believe a shorter trending period, bringing more potential parameter uncertainty, is appropriate?
- c) Given an average severity that can double or be half as much from year to year as shown in Figure CI-29, how much uncertainty is there in the indicated pure premium trending using the Oliver Wyman selected trend period?

Rationale for Question:

To understand the evidence underlying Opinion 6.

RESPONSE:

Oliver Wyman response:

- a) We review several different models over various time frames to balance the credibility and responsiveness of the observations considered in the model. (see bottom right panel of Figure 6) As an accident year matures, a greater percentage of losses are paid, and the estimated pure premium becomes more credible. However, older accident periods are less relevant when predicting future losses due to changing regulatory, economic, and socioeconomic factors. We believe it is important to consider the most recent information in the trend model and recognize potential shifts in the data. Following MPI's approach, we have included the COVID-affected 2020 observation in our trend model to allow a more direct comparison. We note the 2020 estimate appears to be consistent with the historical data and do not expect it to have a material impact on the conclusions reached in our report.
- b) Please see our response to PUB (CAC) 1-3.
- c) Please see our response to PUB (CAC) 1-3.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

PUB (CAC) 1-6

Part and Chapter:	CAC evidence	Page No.:	18
PUB Approved Issue No:	7. Capital Management Plan		
Topic:	Capital Management Plan		
Sub Topic:			

Preamble to IR (If Any):

Oliver Wyman suggests that MPI maintain the CMP, include the 5% capital release in the 2022/23 rate program, and use a rebate to return excess capital.

PUB (MPI) 1-22 c) showed that the maximum amount of capital rebate to be approximately \$171 million, to still retain the 5% capital release provision and whereby the 2023/24 MCT ratio would be equal to 100%.

Question:

Is CAC recommending that the capital rebate be unchanged and the capital release provision also remain at 5% or is it recommending that the capital rebate be decreased to permit the capital release provision to remain at 5%?

Rationale for Question:

To understand the recommendation.

RESPONSE:**Oliver Wyman response:**

We recommend calculation of the capital rebate *after* consideration of the 5% capital release provision.

CAC Manitoba:

CAC Manitoba expects that its final recommendation to the PUB will include a consideration of whether the 5% capital release provision should remain, in addition to a rebate. CAC Manitoba notes that the record of the proceeding is still developing and expects to present its final recommendations in closing submissions, after consideration of the full evidentiary record.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

CAC to insert rationale for refusal here.

PUB (CAC) 1-7

Part and Chapter:	CAC evidence	Page No.:	
PUB Approved Issue No:	2b. Ratemaking methodology 13. Driver Safety Rating (DSR) including but not limited to MPI's progress towards changes to the DSR system		
Topic:	Ratemaking methodology and DSR		
Sub Topic:	Trending		

Preamble to IR (If Any):

Oliver Wyman has provided a number of graphs in their evidence.

Question:

- a) For each graph, please provide a reference for the source of the data in that graph.
- b) For any graph in which calculations were performed in order to generate the values shown in the graph, please provide a table showing all calculations.

Rationale for Question:

To understand the underpinnings of the data in each of the graphs provided.

RESPONSE:**Oliver Wyman response:**

Please see the attached PUB_R1_Workbook_7.xlsx.

RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:

CAC to insert rationale for refusal here.