Closing Submissions of The Taxi Coalition

2023 General Rate Application

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Introduction

1 On July 12, 2022, Manitoba Public Insurance ("MPI") filed its 2023/24 General Rate Application ("GRA") provisionally seeking approval by the Public Utilities Board ("PUB" or "Board") for premiums to be charged with respect to compulsory vehicle insurance of the 2023/24 insurance year including an overall rate decrease of 0.9%. On October 12, 2022, following an update to the rate indication for interest rates, MPI filed an updated rate request for an overall decrease of 0.1%.

2 The Taxi Coalition ("**TC**") has been granted intervenor status in the GRA. The TC has identified 4 chief areas of concern in the GRA which are:

1. **Ratemaking and Serious Loss Loading**: Whether MPI's current ratemaking methodology with respect to serious loss loading requires revision.

   It is the TC's position that MPI's existing approach to serious loss loading requires modification and it recommends that MPI be directed to adopt a revised methodology to its serious loss loading calculations.

2. **VFH Framework**: whether the proposed broad outlines of MPI's new VFH Framework are fair and reasonable and take into consideration concerns previously raised by this Board and by stakeholders, including the TC.

   It is the TC's position that MPI should be required to ensure that the Blanket Policy rebate does not involve cross-subsidization, that MPI be directed to ensure that all VFH operators can reasonably access the technology required to participate in the Blanket Policy, and that a reasonably priced part-time option be made available for Taxi VFH.

3. **The Driver Safety Rating System**: whether MPI has complied with the PUB's Directive 11.15 from Order 134/21 and how MPI should proceed with this matter.

It is the TC's position that the Board should find that MPI has not complied with Directive 11.15, and that MPI's corporate risk profile is not a relevant consideration. The TC also recommends that MPI should be directed to accelerate its preliminary investigation into GLMs without further delay, and be prepared to present preliminary results at the 2024 GRA.

4. **The Capital Management Plan ("CMP"):** Whether direction on specifications and parameters should be provided by the PUB to MPI relating to i) the timing of rebate applications to the Board and ii) MCT forecasting parameters, within the confines of BITSAA.

It is the TC's position that the proposed CMP requires greater clarity, transparency and accountability. The Board should provide direction with respect to the timing of rebate applications coming before it, and set parameters and specifications around MCT forecasting. The Board should direct MPI to bring forward a rebate application in any upcoming GRA where the MCT ratio exceeds 120% at the beginning of the fiscal year. As part of the GRA, MPI would, in turn, provide its position on 100% MCT forecasting. MPI should also be required to report annually on MCT ratios and MCT forecasting.

3 It is the TC's position that the PUB should issue directives to MPI on each of the above-noted areas to ensure a fair and reasonable approach to ratemaking, along with just and reasonable rates. The TC requests the Board to make the following directives:

i) MPI be directed to adopt a serious loss loading for all insurance uses that do not have a serious loss experience in the past 10 years, and in particular, the Alternate Serious Loss Loading approach defined in Directive 11.3 of PUB Order 134/21, which has been shown to be both effective and implementable.

ii) MPI be directed to ensure that there be no cross-subsidization under the VFH Blanket Policy, in the forthcoming Revised VFH Framework.

iii) MPI be directed to work with the TC and other interested VFH stakeholders to identify appropriate technology to reduce barriers to participation in the Blanket Policy for all interested VFH stakeholders.

iv) MPI be directed to include a part time option for Taxi VFH, priced such that full-time operators are not required to subsidize part time operators, until actual loss data is collected. The Taxi Telematics Pilot should be expected to inform any pricing updates as the data become available.

v) MPI be directed to accelerate its preliminary investigation into GLMs, and begin the investigation without delay. MPI should be prepared to bring preliminary results to the 2024 GRA that can inform its approach to DSR discounts revisions.

vi) MPI be directed to include a rebate application in any upcoming GRA when the MCT ratio exceeds 120% at the beginning of the fiscal year, and as part of the GRA, provide its position on 100% MCT forecasting. MPI should also be required to report annually on MCT ratios and MCT forecasting.

4 Each of the four issues identified above and the corresponding directives will be addressed in turn.

ISSUE 1: Ratemaking and Serious Loss Loading

Whether MPI's current ratemaking methodology with respect to serious loss loading requires revision

<u>Background</u>

5 As part of its ratemaking process, MPI is required to assess the potential risk of serious losses, among other things, to correlate the amount charged to the risk and to allocate expected costs equitably to all insureds in order to achieve the required rate. Premiums should be correlated to the expected loss including the risk of anticipated future events.

6 'Serious losses' are defined by MPI as incidents where total PIPP claims costs exceed $500,000.00.[1] Historically, MPI's ratemaking methodology has only included a serious loss loading to insurance uses that have had actual serious losses in the 10 preceding years to determine the loading applied to each insurance use. MPI's approach is to remove the actual serious losses in the last 5 years' experience for each use and territory and add back in the average serious losses over the last 10 years for each use and territory. For any use or territory with no serious losses in its last 10 years' experience, there are no serious losses included in the expected claims in a rating year.

7 The approach taken by MPI to serious loss loading was challenged by the TC in last year's GRA. Because the VFH Passenger insurance use had only been introduced in 2018, it did not yet have a 10 year history of serious losses. Pursuant to MPI's ratemaking methodology, no serious loss loading was applied to this insurance use. The TC took the position that MPI's approach was flawed; the mere absence of a serious loss in a particular insurance use in the past 10 years was not a reliable indicator of whether that particular insurance use was free of the risk of serious loss. Said another way, the fact that MPI did not have historical data with respect to serious losses for a particular insurance use did not mean that the insurance use was risk free and the failure to have the risk reflected in current ratemaking was not only unfair to other groups but ran the very

[1] MPI Exhibit 1-1, 2023 GRA, Part VI- Ratemaking, pg. 38 of 62.

real risk of resulting in future rate volatility as a result of serious loss loading being added once there is a loss.[2]

8 At last year's GRA, the Board acknowledged the potential impact of the absence of serious loss loading for multiple uses and territories, including the Passenger VFH insurance use, and directed MPI to file an alternative rate indication taking serious loss loading into account. In particular, in Directive 3 of PUB Order 134/21, the Board ordered MPI to prepare and alternative rate indication calculation related to serious loss loading. Directive 3 stated:

> *a. MPI shall remove actual serious losses (consistent with the current approach) and allocate serious losses based on the frequency of collision claims for each vehicle type;*
>
> *b. MPI shall split vehicle type among passenger vehicle, light truck, heavy truck, bus, motorcycle, trailer, and off-road vehicle; and*
>
> *c. MPI shall consider whether this approach is expected to result in less volatility to smaller uses or territories and whether an adjustment to its credibility standard or minimum creditability may be warranted.*[3]

9 The calculation to be completed by MPI was further clarified in PUB (MPI) 1-8(d) (the **"Alternate Serious Loss Loading"**) which confirmed that MPI was to determine serious loss loading as follows:

(a) summing the serious losses over the last 10 years for each vehicle type and calculating the 10-year average;

(b) summing the collision claims over the last 5 years for each vehicle type and calculating the 5-year average;

(c) calculating a serious loss loading per collision claim for each vehicle type by dividing the 10-year average serious losses for each vehicle type by the 5-year average collision claim count for each vehicle type;

[2] GRA, Pat VI – Ratemaking, pgs. 73-81.
[3] PUB Board Order No. 134/21, pg. 119 of 133.

(d) calculating the serious loss loading for each use and territory and year by multiplying the number of collision claims for each use and territory and year by the serious loss loading per collision claim for each vehicle type; and

(e) the actual serious losses were to be removed and the loading calculated in (d) was to be added.[4]

10 MPI has complied with the Directive by producing Ratemaking Appendix 12. In addition, and in response to PUB(MPI) 1-8, MPI has created an addendum to Ratemaking Appendix 12 which sets out further revised calculations in the Appendices to PUB(MPI) 1-8(d).

11 While MPI was invited to consider the Alternate Serious Loss Loading, MPI did not file any opinion or commentary on the Alternate Serious Loss Loading, nor did it respond specifically to Directive 11.3(c). MPI has simply indicated in its Application that it intends to continue with the same methodology for loss loading that it has used in the past.[5]

Issue

12 The TC submits that the issue to be addressed is whether MPI should be directed to revise its ratemaking methodology to include serious loss loading for all insurance uses that do not have serious loss experience in the last 10 years, including the Passenger VFH insurance use.

TC Position

13 Taxi Coalition's position that MPI should be directed to revise its current serious loss loading methodology.

(I) MPI's current methodology has limitations/weaknesses

14 There are limitations and weaknesses with MPI's current methodology. First, under the current methodology, serious loss loading is only included where there have been serious losses in the preceding 10 years. For example:

[4] PUB Exhibit #8, PUB-MPI Round 1 information Request (1-138) PUB(MPI) 1-8.
[5] GRA, Pat VI – Ratemaking, pgs. 38 and 46.

(a) the current serious loss loading for Pleasure Motorhome insurance use is $27,800.00 based on a serious loss that occurred in 2012 of $278,000.00. However, as of next year, under the current methodology, the serious loss load for this particular insurance use would reduce to zero.[6]

(b) The serious loss loading for Major Class 2 Petroleum/Chemical Truck in last year's GRA reflected a serious loss load based on a serious loss of $697,079 that occurred in 2011. The serious loss load for this year's GRA was removed.[7]

15 MPI acknowledged during cross examination that, with respect to Major Class 2 Petroleum/Chemical Truck, for example, nothing had changed in the risk profile to warrant a reduction of serious loss load to zero and that the risk of a serious loss does not dramatically change from one year to the next so as to justify the complete removal of serious loss loading.[8]

16 MPI's methodology also has limitations for insurance uses that are small in size and have no historical experience. Although MPI considers insurance uses which have 10 years of data and a large exposure base but no serious losses to be statistically credible, MPI acknowledged during cross examination that not all insurance uses have a large exposure base and that when an insurance use does not have a large exposure base, it would not consider the insurance use to be fully credible. MPI further acknowledged during cross examination that the current methodology to derive the serious loss loading has limitations in cases where an insurance use is small in size and has no historical experience.[9]

17 Part of the issue with insurance uses small in size is the reliability of the data. With large insurances uses, it can be more confidently predicted that the observed serious losses are not just 'bad luck' in any given year. Hence, a large group with few or no serious losses can reliably be understood to be prone to few serious losses. The same cannot be said for a small insurance use as any given experience could be just bad/good luck.

18 The TC says that the same limitations in the current methodology which exist for insurance uses with no actual serious loss loading experience in the past 10 years and/or constitute a small

[6] GRA, Part VI – Ratemaking, Appendix 9, Table 9 – Reported Serious Losses and ALAE, pg. 90 of 165.
[7] GRA, Part VI – Ratemaking, Appendix 9, Table 9 – Reported Serious Losses and ALAE, pg. 95 of 165; 2022 GRA, Part VI – Ratemaking, Appendix 9, Table 9 – Reported Serious Losses and ALAE, pg. 95.
[8] Transcript of Proceedings, pgs. 815-817.
[9] Transcript of Proceedings, pg. 822, lines 3-12.

exposure base, apply equally to newer insurance uses that do not have 10 years of historical experience from which to derive the serious loss load.

19 The reason some insurance uses have no serious losses in the last 10 years is because they have a small exposure base, or they are simply not prone to serious losses. In the case of Passenger VFH, there is limited experience. In addition to limited experience, Passenger VFH also has a small exposure base when compared, for example, to the All Purpose Passenger Vehicle insurance use. MPI's recognition of these shortcomings is reflected in its response to TC(MPI) 2-9 where MPI indicates that it considers serious losses for Passenger VFH, which only has data since 2018, to be only *partially credible*.[10]

(II) The PUB's proposed alternative method is preferable to MPI's current methodology

20 The TC understands that the purpose of the Alternate Serious Loss Loading was to apply a serious loss loading to insurance uses, including the Passenger VFH use, which, under MPI's current methodology, did not have a serious loss load. The results of the Alternate Serious Loss Loading calculations in PUB(MPI) 1-8(d), for example, reveal that the balanced indicated rate change for the Passenger Vehicle for Hire class ranges from 15.55% to 47.86%.[11]

21 During cross examination by PUB counsel, MPI was asked what it would recommend for this GRA that would reflect both actual and potential large losses. MPI has advised that for this GRA it would continue to use the current methodology for serious loss loadings and did not commit to an alternate rate indication other than to say that, for consistency, a revised methodology for serious loss loading would be applied to all vehicle uses and territories simultaneously.[12]

22 When asked directly about the Alternative Rate Indication during cross examination, MPI agreed that the Alternate Serious Loss Loading methodology spreads out serious losses such that insurance uses which are smaller in size or newer classes with less historical experience share in the risk of serious losses[13] and further, that the Alternate Serious Loss Loading may result in less volatility for some insurance uses.

[10] TC Exhibit #3, TC-MPI Round II Information Requests (1-10), TC(MPI) 2-9.
[11] PUB Exhibit #8, PUB-MPI Round 1 information Request (1-138) PUB(MPI) 1-8(d).
[12] Transcript of Proceedings, pgs. 1110-1111.
[13] Transcript of Proceedings, pgs. 827-828.

23 MPI further acknowledged at the hearing that given the production of the Alternate Serious Loss Loading in Ratemaking Appendix 12 and the response to PUB(MPI) 1-8(d), MPI had completed all of the work necessary to adopt and implement the Alternate Serious Loss Loading.[14]

Conclusion on Ratemaking and Serious Losses

24 It is the TC's position that the Board should direct MPI to include Serious Loss Loading for all insurance uses that do not have a serious loss experience in the past 10 years.

25 As a result of the inherent limitations and weaknesses in MPI's current approach and given that the Alternate Serious Loss Loading addresses a number of those limitation and would result in less volatility for certain insurance uses, the TC submits that the Alternate Serious Loss Loading is the preferable approach.

26 Further, given that all the work and steps required to implement the Alternate Serious Loss Loading have been completed by MPI and MPI has acknowledged that it would not require a significant effort on its part to adopt the Alternate Serious Loss Loading, the TC submits that MPI should be ordered to adopt the Alternate Serious Loss Loading.

[14] Transcript of Proceedings, pg. 828.

ISSUE 2: VFH Framework

Whether the proposed broad outline of MPI's new VFH Framework is fair and reasonable and takes into consideration concerns previously raised by this Board and by the stakeholders, including the TC

<u>Background</u>

27 The Vehicle for Hire (**"VFH"**) insurance model remains relatively new, having been introduced on March 1, 2018. The initial framework was premised on a time band model (the **"Time Band Model"**) which involved the creation of four separate time bands that corresponded to certain hours of the day. VFH operators were given the option of choosing up to four time bands and the premiums charged corresponded to the number of time bands selected by the VFH operator. Under the Time Band Model, operators selected the desired times of VFH insurance coverage, tailoring the cost of their VFH insurance to their operating needs.

28 At the last GRA, it was acknowledged by all that the Time Band Model required significant changes in order to be suitable for most VFH operators and that time bands, blanket policies and fairness were all issues that required further consideration.[15] MPI survey results, in fact, revealed that less than half of those surveyed found the Time Band Model to meet their operating needs.[16] Most Passenger VFH customers indicated that they were required to select all 4 time bands because the time band methodology did not align with their business model which was centered around part-time, flexible driving at any time of the day or week.[17] The majority of Public VFH, including Taxi VFH, Limo VFH and Accessible VFH, also selected all four time bands largely for the same reason; namely that the Time Bands did not meet their operating needs and were not aligned to their business operations.[18]

29 MPI also acknowledged that not all VFH groups agree on the changes that should be made or how they changes should be made, but MPI nonetheless committed to completing a "robust

[15] PUB Board Order No. 134/21, pg. 75 of 133.
[16] GRA, Part II – Vehicle for Hire, VFH 3.1, pg. 8 of 35.
[17] GRA, Part II – Vehicle for Hire, VFH 3.4, pg. 11 of 35.
[18] GRA, Part II – Vehicle for Hire, VFH 4.3, pg. 10 pf 35.

review" of the VFH framework in keeping with previous PUB Directives in the development of a new framework.[19]

30 MPI has delayed the introduction of the new Vehicle for Hire framework until next year. MPI has, however, provided an outline, in broad strokes, of the approach it intends to take to the development of the new VFH framework (the **"New Framework"**).

31 Although the New Framework remains unfinished and many of the details are unclear, MPI has stated that one of the key components of the New Framework is that the current Time Band Model will be eliminated and replaced with 2 VFH products:

(a) Blanket Policy; and

(b) Full-Time VFH Insurance.

32 The Blanket Policy will be mandatory for Transportation Network Companies ("**TNCs**") and available to other VFH dispatchers who meet the requirements, while the Full-Time VFH Insurance will be made available to Taxi VFH, Limousine VFH and Accessible VFH groups.

33 The Blanket Policy will provide coverage to all TNC drivers. The TNC dispatcher would provide insurance coverage for the ridesharing portion of the use of the vehicle. Non-ride sharing periods would be covered by the TNC driver's registered owner's policy which must be maintained by the driver.

34 Although MPI has not yet finalized the pricing and rating structure for the new Blanket Policy, one of the main attributes will be that there will be a single starting rate for all VFH Dispatchers or TNCs. At policy year end, MPI will finalize the premium based on actual kms travelled and actual claims experience and will then use a rebate/surcharge scale to determine whether a rebate or surcharge is required and, if so, the amount of the rebate or surcharge. At the end of the year, MPI will then collect any outstanding premium or issue a refund if there is a surplus.

35 When the Time Band Model is removed, MPI proposes transitioning all Taxi VFH, Limousine VFH and Accessible VFH to a Full-Time model. Those taxis currently operating on a less than full-time

[19] PUB Board Order No. 134/21, pg. 75 of 133.

basis will be required to register for Full-Time insurance. The resulting increase in premiums from part-time to full-time will range from $905 to $5,561.[20]

Issues

36 The TC says the issues that need to be addressed with respect to the New Framework are:

1. whether MPI should be required to ensure that the Blanket Policy rebate program does not involve cross-subsidization;

2. whether MPI should be directed to ensure that all VFH operators can reasonably access the technology required to participate in the Blanket Policy; and

3. whether MPI should be required to offer a reasonably priced part-time option for Taxi VFH.

Taxi Coalition Position

(I) MPI should be required to ensure that there is no cross-subsidization for rebates under the Blanket Policy

37 When the VFH Framework was first introduced in 2018, one of the underlying principles was that there would be no cross-subsidization between VFH and other insurance uses. That there should be no cross-subsidization was recognized by MPI in its Interim Application when it expressly stated that its intent with the creation of a new rating model was '…to limit cross-subsidization between vehicles for hire and the rest of Basic'.[21] The principle that there should be no cross-subsidization between VFH and other insurance uses was also reflected in PUB Order No. 11/18.[22]

38 Although MPI has not yet finalized the pricing and rating structure for the new Blanket Policy, in a number of important respects, it would appear that the Blanket Policy will operate in a manner

[20] MPI Exhibit #105, Undertaking #26, pg. 2.
[21] TC Exhibit #5, MPI 2018 Interim Vehicle for Hire Application, pg. 6 of 27, lines 20-21.
[22] TC Exhibit# #6, PUB Order No. 11/18, 3.1 – Principles for the Rating Model, pg. 5 of 25 and TC Exhibit #6, PUB Order No. 11/18, pg. 19 of 25.

very similar to the existing Fleet Program which also offers a rebate and surcharge to customers at end of each year.[23]

39 Under the Fleet Program, the source of funds for rebates comes from all Private, Commercial and Public major class customers as set out in Figure RM 13, "Rating Year 2023/24 Major Classification Required Rate Changes Breakeven Rates" and, in particular, line 13 which identifies the annual cost to customers for Fleet Rebates which, for 2023, is $20.36 per customer (for Private, Commercial and Public major classes). In other words, all Private, Commercial and Public major class customers fund or subsidize the Fleet Program even though the rebates are only paid to owners participating in the Fleet Program.[24]

40 MPI has not yet determined how the Blanket Policy will be funded, responding to information requests on this subject by stating "that level of detail is still unknown".[25] MPI confirmed in cross-examination, however, that cross-subsidization of a Blanket Policy by the broader fleet in Manitoba should, on a principled basis, be avoided, and the avoidance of cross-subsidization of the Blanket Policy rebate program is something that, on a principled basis, remains a governing principal for MPI in developing the Blanket Policy pricing.[26]

41 Consequently, and although MPI does not yet know how the funding for the net rebates under the proposed Blanket Policy would be payable, the TC submits that MPI should be directed to ensure that there is no cross-subsidization of any rebates payable under the Blanket Policy.

(II) MPI should be directed to reduce barriers to Blanket Policy participation for all VFH dispatchers

42 One of the positive features of the Fleet Program is that customers are incentivized to drive carefully in order to receive a rebate or avoid a surcharge. The owners of the Fleets are also encouraged or incentivized to manage their employees' driving habits. Given the similarities between the Fleet Program and the Blanket Policy, the TC anticipates that the Blanket Policy will

[23] GRA, Part V – Revenues- Rev.1.3 – Net Fleet Rebates, pgs. 13-15.
[24] GRA, Part VI – Ratemaking – Figure RM 13, line 13, pg. 43 of 62.
[25] TC Exhibit #2, TC-MPI Round 1 Information Requests (1-22), TC(MPI) 1-3(d).
[26] Transcript of Proceedings, pg. 1228, lines 24-25; and pg. 1229, lines 1-15.

also help incentivize drivers to drive more carefully which is a benefit not only to the owners and drivers operating under the Blanket Policy, but to all Manitobans generally.

43 The TC submits that this positive feature of the Fleet Program should be made available to all VFH dispatcher. It would provide prompt feedback by way of a surcharge or rebate on an annual basis and would help improve claims experience.

44 Currently, Taxi VFHs do not have the technology necessary to participate in the Blanket Policy and responses to IRs indicate that MPI does not have any information on what products are available in the market to support this insurance product for Taxi VFH.[27] MPI has, however, agreed to participate in a telematics pilot project with taxis. Although MPI is behind in deploying the telematics pilot project, the TC submits that much of the information to be obtained from the telematics project would be useful for the Taxi VFH stakeholders in assisting them develop or obtain the technology needed to participate in the Blanket Policy.

45 The TC therefore seeks a directive from the PUB directing MPI to work with the TC to identify set up the technology required to record trip data for use with the Blanket Policy.

(III) The Board should direct MPI to offer a reasonably priced part-time option for Taxi VFH

46 Under the proposed Blanket Policy, TNC drivers would be permitted to drive part-time if they wanted without any restrictions on part-time hours.[28]

47 Currently, taxis and other VFH operate under the Time Band Model. Although the Time Band Model does not align with the operating needs of Taxi VFH, as confirmed in the surveys conducted by MPI, a percentage of Taxi VFH have nevertheless registered for less than full-time driving. Stakeholder consultation with VFH also reveal that as many as 20% of Taxi VFH would choose a part-time option if the part-time hours more closely aligned with their business model.[29]

[27] TC(MPI) 1-14
[28] GRA – Part II – Vehicle for Hire, VFH.5.1, pg. 21, lines 6-8.
Transcript of Proceedings, pg. 1234, lines 22-25; pg. 1235, lines 1-13.
[29] Transcript of Proceedings, pg. 1087, lines 15-21.

48 The TC has requested that MPI provide a part-time model that captures part-time taxi operations during a certain defined period of hours.[30] To date, MPI has taken the position that a part-time option cannot be made available for Taxi VFH largely for two reasons:

(a) MPI cannot provide a discount to part-time taxis unless full-time taxis pay an increased premium to make up the difference.

(b) MPI cannot not consider a part-time option that does not collect the difference in premium from full-time operators until it has the data confirming that taxis that are on the road less have fewer accidents.

49 There are a number of flaws in MPI's position.

50 First, when the Time Band Model was introduced, it permitted a driver to register for a single time band, or multiple time bands, without any restrictions.[31] Where a customer selected less than four time bands, the customer paid a reduced premium. Inherent in this model was that idea that each time band equated to 25% claims exposure and the time bands were priced accordingly. At the time, the understanding was that an insured that was only driving 25% of the time had a reduced level of risk. Said another way, under the Time Band Model, MPI was prepared to provide a reduction in premium that was commensurate with the reduction in insured's operating time.[32]

51 Since its inception in 2018, the Time Band Model has been available to *all* VFH including Taxi VFH, Limo VFH and Passenger VFH. Some Taxi VFH have selected less than four time bands and, as a result, pay lower rates. Taxis operating full-time since 2018 have not been required to pay the difference in premiums for those operators who chose the part-time option.[33]

52 Specific information with respect to the number of taxis who have registered for less than full-time was provided by MPI during the hearing as Undertaking 26 and confirms that although just over 90% of Taxi VFH purchased all 4 time bands, there were Taxi VFH that purchased 1, 2 and 3

[30] GRA – Part II – Vehicle for Hire, pg. 10 of 35, lines 6-10;
TC Exhibit #7 – MPI VFH Taxi Update Presentation October 14, 2021, slide 7.
[31] TC Exhibit 5 – MPI 2018 Interim Vehicle for Hire Application, pg. 10.
[32] Transcript of Proceedings, pg. 1247, lines 18-24; and pg. 1248, lines 1-25.
[33] Transcript of Proceedings, pg. 1250, lines 20-25; pg. 1251, lines 1-12.

times bands. Further, the financial impact of movement for the part-time policy holders (Taxi VFH1, VFH2, VFH3) to full-time (Taxi VFH4) using average discounted rates from the 2023 Rate Model (November 1, 2021) are estimated to range from an increase of $905 to an increase of as much as $5,561.[34]

53 Second, as far as the requirement that MPI have data in order to consider a reduced rate, the TC says this approach is inconsistent with the approach MPI has taken in other circumstances. At the time that MPI proposed the Time Band Model, for example, it did not have data or past Passenger VFH experience on which to base the model (for the obvious reason that the Passenger VFH concept was brand new). MPI similarly did not have data on taxi part-time operations because as far as MPI was aware at the time, taxis were only operating on a 24/7 basis. The result is that MPI did not have data to support the idea that drivers who were only driving 25% of the time had a reduced risk of collision. Despite the absence of actual data, MPI made a judgmental decision that drivers who were driving reduced hours had a reduced risk of collision.[35]

54 Similarly, MPI has acknowledged a Work From Home (**"WFH"**) adjustment and has included a 5% reduction in frequency for Collision, Property Damage, Weekly Indemnity, and ABO3 indexed claims in this year's GRA[36] which is based in part on the experience through the pandemic but also on the surveyed intentions of drivers with respect to their future WFH intentions.[37] Based on the survey results and the data showing a reduction in collision frequency as a result of the pandemic, MPI has concluded that an adjustment to the frequency is appropriate. What is significant, however, is that the reduction is based on a surveyed driver's *stated* intention; not actual data. It is, in other words, on what the driver says he or she would do. A driver's stated plans, however, are not the same as actual data, and neither MPI nor the drivers themselves yet know whether the drivers will, in fact, actually WFH or even be permitted by their employers to do so. MPI has, nonetheless, agreed to adjust the rates based on an assumption rather than actual data.

[34] MPI Exhibit #105 – Undertaking #26 – Figure 2.
[35] Transcript of Proceedings, pgs. 1249-1250.
[36] Transcript of Proceedings, pgs. 1257 – 1258; GRA Part V – Claims Incurred, Figure CI – 9, pg. 19 of 95.
[37] GRA - Part V – Claims Incurred, Attachment A – Driving Behaviour Survey 2022; Figure CI-9

55 Finally, MPI has data that establishes that, as with the broader fleet, when Taxi VFH were on the road less, they had fewer claims. RM Appendix 9 Table 8 shows that the actual losses for Taxi VFH across Manitoba from 2017 -2019 were close to $4 million. In 2020-2021, actual losses were reduced to approximately $2.5 million.[38] In other words, MPI had actual data which confirms that when Taxi VFH were on the road less, there was a corresponding reduction in collision frequency.

56 MPI must remain fair and equitable in its approach to Full-Time VFH Insurance. The TC submits that MPI cannot pick and choose which insurance uses require data to support pricing decisions and which do not. If MPI were to give a reduction or discount to one group, based on the fact that that particular group was driving less, MPI should similarly ensure a discount to a second group if the second group was also driving less is made available, in order to remain fair and equitable.

Part Time Model Option

57 The TC has prepared, based on MPI's own methodology used to price the Time Band Model which was reviewed with MPI during cross-examination, a part-time Taxi VFH discount in the attached Appendix.

58 Based on the TC's calculations, a part-time option in each of the Territories should have a discount of between 22% – 27% less than full time.

59 The PUB previously approved the method for calculating part time rates and the TC submits that MPI ought to be able to implement this approach with relative ease on an interim until it is able to collect data to put forward an alternate part-time framework.

Conclusion on VFH

60 The TC therefore says that MPI should be directed to ensure that there is no cross-subsidization of the rebates payable under the Blanket Policy and that MPI should be required to work with the TC to reduce barriers to participation in the Blanket Policy for all VFH dispatchers.

61 Further, the TC says that it is unreasonable for MPI to take the position that full-time VFH Taxi operators should be required to subsidize part-time operators until actual loss data is collected.

[38] Transcript of Proceedings, pg. 1254, lines 7-25; pgs. 1255-1256; and pg. 1257, line 1;
GRA – Part VI – Ratemaking, Appendix 9, Table 8, pg. 82 of 165.

MPI has a history of recognizing that when vehicles are not on the road, they have fewer collisions and the TC therefore requests that the PUB direct MPI to include a properly priced part-time option with the expectation that pricing can be updated, based on actual data from the telematics project. In the interim, however, MPI should be directed to adapt its existing methodology to include a part-time model.

ISSUE 3: Driver's Safety Rating

Whether MPI complied with the PUB's Directive 11.15 from Order 134/21 and how MPI should proceed with this matter

<u>BACKGROUND</u>

62 The Driver's Safety Rating System ("**DSR"**) is MPI's primary financial incentive tool to reward good driving behaviour, and reduce the cost of collisions. The DSR was introduced in 2010, to replace the Merit Discount Program.

63 The DSR program rewards good driving behaviour by advancing at-fault claims free drivers up the scale annually, which entitles drivers to ever larger vehicle premium discounts. Since at least 2020 it has been well understood by parties that the magnitude of vehicle premium discounts provided at each DSR level, is not actuarially based, but rather informed primarily by policy.

64 In the 2022 GRA, and again in the 2023 GRA, MPI prepared an actuarial review of the DSR, which confirmed that the highest levels of the DSR had an indicated discount at least 12% higher than actual. In the case of DSR level 15 (i.e. the safest of drivers), the indicated discount was 18% higher than actual (56% indicated against 38% actual).

65 This analysis was not without its flaws, particularly in that it relied on the Minimum Bias Procedure, and lacked data on the primary drivers of vehicles. These two deficiencies meant the analysis did not rely on industry standard techniques, and estimated the discounts based on the experience of all drivers of vehicles at a given DSR level, not exclusively on the experience of drivers belonging to a specific DSR level. Stated differently, this analysis was not able to compensate for the registered owner model currently in place. MPI has stated that it does not intend to re-examine the relative risk of drivers by DSR level, because it does not have information about the primary drivers of vehicles.[39]

[39] TC(MPI) 1-9(a)

66 To address the subsidization inherent in current DSR discounts, MPI has adopted an approach that will incrementally adjust DSR discount levels by annually assigning any indicated rate decreases to the DSR levels with the largest disparity between indicated and actual discounts. MPI applied the same approach in the 2022 GRA.

67 In this GRA, the initial rate indication of -0.9% was allocated to DSR levels +9 through +13 (1% increase for each level), DSR level +14 (2% Increase), and DSR level +16 (1% increase)[40]. This approach, described as Scenario 4 (in Figure DSR-1) results in no change to base rates. MPI also presented Scenarios with a very small (1.3%) change to base rates, and the full change, resulting in a 15.6% increase to base rates.

68 MPI did not change the DSR adjustments in light of the revised rate update of -0.1%, but instead increased the base rate adjustment 0.8%, to be offset by a -0.9% DSR adjustment.[41]

Issue

69 TC Submits that MPI has not fully complied with the PUB's directive, and should be further directed to address the roadblocks MPI has claimed are preventing it from complying.

TC Position

70 The TC's position is that MPI has not complied with Directive 11.15, and must address the circumstances preventing it from complying for the following reasons:

a) MPI must comply with the PUB Order 134/21, Directive 11.15

71 Directive 11.15 of PUB Order 134/21 states:

> *In the 2023 GRA, the Corporation shall bring forward a **DSR transition plan to manage the required increase in the base rate and year-to-year rate dislocation, while moving the DSR vehicle discounts and driver premiums to actuarial targets in a timely manner.** The transition plan shall include:*
>
> *(a) The methodology for moving rates from current to target and whether this approach should be purely actuarial (e.g., equal steps to move between current and target rates by DSR level) or include other policy considerations (e.g., change*

[40] Figure DSR-4.
[41] Transcript of Proceedings pg 1179, lines 9-20.

> *DSR discounts more/less depending on the size of the overall rate indication applied for each year);*
>
> *(b) Whether capping rules should be applied to limit rate increases caused by DSR changes in a given year (e.g., a 5% cap on single year movements from DSR);*
>
> *(c) Whether DSR vehicle discounts and driver premiums should be rounded to amounts that can be effectively communicated (e.g., if the indicated discount is 21.2% is this amount rounded down to 21% or up to 22%); and*
>
> *(d) How to recognize that indicated DSR vehicle discounts will always be changing, specifically for (i) the new DSR levels +16 and (ii) potential changes in driver behavior as a result of more accurate pricing.*

[Emphasis Added]

72 The TC submits that MPI has not complied with this directive. MPI has made no substantive changes to its plan to address the DSR cross-subsidization from the 2022 GRA, from which the above order stems.

73 Specifically, the PUB Directive contemplates that there would be a requirement to manage changes in base rates and DSR discounts in a timely manner. MPI's proposal in this GRA involves no deliberate changes in base rates (per Scenario 4), noting of course the base rate adjustment stemming from the October update. MPI's proposal in this GRA also does not address the issue of cross-subsidization in a timely manner.

b) MPI's Corporate Risk Profile is unaffected by these adjustments

74 MPI has stated at various times, that its corporate risk appetite is such that it cannot increase base rates by more than 2%, and capital build provisions cannot exceed 3%, for a total rate change of 5%.

75 In response to TC(MPI) 1-7(d), MPI acknowledges that its approach is not fair, but dismisses options to correct the situation as 'practically impossible':

> *Whereas the actuarially determined DSR levels provide a more equitable pricing basis**, a sudden change in the discount levels may not be practically possible**.*

[Emphasis Added]

76 When pressed in TC(MPI) 2-5 to explain why a sudden change would be 'practically impossible', MPI pointed the TC to response CMMG(MPI) 1-10, which states:

> *MPI considers an* ***annual increase of 2% to the base rate to be reasonable****. Furthermore, 3% is considered acceptable for the capital build over a one-year period. Therefore, as a combination, MPI considers a 5% combined increase to the aggregate rate indication to be reasonable.*

[Emphasis Added]

77 Under cross examination by Board Counsel, the MPI's Chief Actuary, Ms. Cara Low stated:[42]

> *We currently don't have a transition plan to get to fully actuarially sound. But it would – it would have been a 16% base rate increase on top of what the filing currently is.*
>
> *And we didn't feel a 16 percent is somewhere we wanted to go. Our corporate risk appetite is* ***overall rate indication of plus two*** *(2).*

[Emphasis Added]

78 From these two statements, being the response to CMMG(MPI) 1-10, and the statement of the MPI's chief actuary, it is unclear what the corporate risk appetite refers to:

i) a 2% increase in Base rates
ii) a 2% increase in overall rate indication.

79 Some direction can be taken from MPI's Risk Appetite Statement found at Part VI RMF Risk Management Framework, page 6 which states:

> **Corporate Net Income**
>
> a) Low overall appetite for net income volatility, which should not exceed +/- $50M over 4 years relative to budget.
>
> **b) The 4-year net income volatility range is to be achieved by Basic rate increases that are 2% or less.**
>
> c) One year net income should not fall to less than -$60M relative to budget, based on the 1-in-5-year scenario.

[Emphasis Added]

80 Here, the language "Basic rate increases" can only reasonably be understood to mean overall revenue requirement of Basic. That is, a 2% overall rate increase, or the 'headline' figure that MPI brings in each rate indication.

[42] Transcript of Proceedings pg 1137, lines 15-22

81 This fact was later acknowledged by Ms. Low in further cross examination by TC counsel[43]:

> *MS KAREN WITTMAN: So, would MPI agree that a 4 percent increase to base rate over a one (1) year period would be reasonable then? It's under the 5 percent set out here, aggregate.*
>
> *MS CARA LOW: Currently, our Corporate risk appetite does state that 2 percent is – where our risk appetite lies.* ***But that would be 2 percent overall****. But then DS* ***– after DSR changes.***

[Emphasis Added]

82 The proposed increases to base rates are, in fact, fully offset by decreases in premiums from higher DSR discounts. Under all of the four scenarios presented my MPI in the DSR chapter (see Figure DSR -1) there is a DSR impact (line 18), which is the amount of rate change attributable to increasing the DSR discounts. The following line 19 is the "rate impact", or base rate impact (as labelled in response to TC(MPI) 1-6). The two impacts net out to exactly the applied for rate change. This is by design.

83 The TC therefore says that it simply cannot be the case that an increase to base rates, offset by higher DSR discounts, can run afoul of the MPI's Risk Appetite Statement.

84 Whether the MPI's Risk Appetite Statement should be taken by the Board as authoritative in setting just and reasonable rates, is another matter, but ultimately not relevant in this instance.

c) MPI should accelerate the process to deploy GLMs for ratemaking if it believes the rate dislocation will be so severe as to make suspect any DSR scale adjustments today

85 The testimony of MPI's Chief Actuary, Ms. Cara Low on the interplay between GLMs and DSR discounts was captured in the following passage:[44]

> *There are two (2) issues we are currently dealing with. First, as we talked about the other day at the rate-making panel, we are going to be running generalized lineal models over the next couple of days – or couple of years, I should say. So these are called GLM models.*
>
> *We're going to be putting DSR levels in there as a rating variable; that means what comes out of the model could be different that what we get right now with our*

[43] Transcript of Proceedings, pg. 1301-1302.
[44] Transcript of Proceedings pg 1084, lines 12-23.

> *minimum bias model. So really hard to figure out how we're going to get to the end point when we don't know what the end point looks like yet.*

86 In a subsequent exchange with counsel for MPI, Ms. Low further explained:

> *Because the DSR is going to become a rating variable. So it's not going to be a product sitting on top of a product, it's going to become a factor within the rating so the discount scale itself that's indicated might change with the GLMs*
>
> *(…)*
>
> *The downside is you can maybe give a large decrease that you'll have to take back.*

87 TC notes that the converse could equally be true; that is, adjustments today might also bring the DSR closer to indicated, under a GLM framework.

88 MPI has further stated that they intend to bring a DSR adjustment plan in conjunction with the preliminary GLM filing in 2025.[45] The TC says that if that if these two issues are, in fact, linked, then MPI ought to accelerate the work to develop a preliminary GLM model, particularly as the means to do so are readily available.

89 The TC's evidence in the 2022 GRA was that free open source software is available and widely used in industry.[46] Even in the event that MPI preferred not to use open source software for formal ratemaking, MPI could have relied on this software for initial exploration of GLM model specifications.

90 As it currently stands, MPI continues to wait to acquire the software to run GLMs, a full year after it committed to transition to GLMs.[47]

Conclusion on DSR

91 The TC says that the Board should find that MPI has not complied with Directive 11.15, and that concerns around MPI's corporate risk profile are neither determinative, nor relevant to compliance with this directive.

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[45] Transcript of Proceedings pg 1309 Lines 15-21
[46] 2022 GRA TC Exhibit 4 page 14
[47] Transcript of Proceedings pg 1171 lines 18,19

92 MPI should be directed to accelerate its preliminarily investigation into GLMs to the point where it can be sufficiently confident in the outcome of the GLMs that it can then proceed with addressing the PUB's concerns as articulated in Directive 11.15. Given the software options available, MPI should be directed to begin this investigation without further delay, and be prepared to present preliminary results in the 2024 GRA.

ISSUE 4: CAPITAL MANAGEMENT PLAN

Whether direction on specifications and parameters should be provided by the PUB to MPI relating to i) the timing of rebate applications to the Board and ii) MCT forecasting parameters, within the confines of BITSAA

<u>Background</u>

93 In 2019, MPI applied for a capital management plan (**"CMP"**) that included the following key features:

- A capital target of 100% MCT for the Basic line of business.
- A capital target of 200% MCT for the Extension line of business.
- If forecasted MCT for Extension exceeded the targeted 200% MCT, MPI would transfer excess money from Extension to Basic.
- If forecasted MCT for Basic was expected to be lower than 100% MCT, a capital build would be applied to return Basic MCT to 100% over 5-year period.
- If the MCT ratio for Basic was forecasted to be above 100% MCT, a capital release would be applied.

94 The PUB approved the proposed CMP on a provisional two-year basis. During the first year, the MCT target was exceeded quickly. During the second year, and in part as a result of the pandemic, the target was once again quickly exceeded. As MPI's reserves skyrocketed and claims fell, the CMP was unable to 'keep up' with the pace of capital releases, and MPI resorted to making Special Rebate Applications in order to return excess capital by way of capital rebates in the form of paper checks.

95 In the current GRA, MPI proposes to revise the CMP, the key changes to which would be as follows:

1. A move to an MCT range instead of a single target, with the lower threshold of 100% MCT and an upper threshold of 120% MCT.

2. The replacement of the capital release provision with a capital rebate. A rebate would be initiated when the MCT exceeds 120%. The amount of the rebate would be the amount required to reduce MCT to 100%. The capital build would remain unchanged.

3. Financial decisions regarding capital rebates would be based on audited actual year-end financial results instead of on the basis of forecasted results.

96 MPI's stated justification for the proposed changes is three-fold. First, it seeks to avoid continuous building or rebating as a result of constant MCT fluctuations and to avoid the cost of rebates for amounts less than $100.00. Second, MPI seeks to issue capital rebates rather than releases to avoid customer confusion and to avoid allowing a new ratepayer to benefit from the prior build up of excess capital. Third, MPI comments that the new methodology is preferred to its previous methodology as it will rely on actual audited year-end results rather than forecasts. Notwithstanding this proposed change, MPI nonetheless intends to rely on forecasts when determining whether a rebate will cause MCT to fall below 100% MCT.[48]

97 In addition to presenting the revised CMP proposal as part of the GRA, *The Budget Implementation and Tax Statutes Amendment Act*, 2022 ("**BITSAA"),** was introduced and received Royal Assent on November 3, 2022 during the course of the GRA.

98 BITSAA amends section 18 of *The Manitoba Public Corporation Act* by replacing portions of the existing section 18 it with the following:

> **Capital reserves**
>
> 18(3) In addition to the reserves under subsection (2), the corporation must establish and maintain the following capital reserves:
>
> (a) a rate stabilization reserve, with a target MCT ratio of 100%;
> (b) an extension reserve, with a target MCT ratio of 200%;
> (c) a special risk extension reserve, with a target MCT ratio of 300%.
>
> **Rate stabilization reserve deficiency**
> 18(4) A rebate must not be paid from the rate stabilization reserve unless
>
> (a) the reserve's MCT ratio exceeds 120% at the beginning of a fiscal year;

[48] Transcript, pg. 2013

> (b) the corporation applies to The Public Utilities Board for approval to pay the rebate;
> (c) The Public Utilities Board approves the application; and
> (d) the rebate is not projected to reduce the reserve's MCT ratio to less than 100%.
>
> **Rate stabilization reserve deficiency**
> 18(5) If the rate stabilization reserve's MCT ratio is less than, or is projected to be less than, its target MCT ratio at the beginning of a fiscal year, the corporation must ensure that its revenue from universal compulsory automobile insurance is sufficient to allow the reserve's target MCT ratio to be achieved within the five-year period beginning with that fiscal year.

99 What remains unclear from the GRA materials, even after extensive cross examination and questions from Board members, are the parameters within which a rebate will be brought before the Board, and how MPI's forecasting will factor in to MPI's decision making process, as the evidence was inconsistent on these points.

100 More specifically, it is not at all clear how MPI specifically proposes to use audited actual year-end results, how forecasting will fit into the analysis, what time period will be considered in the forecast, and when, in practice, MPI would apply for such a rebate, if ever.

101 For example, in its Application, MPI describes how this move to 'actuals' based on the 'current fiscal year period' (March 31, 2023) [49] would be implemented in practice. Specifically, MPI states:

> - *If the forecasted MCT is less than 120% at the end of the current fiscal period (March 31, 2023) no capital rebate will be considered.*
>
> - *If the MCT is equal to or greater than 120% at the end of the forecasted current fiscal year (March 31, 2023), than (sic) calculate the rebate amount so that the ending Basic MCT at the end of the forecasted current fiscal year in equal to 100%. The rebate will be applied for/issued pending finalization/audit of year-end financial values.*
>
> - *If MCT is between the range of 100% and 120% at the end of the current fiscal year (March 31, 2023), MPI will continue to monitor and calculate once the actual Basic capital levels are available. Should the actual capital levels exceed 120% at the end of the current fiscal year period, MPI will apply for a rebate with the PUB. The rebate will not be issued on forecasted MCT results, but rather actual MCT results. This will present MPI from rebating into an unfavorable financial situation (i.e., Lower than 100% MCT).*

[49] Part VII – Rate Stabilization Reserve, pg. 14 of 24.

102 Later in its Application, MPI appears to provide a different approach which is contrary to the previous explanation; that is, that the decision of whether to apply for a rebate would be based upon the forecasted MCT ratio during the ‘rating period’ which, using this GRA as an example, would run from April 1, 2023 - March 31, 2025, rather than on the basis of the “current fiscal year period”.[50]

103 Further, with respect to the use of actual results vs. forecasting, Ms. Cara Low appeared to indicate that there would be an initial trigger of a potential rebate application where actual audited financial statements indicate that MCT exceeds 120%, but that a rebate would not be applied for if MCT is forecasted to dip below 100% “in the forecast period”, which phrase the TC understands is interchangeable with the phrase “rating period”, as used in the 2023 GRA[51], and could equate to forecasting MCT two years out. By way of example, the TC refers to the following exchange between Ms. Low and Mr. Scarfone:

> *MR. STEVE SCARFONE: … I’m just wanting to get some understanding on the* ***interplay between the five (5) year forecast and consideration of rebates****.*
>
> *And so, I’m expecting that the response to this will be that there are factors in the five (5) year forecast that will determine whether a rebate is made?*
>
> *MS. CARA LOW: Correct.*[52]
>
> *(…)*
>
> *MR. STEVE SCARFONE: And the rebate that’s now proposed under the new CMP is triggered at 120 percent. Is that an automatic rebate that will occur once that number hits –*
>
> *MS. CARA LOW: No, because we have to make sure that in* ***the forecast <u>period</u>*** *we wouldn’t dip below a hundred because the last thing we would want to do is a rebate knowing full well that there’s something planned that could bring us then down to – under a hundred.*[53]

[Emphasis added]

104 In stark contrast to Ms. Low’s evidence, Mr. Giesbrecht suggests in his evidence that any MCT forecasting would be much shorter term.[54] By way of example:

[50] Part VII – Rate Stabilization Reserve, pg. 15 of 24 and Figure RSR – 1 – ‘Capital Rebate Decision Criteria Graph’
[51] Transcript of Proceedings, pgs. 2013, 2022, 2023, 2024, 2103 and 2157.
[52] Transcript of Proceedings, pg. 2023.
[53] Transcript of Proceedings, pg. 2024.
[54] Transcript of Proceedings, pgs. 2122-2123, 2138-2139, 2143 – 2147, 2157 and 2163.

> *MS. KAREN WITTMAN: …Under the new proposed CMP though the rebate would only issue on two (2) conditions, 1) that MCT is at a 120 percent. Is that correct?*
>
> *MR. MARK GIESBRECHT: Yes, based on **audited actual year-end results.***
>
> *MS. KAREN WITTMAN: Right. So, that's the first condition. And then the second condition is that it's **forecasted to remain above a hundred percent throughout the rating period after the proposed rebate?***
>
> *MR. MARK GIESBRECHT: **Yes, exactly**. So – and a good example of why that is the case is, when we close the books in – in March of a given year, we will then have – usually the – the closing the books and the audit will take place, typically will – will finalize in June.*
>
> *And so, **we would have three (3) months of actual results** where there could be adverse developments, such as inflation and requirement to transfer or increase the reserves as a result.*
>
> *And so, if that were to take place, and now, even though the year-end was above 120 percent, you may have a scenario where you fall below. And we would not want a rebate if we were now – **because of amounts that happened after year-end that were known or – or expected to happen <u>in the very short term</u> that could impact that – that outcome.**[55]*

[Emphasis Added]

105 In addition to the inconsistencies in the parameters around forecasting, MPI also seems to suggest that whether it applies for a rebate is an issue that is entirely within its discretion and it will be dependent on whether ***MPI*** believes that MCT will fall below 100%.[56] In stating that it has this discretion, MPI also acknowledges that there are numerous factors, within its control, which go into forecasting that may have an ultimate impact on MCT.[57] In effect, MPI's forecasting on MCT may be entirely discretionary as well.

<u>Issue</u>

106 The TC says that a key issue surrounding the proposed new CMP is the lack of clarity, transparency and accountability surrounding the approach to rebate applications. When a rebate will be applied for remains unclear and appears to be completely at MPI's discretion.

[55] Transcript of Proceedings, pg. 2123.
[56] Transcript of Proceedings, pg. 2103.
[57] Transcript of Proceedings, pgs. 2054 and 2162

TC Position

107 The TC recommends that the Board consider what parameters or specifications it may direct MPI to implement as part of the proposed new CMP within the confines of BITSAA. Specifically, the TC recommends the following.

108 First, there ought to be an interpretation of section 18(4)(d), and specifically the time frame that the ‘projection’ referred to in the section relates to. In looking to section 18(5), it can be inferred that where the legislature intended to make reference to a specific time period, it did – hence the reference to “or is projected to be less than, its target MCT ratio **at the beginning of a fiscal year**”. In section 18(4), however, there is no reference to the timeframe to which the projection relates. As a result, the TC says that it is within the Board’s jurisdiction to stipulate the timeframe to which this projection ought to relate.

109 Second, section 18(4) makes no reference as to the timing of a rebate application. It does not, for example, specify that an application cannot be made to the Board until MPI makes an internal determination on projected MCT ratios. Despite this lack of specificity in the legislation, Ms. Low expressed that it would be MPI’s intention not to apply for a rebate unless MPI internally determines that MCT is not forecasted to be less than 100% within the **forecasting period** (rating period). In other words, MPI may never apply to the Board for a rebate if it internally forecasts MCT to be less than 100% two years into the future, and as confirmed by both Mr. Giesbrecht and Ms. Low, all sorts of factors go into forecasting that may have an ultimate impact MCT, such as portfolio composition and risk adjustments employed. This forecasting, of course, would not be subject to Board review because an application would not have been brought.

110 In order to ensure transparency and accountability, the TC recommends that MPI be required to report annually as part of the GRA on MCT ratios and MCT forecasting.

111 Third, the TC further recommends that the Board direct MPI to apply to for a rebate in any upcoming GRA when the MCT ratio exceeds 120% at the beginning of a fiscal year. By way of example, if the actual audited financial statements for 2023 indicate that the MCT ratio exceed 120%, MPI should have to apply within the 2024 GRA for a rebate relating to the 2023 fiscal year. MPI’s forecasting, and whether the MCT was projected to fall below 100% MCT would, in turn, be analyzed and considered as part of the GRA process. This would encourage transparency and accountability while also meeting the objectives of BITSAA.

<u>Conclusion on Capital Management Plan</u>

112 It is the TC's position that the proposed CMP requires greater clarity, transparency and accountability. The Board should provide direction with respect to the timing of the rebate applications coming before it, and set parameters and specifications around MCT forecasting.

113 The Board should also direct MPI to bring forward a rebate application in any upcoming GRA where the MCT ratio exceeds 120% at the beginning of the fiscal year. As part of the GRA, MPI would, in turn, provide its position with respect to 100% MCT forecasting. MPI should also be required to report annually on MCT ratios and MCT forecasting; such a requirement would both enhance transparency and promote accountability.

Appendix

A 1 During cross-examination, MPI confirmed that when MPI filed the Initial Application for Vehicle for Hire Premiums Rates in 2018, the premiums were calculated according to the number of time bands selected.[58] Further, in establishing a ratemaking framework for Taxicab VFH, MPI made the following two assumptions:

(a) there will be a yet undetermined reduction in loss exposure for taxis as a result of competition from Passenger VFHs; and

(b) the exposure for taxis is always greater than the All-Purpose Passenger Vehicle use for the same vehicle, even for taxis selecting the lowest level, i.e. Level 1.

A 2 With the above assumptions in mind, MPI calculated Taxicab VFH rates as follows:

(a) The Taxicab VFH Level 4 (i.e. 24/7) base rate equal to the PUB approved 2018 Taxi/Livery Passenger Vehicle base rate. For Territory 1, this base rate was $10,538.

(b) To determine the base rates for Taxicab VFH Levels 1, 2 and 3, MPI first performed a percentage weighting between (i) the 2018 approved Taxi/Livery Passenger Vehicle base rate (as set out in (a)) and (ii) the average All Purpose Passenger Vehicle base rate for the four most recent model years.

The four most recent model years were used by MPI to establish a conservative estimate in the calculation of blended rates.[59]

(c) In order to arrive at the 'average All Purpose Passenger rate for the four most recent model years', MPI:

[58] TC Exhibit #5 – MPI 2018 Interim Vehicle for Hire Application
[59] Transcript of Proceedings, pg. 1271, lines 17-25; and pg. 1272, lines 1-11.

(i) looked to the All Purpose Passenger Vehicles in each territory with model years 2014 to 2017;

(ii) looked to the total undiscounted premiums for these groups; and

(iii) divided the total undiscounted premiums figure by the total number of All Purpose Passenger Vehicles in each territory and ultimately arrived at an average rate.[60]

(d) With respect to 'average All Purpose Passenger rate for the four most recent model years' calculation, during the course of its 2018 Interim VFH Application, MPI was asked by the PUB, by way of information request, to provide an alternate calculation based on the newest four model years of Toyota Prius, being the vehicle type predominantly used for Taxicabs in Winnipeg.[61]

In performing this calculation, MPI arrived at substantially the same average rate.[62]

(e) Having established two base rates, (1) the Taxi base rate (as calculated in (a), and (2) a rate based on the 'average All Purpose Passenger Vehicle base rate for the four most recent model years', or the 'All Purpose base rate', MPI went on to perform the following weighting calculation to arrive at a blended rate:

(i) if a customer selected 4 levels, the Taxi base rate was given 100% weight'

(ii) if a customer selected 3 levels, the Taxi base rate was given 75% weight, and the 'All Purpose base rate' was given 25% weight;

(iii) if a customer selected 2 levels, each of the base rates were given 50% weight; and

[60] Transcript of Proceedings, pg. 1273, lines 24-25; pg. 1275, lines 1-25; and pg. 1276, lines 1-4.
[61] Transcript of Proceedings, pg. 1276, lines 5-13.
[62] Transcript of Proceedings, pg. 1276, lines 21-25; and pg. 1277, lines 1-2.

(iv) if a customer selected only 1 level, the Taxi base rate was given 25% weight while the 'All Purpose base rate' was given 75% weight.

These time bands were selected by MPI such that each additional time band would equate to approximately 25% additional claims exposure. For the purposes of calculating the Taxicab VFH rates, however, only the number of time bands selected was relevant. MPI indicated that it was expected that in the future the relative rate by Level would eventually move to being based upon actual claims experience.[63]

(f) MPI performed the following calculation to establish the blended rates, as shown in the following Table for Territory 1:

Blended Rate = (AP Weight * AP Base Rate) + (Taxi Weight * Taxi Base Rate)

Figure 4: Taxicab VFH Blended Rate for Territory 1

Line No.	# of Levels Purchased	Territory 1 Taxi Base Rate	Taxi Weight	Territory 1, All Purpose, Newest 4 Model Years, Average Base Rate	All Purpose Weight	Blended Rate
1	4	$10,358	100%	$1,882	0%	$10,358
2	3	$10,358	75%	$1,882	25%	$8,239
3	2	$10,358	50%	$1,882	50%	$6,120
4	1	$10,358	25%	$1,882	75%	$4,001

(g) Once the blended rates were established (as shown in Figure 4 above), MPI then compared the blended rates for Levels 1, 2 and 3, to the blended rate for Level 4 to determine the percentage reduction for the lower levels. This calculation is shown for Territory 1 in the figure below:

Figure 5: Taxicab VFH Reduction by Level for Territory 1

Line No.	# of Levels Purchased	Blended Rate	Reduction from Level 4 Blended Rate	Selected Reduction from Level 4 Blended Rate
1	**4**	$10,358	0.00%	0.00%
2	**3**	$8,239	-20.50%	-20.00%
3	**2**	$6,120	-40.90%	-40.00%
4	**1**	$4,001	-61.40%	-60.00%

[63] Transcript of Proceedings, pg. 1247, lines 12-25; pg. 1248, lines 1-25; pg. 1249, lines 1-8.

(h) MPI performed the same calculation as performed for Territory 1 for Territories 2-4. The selected percentage reduction for Taxicab VFH by territory and VFH Level are shown in the following table:

Figure 6: Selected Percentage Reduction for Taxicab VFH by Territory and VFH Level

Line No.	# of Levels Purchased	Territory 1	Territory 2	Territory 3	Territory 4
1	**4**	0.00%	0.00%	0.00%	0.00%
2	**3**	-20.00%	-17.00%	-18.00%	-18.00%
3	**2**	-40.00%	-34.00%	-36.00%	-36.00%
4	**1**	-60.00%	-51.00%	-54.00%	-54.00%

(i) As set out in PUB Order 11-18, Rates for Service for Taxicab VFH for 2017/18 and 2018/19 insurance years, as described above, as well as the Rates for Service for the remaining categories in the VFH Rating model as set out in the VFH 2018 Interim Application, were approved on an interim basis, effective March 1, 2018.[64]

Subsequent to Implementation

A 3 The methodology outlined about for Taxicab VFH has been utilized since March of 2018.

A 4 Since the implementation of this methodology, and at the direction of the PUB to undertake a review of the existing VFH Framework, MPI has determined that the time band model is ineffective. Specifically, insofar as this 2023 GRA is concerned, MPI has determined that not only does this time band model not align with industry standards, but it does not align with the VFH business operations across all groups.[65]

A 5 The analysis undertaken by MPI and the determination that the model was inappropriate and/or ineffective, was not based upon a conclusion that the rate setting framework or methodology underlying it was improper or ineffective. In fact, the first time that an issue with the underlying rate setting methodology was raised was during cross-examination by the TC.[66]

A 6 Notwithstanding the determination that the model was inappropriate and/or ineffective, and despite the comments from MPI during cross-examination, and specifically Ms. Cara Low's

[64] Taxi Coalition Exhibit TC-6 –Board Order 11/18 - January 15, 2018, pg. 22, Order 6.1.
[65] Transcript of Proceedings – VFH/DSR, pg. 1282, line 25; and pg. 1283 lines 1-6.
[66] Transcript of Proceedings – VFH/DSR, pg. 1283, lines 7-22.

comment that she would not sign her name to the existing methodology[67], the methodology continues to exist and will continue to be utilized until the new VFH Framework is adopted.

A 7 As it stands in its current iteration, the proposed new VFH Framework does not contain a part-time option for Taxicab VFH.

<u>Stakeholder Consultation</u>

A 8 As part of MPI's stakeholder consultation, Taxicab VFH customers, and in particular, the TC on their behalf, expressed interest in a part-time Taxicab VFH model based on the following defined set of hours:

Monday – Thursday: 6:00am – 8:00pm

Friday, Saturday – 6:00am – 2:00am (the following day)[68]

("**Part-time Taxi Hours**")

A 9 MPI estimates that 20% of Taxicab VFH customers are interested in such a part-time model that would allow more flexibility.[69]

A 10 While MPI has committed to a telematics pilot, which will hopefully provide MPI with the data needed to refine assumptions in order to devise a part-time model for taxis, the telematics pilot, has not yet begun.[70] Despite not having the data from the telematics pilot, MPI was nonetheless able to calculate that the Part-time Taxi Hours sought by at least 20% of the Taxicab VFH customers account for 67% of claims costs.[71]

A 11 Appreciating that MPI does not have the data it seeks to develop a **new** part-time model for taxis that is actuarily indicated, the TC proposed that MPI use the data it does have and use it along

[67] Transcript of Proceedings – VFH/DSR, pg. 1274, lines 8-25; pg. 1275, line 1; pg. 1329, lines 25; pg. 1330, lines 1-10.
[68] Taxi Coalition Exhibit TC-7 – MPI VFH Taxi Update Presentation October 14, 2021 – Slides 1 and 7
[69] Transcript of Proceedings – VFH/DSR, pg. 1086, lines 15-25; pg. 1087, lines 1-21; pg. 1120, lines 22-24; pg. 1240, lines 3-13.
[70] Transcript of Proceedings- VFH/DSR, pg. 1320, lines 2-25; and pg. 1321, lines 1-4.
[71] Taxi Coalition Exhibit TC-7 – MPI VFH Taxi Update Presentation October 14, 2021 – Slide 7; Transcript of Proceedings – VFH/DSR, pg. 1241, lines 6-13; pg. 1286, lines 13-25; and pg. 1287, lines 11-17.

with the existing rate setting framework and methodology for the establishment of an interim part-time taxi model.

A 12 As a matter of equity and fairness, all four VFH groups had the ability to take advantage of a part-time model when operating under the Time Band Model. The framework put forward in this GRA retains a part-time model for only one of these four groups, Passenger VFH, despite the fact that the TC has expressed an interest in a part-time model and has even identified the specific hours. MPI has already calculated that the part-time hours identified by the taxis account for approximately 67% of claims costs, and taking into account the underlying reasoning expressed by MPI regarding time on the road being an indicator of rates, the TC submits that MPI should then be directed to use the existing data and work with the existing framework until MPI is able to establish a more actuarially indicated, data driven framework.

Proposed Interim Part-time Model

A 13 To this end, the TC proposes that MPI adopt the approach outlined during the TC's cross-examination of MPI that would use MPI use the existing methodology and data which would work as follows:

1. Set the Taxicab VFH full-time base rate for each territory as equal to the Taxicab VFH Level 4 rates (with a discount of zero) as set out in the Application Rates Table (ART), Appendix 1 as follows:

Terr	% Disc	Insurance Use Description	0
1	0	Taxicab Vehicle-for-Hire 4	12795
2	0	Taxicab Vehicle-for-Hire 4	6615
3	0	Taxicab Vehicle-for-Hire 4	7121
4	0	Taxicab Vehicle-for-Hire 4	7200

2. To determine the base rates for the Part-time Taxi Hours, perform a percentage weighting between (i) the VFH full-time base rate for each territory as set out in (1), and (ii) the average base rate for the newest four model years of Toyota Prius.

3. The average base rate for the newest four model years of Toyota Prius was estimated by the TC during cross by averaging the four most recent year rate groups set out at line '12041' of the Passenger Vehicles – 2023 Rate Groups (2003 to 2023) spreadsheet (Part VI – VCR Passenger Vehicles (2003 to 2023) Part IA), as shown below.

PASSENGER VEHICLES - 2023 RATE GROUPS (2003 to 2

***A blank cell in the VDESC column indicates that the description is yet to be assigned a vehicle descr**

Make	Model	Body Style	C	Fuel	W	VI	Subty	VDESC	23	22	21	20	19	18	17	16
TOYOTA	PRIUS	4 Door	4	Gas/Electric	2	0598	Prototype	1730024899								
TOYOTA	PRIUS	4 Door	4	Gas/Electric	2	0598	Regular	1730001413								
TOYOTA	PRIUS	4 Door Hatchback	4	Gas/Electric	2	1092	Prototype	1730024900								
TOYOTA	PRIUS	4 Door Hatchback	4	Gas/Electric	2	1092	Regular	1730005522		38	38	37	37	35	36	36
TOYOTA	PRIUS AWD-E	4 Door Hatchback	4	Gas/Electric	4	1925	Regular	1730037219		32	32	30	29			
TOYOTA	PRIUS C	4 Door Hatchback	4	Gas/Electric	2	1745	Regular	1762109720					37	37	37	37

A 14 This approach, in the TC's view, incorporates the PUB's alternate calculation as requested by way of Information Request during MPI's 2018 Interim Application as well as Ms. Low's concerns regarding the existing model's failure to rate with rate group assignments.[72]

A 15 TC observed that the average of the four most recent model years is the average of rate groups 37 and 38.

A 16 TC then cross-referenced this rate group with the All Purpose Passenger Vehicle base rate for each territory, by rate group, as set out in the ART, Appendix 1, as follows:

2023 BASIC RATE TABLE ($)

Terr	% Disc	Insurance Use Description	36	37	38	39	40
1	0	All Purpose PassengerVehicle	2196	2258	2322	2391	2450
2	0	All Purpose PassengerVehicle	2061	2118	2179	2244	2299
3	0	All Purpose PassengerVehicle	1842	1893	1947	2005	2055
4	0	All Purpose PassengerVehicle	1848	1899	1954	2012	2062

A 17 The average base rates for rate groups 37 and 38, per ART Appendix 1, in each territory are as follows:

	Rate Group		
Territory	37	38	Average
1	$ 2,258	$ 2,322	$ 2,290
2	$ 2,118	$ 2,179	$ 2,149
3	$ 1,893	$ 1,947	$ 1,920
4	$ 1,899	$ 1,954	$ 1,927

A 18 With respect to weighting, and for the purposes of its calculations, TC gave the Taxi base rate 67% weight, which weighting reflects the reflecting the share of claims the Part-time Taxi Hours

[72] Transcripts of Proceedings – VFH/DSR, pg. 1274, lines 11-25; and pg. 1275, line 1.

'band' captures. The average base rate for the newest four model years of Toyota Prius was, in turn, given 33% weight.

A 19 TC went on to establish blended rates for each Territory, as shown in the table below (TC Figure 4), based on the following calculation:

Blended Rate = ((AP Weight) * (AP Base Rate (Toyota Prius- Rate Group 38))

+

((Taxi Weight) * (Taxi Base Rate))

TC Figure 4 - Weighting based on 67%						
	Purchased Levels	Taxi Base Rate	Weight	AP Base Rate, Toyota Prius, Rate Group 38	AP Weight	Blended Rate
Terr 1	2	$ 12,795	100%	$ 2,290	0%	$ 12,795
Terr 1	1	$ 12,795	67%	$ 2,290	33%	$ 9,328
Terr 2	2	$ 6,615	100%	$ 2,149	0%	$ 6,615
Terr 2	1	$ 6,615	67%	$ 2,149	33%	$ 5,141
Terr 3	2	$ 7,121	100%	$ 1,920	0%	$ 7,121
Terr 3	1	$ 7,121	67%	$ 1,920	33%	$ 5,405
Terr 4	2	$ 7,200	100%	$ 1,927	0%	$ 7,200
Terr 4	1	$ 7,200	67%	$ 1,927	33%	$ 5,460

A 20 TC then compared the blended rates set out in TC Figure 4 to the blended rate for full-time to determine the percentage reduction for the Part-time Taxi Hours. This calculation is shown for all four territories in TC Figure 5 below:

TC Figure 5 - Weighting based on 67%				
	Purchased Levels	Blended Rate	Reduction from Blended Rate	Selected Reduction from Blended Rate
Terr 1	2	$ 12,795	0%	0%
Terr 1	1	$ 9,328	-27.1%	-27%
Terr 2	2	$ 6,615	0.0%	0%
Terr 2	1	$ 5,141	-22.3%	-22%
Terr 3	2	$ 7,121	0.0%	0%
Terr 3	1	$ 5,405	-24.1%	-24%
Terr 4	2	$ 7,200	0.0%	0%
Terr 4	1	$ 5,460	-24.2%	-24%

A 21 The selected percentage reductions for Taxicab VFH by territory and VFH Level (i.e. full-time vs. Part-time Taxi Hours) are shown in TC Figure 6 below:

Figure 6 - Weighting based on 67%

Purchased Levels	Terr 1	Terr 2	Terr 3	Terr 4
2	0	0	0	0
1	-27.0%	-22.0%	-24%	-24%