

Order No. 29/18

**MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION):
COMPULSORY 2018/2019 DRIVER AND VEHICLE INSURANCE PREMIUMS
AND OTHER MATTERS**

APPLICATION FOR REVIEW AND VARIANCE OF ORDER 130/17

February 23, 2018

**BEFORE: Robert Gabor, Q.C., Chair
Michael Watson, Member
Robert Vandewater, B.A., FCSI, CPA (Hon), CA (Hon), KStJ., C.D., Member
Carol Hainsworth, Member**

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1. BACKGROUND

On December 4, 2017, the Public Utilities Board (Board) issued Order No. 130/17 with respect to the General Rate Application (GRA) of Manitoba Public Insurance (MPI or the Corporation) for rates and premiums for compulsory vehicle insurance and driver insurance premiums effective March 1, 2018.

In the Order, the Board ordered an overall 2.6% rate increase in compulsory Motor Vehicle Premiums for the 2017/18 insurance year, effective March 1, 2018, for all major classes combined, and approved the Corporation's application with respect to certain proposed changes to driver premiums on the demerit side of the Driver Safety Rating (DSR) scale. The Board also issued a number of other Directives, including Directives related to certain aspects of DSR, MPI's Information Technology expenditures, and Basic Target Capital Levels.

2. MPI POSITION

By letter dated December 21, 2017, to the Board, MPI advised that it intended to seek a review and variance of a number of the Board's Directives in Order 130/17 and requested an extension to February 2, 2018, to file the review and variance application for those Directives, with the exception of one Directive, 11.3. The Board granted MPI's request for an extension.

With respect to the application for a review and variance of Directive 11.3, the Board granted MPI's request by Order 7/18, which was issued on January 10, 2018.

MPI then made a further application to the Board for a review and variance, by letter dated January 25, 2018. Those Directives which are the subject of the review and variance application were 11.7, 11.8, 11.9, 11.15, 11.20 and 11.21, which are as follows:

Driver Safety Rating

11.7 There shall be a Technical Conference, facilitated by the Board, on the availability and practicality of other analytical tools and ratemaking methodologies to better determine DSR rates and vehicle premium discounts based on principal driver rating rather than simply registered driver rating. The date of the Technical Conference is to be mutually agreed upon as between the Board and MPI, but shall be sufficiently early such that the information shared in the Technical Conference will be included in the 2019 GRA.

11.8 In the 2019 GRA, the Corporation shall file proposed driver premium rates that are more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale.

11.9 In the 2021 GRA, the Corporation shall file proposed vehicle premium discounts that are actuarially indicated based on principal driver performance evaluation.

IT Modernization

11.15 In the 2019 GRA, the Corporation shall file a business case and a cost / benefit analysis for the IT Modernization project, specific to the AOL and CARS redevelopment or replacement.

Basic Target Capital Levels

11.20 For fiscal year 2017/18, the lower threshold for Basic Total Equity will be \$180 million, based on the iterative modelling approach over a two-year time horizon at a 1-in-40-year (97.5th percentile) outcome level after routine management / regulatory actions BE AND IS HEREBY APPROVED.

11.21 For fiscal year 2017/18, the upper threshold for Basic Total Equity will be \$325 million, based on the iterative modelling of a 1-in-40-year scenario over a two-year time horizon after routine management / regulatory actions BE AND IS HEREBY APPROVED.

2.1. MPI Position on Directives 11.7 to 11.9

With respect to Directives 11.7 to 11.9, MPI raised a concern that the issues related to the future DSR rating scale being actuarially based, and based on principal driver rating rather than registered owner rating, were not fully considered in the 2018 GRA. In particular, MPI stated that the foundational structure and purpose of the DSR program as well as the vehicle premium discounts were only given a cursory review, and there was insufficient evidence or consideration given to justify changes to the structure and implementation of the DSR program.

MPI took the position that while it may be appropriate to change the framework for the DSR scale, this should only be done after consideration is given to a complete evidentiary record. MPI proposed that Directives 11.7 to 11.9 be replaced with the following:

- 1. A Technical Conference be held prior to the filing of the 2019 GRA which will explore:*

a. *The mechanics of the current Driver Safety Rating program, including information related to using the registered owner's driving rating, as opposed to primary driver, to establish vehicle premium discounts; and*

b. *The availability and practicality of other analytical tools and ratemaking methodologies to determine DSR rates and vehicle premium discounts based on principal driver rating rather than registered driver rating.*

2. *In the 2019 GRA, MPI will file a review of the existing Driver Safety Rating program and an assessment of available and practical analytical tools and ratemaking methodologies, incorporating information and positions identified at the Technical Conference, so that the PUB can be updated on the matter and make any inquiries it deems necessary;*

3. *Prior to the 2020 GRA there shall be a second Technical Conference to consider the extent of possible changes, if any, to the Driver Safety Rating program, and a timeline for implementation.*

2.2. MPI Position on Directive 11.15

With respect to Directive 11.15, MPI advised that there appeared to be some confusion as to how MPI intends to proceed with the redevelopment and replacement of the Autopac Online (AOL) and Claims Administration and Reporting Service (CARS) programs. MPI clarified that no decision had yet been made as to whether or not to redevelop or replace the AOL and CARS systems. Rather, a Value Management Process review was being undertaken to develop a business case considering options, and the review was scheduled to begin and be completed in the 2018/19 fiscal year. Accordingly, a decision on what, if any, redevelopment or replacement of AOL and CARS might occur would not be completed for the 2019 GRA. MPI therefore requested

that Directive 11.15 be varied to the 2020 GRA. MPI also indicated that it would be prepared to provide an update on progress made towards completing the review and business case in the 2019 GRA.

2.3. MPI Position on 11.20 and 11.21

With respect to Directives 11.20 and 11.21, MPI took issue with the methodology for the lower and upper levels for the Basic Target Capital Range.

With respect to Directive 11.20, as it relates to the lower level, MPI expressed its concern for the methodology ordered by the Board, referred to as the iterative approach. The iterative approach produced a lower Basic Target Capital level of \$180 million. MPI advised that, using best estimates to determine the current satisfactory financial condition of the Basic insurance program, the minimum level of total equity to ensure the satisfactory financial condition of Basic would be \$201 million. Using the iterative approach, according to MPI, would have the effect of decoupling the lower Rate Stabilization Reserve (RSR) level from the best estimate of total equity required to achieve satisfactory financial condition. The implication of Directive 11.20, from MPI's perspective, was that MPI could be in an unsatisfactory financial condition but be precluded from collecting a rebuilding fee if total equity is above \$180 million. MPI therefore sought a variation of Directive 11.20 to establish the lower threshold of the RSR at the minimum level of Basic total equity to maintain satisfactory financial status.

With respect to Directive 11.21, MPI sought a variation to establish the upper threshold of the RSR based on the Minimum Capital Test (MCT) at a level of 100%. The rationale for this request was that the evidence presented in the 2018 GRA established that: the 100% MCT is an industry standard; it considers the risks facing Basic; it allows comparison to other property and casualty insurers; is an objective assessment and is based upon Basic's balance sheet. This is to be contrasted with the scenario testing

approach ordered by the Board, and, according to MPI, diversity in approaches to setting RSR targets is preferable.

3. BOARD FINDINGS

Pursuant to the Board's Rules of Practice and Procedure, and in particular, Rules 36(1) and 40(2) thereof, the Board may on application or on its own initiative review, rescind, change, alter or vary any decision or Order it has made. The Board's jurisdiction in that regard flows from section 44(3) of *The Public Utilities Board Act* (the *Act*).

In accordance with Rule 36(4), upon receipt of an application for review and variance, the Board is to determine, with or without a hearing, in respect of an application for review, the preliminary question of whether the matter should be reviewed and whether there is reason to believe the order or decision should be rescinded, changed, altered or varied.

After determining the preliminary question under Rule 36(4), pursuant to Rule 36(5), the Board may:

- a) Dismiss the application for review if,
 - i. In the case where the applicant has alleged an error of law or jurisdiction or an error in fact, the Board is of the opinion that the applicant has not raised a substantial doubt as to the correctness of the Board's order or decision; or
 - ii. In the case where the applicant has alleged new facts not available at the time of the Board's hearing that resulted in the order or decision sought to be reviewed or a change of circumstances, the Board is of the opinion that the applicant has not raised a reasonable possibility that the new facts of change in circumstances as the case may be, could lead the Board to materially vary or rescind the Board's order or decision; or

- b) Grant the application; or
- c) Order that a hearing or proceeding be held.

The Board has reviewed and considered the information and positions advanced by MPI with respect to each of the Directives sought to be varied, in accordance with Rules 36 and 40(2).

3.1. Directives 11.7 to 11.9

While the Board accepts that the issues of MPI moving first to driver premiums that are more statistically consistent with the estimated average claims cost per driver for each level on the demerit side of the DSR scale, and later to DSR rates fully supported by actuarial indications based on principal driver performance evaluation were not central aspects of the issues examined in the 2018 GRA, there was nonetheless evidence directed towards these issues. The Board considered that evidence in arriving at its decision in Order 130/17.

MPI has not provided the Board with any information in its application for review and variance that has persuaded the Board at this time that MPI is prevented from moving to driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale, and eventually to vehicle premium discounts that are fully supported by actuarial indications based on principal driver performance evaluation. However, the Board has taken into account MPI's position that these issues have not been fully canvassed as yet and is prepared to vary Directives 11.8 and 11.9, by holding them in abeyance following further examination of these issues in the 2019 GRA.

The Board will also vary Directive 11.7, such that the precise scope of the Technical Conference on the DSR will be determined as a result of consultation between MPI and Board advisors. If, following this initial Technical Conference, MPI and Board advisors determine that there is a need for a further Technical Conference on the DSR, a second Technical Conference shall take place no later than two months after the date of the initial Technical Conference.

The Board requires that following the conclusion of the Technical Conference or Conferences, MPI is in a position to file sufficient information in the 2019 GRA as to how it would proceed to implement driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale, and vehicle premium discounts that are fully supported by actuarial indications based on principal driver performance evaluation. If, following the Technical Conference(s), MPI's position is that it is not possible to implement driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale and/or vehicle premium discounts that are fully supported by actuarial indications based on principal driver performance evaluation, MPI shall so advise the Board in the 2019 GRA, and file information as to why that is the case.

3.2. Directive 11.15

The Board has taken into account the clarification provided by MPI as to the timing and execution of any redevelopment or replacement of the AOL and CARS systems. Based on this new information, the Board is satisfied that Directive 11.15 should be varied such that MPI will be required to file the business case and cost/benefit analysis in the 2020 GRA. The Board will also require that in the 2019 GRA MPI provide an update on the progress made towards completing the review and business case for the AOL and CARS redevelopment and replacement.

3.3. Directives 11.20 and 11.21

It is unclear to the Board the basis upon which MPI has asked the Board to review and vary these Directives. MPI has not presented the Board with any new facts, or alleged any error of law or jurisdiction made by the Board, in respect of its decision on the lower and upper Basic Target Capital thresholds.

With respect to Directive 11.20 and the iterative and best estimate approaches to setting the lower Basic Target Capital threshold, the Board would point out that a significant amount of evidence was directed at this issue in the 2018 GRA – both in Information Requests and in the public hearings. The DCAT methodology was also the subject of a Technical Conference held prior to the 2018 GRA.

This is also the case for Directive 11.21 with respect to the upper Basic Target Capital threshold. The Application filed by MPI in the 2018 GRA sought an upper Basic Target Capital threshold based on 100% MCT, and the issue was fully canvassed in the 2018 GRA. The Board heard a significant amount of evidence and argument on the MCT, and fully considered the evidence and argument prior to arriving at its decision. MPI has not raised anything in the review and variance application that would permit the Board to revisit this issue.

Therefore, with respect to Directives 11.20 and 11.21, the Board finds no reason to believe they should be varied.

Accordingly, the Board dismisses MPI's review and variance application in respect of Directives 11.20 and 11.21.

4. IT IS THEREFORE ORDERED THAT:

1. Directive 11.7 of Order 130/17 be varied to read as follows:

There shall be a Technical Conference, facilitated by the Board, on the availability and practicality of other analytical tools and ratemaking methodologies to better determine DSR rates and vehicle premium discounts based on principal driver rating rather than simply registered driver rating. The precise scope of the Technical Conference shall be determined as a result of consultation between MPI and Board advisors. The date of the Technical Conference is to be mutually agreed upon as between the Board and MPI, but shall be sufficiently early such that the information shared in the Technical Conference will be included in the 2019 GRA.

Following the completion of the Technical Conference, MPI and Board advisors shall determine whether sufficient information has been canvassed in order for MPI to be in a position to file information in the 2019 GRA as to how it would proceed to implement driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale, and vehicle premium discounts that are fully supported by actuarial indications based on principal driver performance evaluation. If insufficient information was canvassed in order for MPI to provide this information, a second Technical Conference shall take place, facilitated by the Board. The date of the Technical Conference is to be mutually agreed upon as between the Board and MPI, but shall be no later than two months following the completion of the initial Technical Conference. The scope of the Technical Conference shall be determined as a result of consultation between MPI and Board Advisors.

In the 2019 GRA, MPI shall file information as to how it would proceed to implement driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale, and vehicle premium discounts that are fully supported by actuarial indications based on principal driver performance evaluation. If MPI's position is that it is not possible to implement driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale and/or vehicle premium discounts that are fully supported by actuarial indications based on principal driver performance evaluation, MPI shall so advise the Board in the 2019 GRA, and file information as to why that is the case.

2. Directives 11.8 and 11.9 of Order 130/17 be held in abeyance until such time as the issues of driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale, and vehicle premium discounts that are fully supported by actuarial indications based on principal driver performance evaluation, have been reviewed and considered in the 2019 GRA.

3. Directive 11.15 of Order 130/17 be varied to read as follows:

In the 2019 GRA, the Corporation shall file an update on progress made towards completing the review and business case for the AOL and CARS redevelopment or replacement.

In the 2020 GRA, the Corporation shall file the business case and cost/benefit analysis for the AOL and CARS redevelopment or replacement.

4. The application for a review and variance of Directives 11.20 and 11.21 of Order 130/17 is hereby dismissed.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure. The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Robert Gabor, Q.C."
Chair

"Darren Christle"
Secretary

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Secretary