
Appendix 11: Order 134/21, Directive 11.6: Alternate Rate Indication

1. Introduction

1 In Order 134/21, directive 11.6, the Public Utilities Board of Manitoba (PUB) ordered
2 that “ *In the 2023 GRA, the Corporation shall provide an alternative rate indication on*
3 *an Overall basis and by Major Class using the yield that corresponds to each Major*
4 *Class’s average duration of its projected unpaid claim liabilities as at October 1, 2023.*
5 *The average duration by major Class shall be calculated using only the claims for a*
6 *particular Major Class. The Overall indication should be consistent with the*
7 *Corporation’s filed rate indication.”*

2. Background

8 MPI’s ratemaking methodology currently uses a single investment return to discount
9 all unpaid claims for the rating year. Per *Ratemaking, page 22*, “*MPI uses the*
10 *investment return to discount future payments based on the market value weighted*
11 *yield of the marketable bond’s portfolio maintained by MPI (i.e., the new money*
12 *yield).” Further, for the 2023/24 rating year, “*The investment return of 3.43% reflects*
13 *the projected yield as at the midpoint of rating year 2023/24 (i.e., October 1, 2023).”**

14 The investment return of 3.43% represents the point on the yield curve corresponding
15 to a duration of 9.20 years, which reflects the duration of the unpaid claim liabilities as
16 of October 1, 2023. While this does not reflect the investment return corresponding to
17 the duration of the unpaid claims for rating year 2023/24, MPI’s rationale was that all
18 revenue received gets invested in the same Basic investment portfolio, and therefore
19 the use of 3.43% was appropriate.

3. Methodology

20 In order to comply with Board Order 134/21, Directive 11.6, MPI first determined the
21 duration of the unpaid claims for rating year 2023/24 separately for the following:

- 1 • Claims Costs – Durations were determined separately for each major class:
 - 2 ○ Major Class 1: Private Passenger
 - 3 ○ Major Class 2: Commercial
 - 4 ○ Major Class 3: Pubic
 - 5 ○ Major Class 4: Motorcycles
 - 6 ○ Major Class 5: Trailers
 - 7 ○ Major Class 6: Off-Road-Vehicles

- 8 • Claims Expenses – The duration for claims expenses was not determined.
 9 Claims expenses represent a load on claims costs. As such, the discounted
 10 claims expenses reflect the weighted average discount for total claims costs.

- 11 • Non-Claims Costs (other than Claims Expenses) – The durations for non-claims
 12 costs are one year or less given the assumed cash flows (see Ratemaking
 13 Chapter RM.4.2.2).

- 14 • Other Income Sources – The durations for other income sources are one year
 15 or less given the assumed cash flows (see Ratemaking Chapter RM.4.2.3).

16 Figure App 11-1 shows the duration of the cash flows for claims costs by major class,
 17 and the corresponding investment returns. Figure App 11-2 shows the projected yield
 18 curve as at the midpoint of rating year 2023/24 (i.e. October 1, 2023).

Figure RM App 11- 1 Duration and Investment Return by Major Class

Line No.	Major Class	Duration (Years)	Investment Return
1	1	9.25	3.43%
2	2	9.91	3.41%
3	3	9.02	3.44%
4	4	10.10	3.41%
5	5	2.02	2.85%
6	6	9.01	3.44%

Figure RM App 11- 2 Investment Return by Duration

Line No.	Duration (Years)	Investment Return
1	1	2.85%
2	2	2.85%
3	3	2.85%
4	4	2.97%
5	5	3.09%
6	6	3.16%
7	7	3.24%
8	8	3.31%
9	9	3.44%
10	10	3.41%
11	11	3.41%
12	12	3.61%
13	13	3.82%
14	14	3.93%
15	15	3.95%
16	16	3.97%
17	Thereafter	3.97%

4. Results

- 1 *Figure App 11-3* presents the required rates and required rate changes on an overall
- 2 basis, and for the major classes.

Figure RM App 11- 3 Rating Year 2023/24 Major Classification Required Rate Changes - Breakeven Rates Adjusted for DSR Discount Changes - Major Class Required Rate Changes

Line No.	Coverage	Overall	Private Pass	Comm	Public	Motor-Cycle	Trailer	ORV
1	23/24 Units	1,276,421	873,100	49,500	11,800	20,600	237,821	83,600
2	Claims	690.12	916.08	713.43	1,775.08	704.93	41.45	4.86
3	Claims Expense	125.14	166.11	129.36	321.86	127.82	7.52	0.88
4	Road Safety/Loss Prev	9.95	13.29	13.29	13.29	13.29	0.00	0.00
5	Operating Expense	76.17	101.81	101.81	101.81	101.81	0.00	0.00
6	Regulatory Appeal	3.43	4.59	4.59	4.59	4.59	0.00	0.00
7	Commission (Vehicle)	40.33	53.44	42.30	100.47	40.29	2.87	0.27
8	Prem Tax (Vehicle)	28.14	37.28	29.51	70.10	28.11	2.00	0.19
9	Comm & Prem Tax (Drivers)	3.33	4.46	4.46	4.46	4.46	0.00	0.00
10	Commission Flat Fee	4.35	5.81	5.81	5.81	5.81	0.00	0.00
11	Reinsurance (Casualty)	1.48	1.97	1.97	1.97	1.97	0.00	0.00
12	Reinsurance (Catastrophe)	11.92	12.98	12.98	12.98	0.00	12.98	0.00
13	Fleet Rebates	14.91	20.36	20.36	20.36	0.00	0.00	0.00
14	Anti-Theft Discount	0.55	0.80	0.00	0.00	0.00	0.00	0.00
15	Driver Prem	50.51	67.51	67.51	67.51	67.51	0.00	0.00
16	Service Fees	21.45	28.67	28.67	28.67	28.67	0.00	0.00
17	Req'd Rate (Raw)	937.84	1,242.81	983.70	2,336.61	936.91	66.82	6.19
18	Req'd Rate (Bal)	922.12	1,221.99	967.22	2,297.45	921.21	65.70	6.09
19	22/23 Rate	882.56	1,163.41	884.25	2,221.22	901.96	68.87	5.98
20	Rate Group Drift	5.4%	6.2%	5.0%	0.9%	0.5%	5.9%	0.0%
21	23/24 Average Rate	930.10	1,235.12	928.18	2,241.38	906.75	72.94	5.98
22	Without Rate Change							
23	Full Cred Req Change	-0.9%	-1.1%	4.2%	2.5%	1.6%	-9.9%	1.8%
24	Applied for Change	0.0%	-0.1%	4.3%	2.7%	2.7%	-9.9%	1.8%
25	Credibility		99.3%	89.2%	66.3%	77.4%	97.5%	93.3%
26	Cred Wtd Change		-0.1%	3.8%	1.8%	2.1%	-9.7%	1.7%
27	Cred Wtd Req Rate		1,233.81	963.44	2,281.13	925.79	65.88	6.08
28	Cred Wtd Req Rate (Bal)	930.32	1,234.22	963.76	2,281.89	926.09	65.90	6.08
29	Cred Wtd Change (Bal)		-0.1%	3.8%	1.8%	2.1%	-9.7%	1.7%

1 *Figure App 11-4* presents a comparison of the required rates and required rate
 2 changes in *Figure App 11-3* to *Ratemaking Chapter, Figure RM-14*. There are no
 3 significant changes to the required rates as the duration for each major class is fairly
 4 flat, shown in *Figure App 11-1*.

Figure RM App 11- 4 Impact of Changing the Investment Return to Match the Duration of Liabilities for Rating Year 2023/24

Line No.	Coverage	Overall	Private Pass	Comm	Public	Motor-Cycle	Trailer	ORV
1	2023 General Rate Application - Per Part VI, Ratemaking							
2	Credibility Weighted Required Rate	930.32	1,234.26	963.56	2,282.06	925.49	65.82	6.08
3	Credibility Weighted Required Rate Change	0.0%	-0.1%	3.8%	1.8%	2.1%	-9.8%	1.7%
4	Change: Investment Return by Major Class Duration							
5	Credibility Weighted Required Rate	930.32	1,234.22	963.76	2,281.89	926.09	65.90	6.08
6	Impact of Change	0.00	-0.04	0.20	-0.17	0.60	0.08	0.00
7	Credibility Weighted Required Rate Change	0.0%	-0.1%	3.8%	1.8%	2.1%	-9.7%	1.7%
8	Impact of Change	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.0%