

**Order No. 66/19**

**MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION):**

**INTERIM PROCEDURAL ORDER RESPECTING PRELIMINARY ISSUES LIST  
FOR 2020 GENERAL RATE APPLICATION FOR  
COMPULSORY 2020/2021 DRIVER AND  
VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS**

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**May 21, 2019**

**BEFORE:** Irene A. Hamilton, Panel Chair  
Robert Gabor, Q.C., Board Chair  
Robert Vandewater, Member  
Carol Hainsworth, Member

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## 1. SUMMARY

By this Order, the Public Utilities Board of Manitoba (Board) establishes, on an interim basis, the Preliminary Issues List for the anticipated General Rate Application (GRA) of Manitoba Public Insurance Corporation (MPI or Corporation) for the review and approval of base rates and premiums for compulsory driver and vehicle insurance to take effect March 1, 2020.

## 2. PROCEDURAL HISTORY

By letter to MPI dated April 1, 2019, copied to prospective interveners, the Board advised that it would be advancing the determination of the scope of issues to be considered at the 2020 GRA hearing on a preliminary basis. Included with the letter of April 1, 2019 was a Preliminary Issues List for the 2020 GRA. The Board invited MPI and the interested parties and prospective interveners to provide their comments on the scope of the issues by April 18, 2019, following which this Interim Order would issue. In addition, the Minimum Filing Requirements (MFRs) for the 2020 GRA would be provided to MPI following the issuance of this Order.

The Board further advised MPI and the prospective interveners that following this Interim Order, a final Issues List would be approved by the Board in its Procedural Order, which will follow the Pre-Hearing Conference.

On April 18, 2019, the Board received written comments on the Preliminary Issues List from MPI, and from one of the Interveners of record, Consumers' Association of Canada (Manitoba) Inc. (CAC). In its letter of April 18, 2019, CAC took the position that the validity of the Reserves Regulation (Man. Reg. 76/2019), under *The Manitoba Public Insurance Corporation Act*, C.C.S.M c. P215 (MPI Act), be included in the Preliminary Issues List. The Reserves Regulation was registered on April 12, 2019, after the distribution of the Preliminary Issues List by the Board. Sections 1 and 2 of the Reserves Regulation provide as follows:

**Purpose**

1. This regulation sets out the manner of determining the amount to be maintained by the corporation in its reserves for the purposes of the Act and restricts the use of any surplus reserve funds.

**Amount to be held in reserves**

2. For the purpose of section 18 of the Act, the minimum amount the corporation must maintain
  - (a) in its rate stabilization reserve is the amount determined using a MCT ratio of 100%;
  - (b) in its extension reserve is the amount determined using a MCT ratio of 200%; and
  - (c) in its special risk extension reserve is the amount determined using a MCT ratio of 300%.

In addition to the validity of the Reserves Regulation, CAC recommended that other issues related to the Reserves Regulation be added to the Preliminary Issues List.

At the request of the Board, on May 9, 2019, MPI provided written comments to the Board in response to CAC's position on the Preliminary Issues List.

**3. PRELIMINARY ISSUES LIST**

The Preliminary Issues List as determined by the Board and circulated to MPI and the Interveners of record on April 1, 2019, set out the following issues as those to be considered in the 2020 GRA.

First, the following issues would be considered to be in scope of the 2020 GRA in the normal course:

1. Requested vehicle rate and any changes to other fees and discounts;
2. Rate indication based on accepted actuarial practice in Canada;

3. Compliance with Board Order 130/17 (Directive 11.23), Order 11/18 (Directive 6.13), and Order 159/18;
4. Financial forecast:
  - a. financial forecast accuracy (2018/19 forecast versus actual results);
  - b. changes in projected financial results;
  - c. update of the interest rate forecast; and
  - d. support for the use of the interest rate forecast proposed;
5. Corporate Strategic Plan;
6. Changes, if any, to the integrated cost allocation methodology;
7. Capital Management Plan, update of DCAT, target capital analysis and the target Basic total equity threshold levels;
8. Performance of the investment portfolio and the composition of i) the portfolio, ii) benchmark portfolio(s) on a market value basis (e.g. asset mix);
9. Cost of operations and cost containment measures;
10. Claims forecasting (including PIPP);
11. Operational benchmarking, including with comparison to other provinces;
12. Run-off of prior year claims during 2018/19;
13. Long tail experience from other jurisdictions; in particular, Quebec and Saskatchewan;
14. Risk Assessment and Risk Management; and

15. Other issues that may arise (depending upon the nature and scope of the issue) based on a review of the application.

In addition, the Board determined that the following issues would require more detailed consideration in the 2020 GRA:

16. Driver Safety Rating (“DSR”), in particular, the progress of MPI’s public consultation efforts, its preliminary research on the no or low cost options for rating models, and data collection for the higher cost options;

17. Claims experience to date for the Vehicles for Hire (VFH) class;

18. Current IT Strategic Plan and IT Expenses and Projects, including the Physical Damage Re-Engineering Project, Legacy Modernization, and other initiatives planned for or ongoing in the rating years;

19. Proposed Capital Management Plan, the proposed Basic capital build or release provisions, and the proposed mechanisms for capital transfers from other lines of business, including but not limited to the results of the Capital Management Plan Technical Conference directed in Order 159/18;

20. Asset Liability Management Study, including the implementation thereof, comparison to the shadow portfolios directed by the Board in Order 159/18, the disposition of the existing portfolio to fund new investment classes, interest rate risk exposure changes, investment income reporting changes including the allocation methodology for balance sheet, investment income and Investment Policy Statement changes; and

21. Road Safety, including but not limited to the results of the Road Safety Technical Conference directed by the Board in Order 130/17.

Lastly, the Board determined that certain issues would be deferred from the 2020 GRA to future applications, or would be the subject of another process:

22. Interest Rate Forecasting (other than areas referred to in items 4c and 4d above);  
and

23. Integrated Cost Allocation Methodology (other than changes referred to in item 6  
above).

#### **4. MPI COMMENTS**

MPI provided comments on some of the issues set out in the Preliminary Issues List, explaining where MPI took the position that a given issue should be restated or reclassified in, or removed from, the Preliminary Issues List. MPI also provided some comments as to the expected evidentiary content of some of the issues in the 2020 GRA. The issues that MPI proposed be restated, reclassified, or removed from the Preliminary Issues List were as follows:

- MPI proposed that Issue 5 be renamed from "Corporate Strategic Plan" to "Annual Business Plan," stating that the latter is the document that it will be able to include with the Application. MPI advised that it does not prepare a formal written strategic plan as a stand-alone document.
- With respect to Issue 7, MPI submitted that because capital targets for each of MPI's lines of business are now set by the Reserves Regulation, this would eliminate the need for examination and testing of the Basic capital target levels. MPI therefore proposed that Issue 7 be renamed "Capital Management Plan, Capital Rate Request, and DCAT assessment of satisfactory financial condition," removing reference to target capital analysis.
- MPI proposed that with respect to Issue 11, "Operational benchmarking, including comparison to other provinces," it does not currently conduct operational benchmarking with reference to other provinces; rather, the benchmarking is done using three benchmarking groups and is conducted by Ward Group. Although not

explicitly stated in its comments, this would suggest that the reference to other provinces in Issue 11 be removed.

- MPI proposed that Issue 13, "Long tail experience from other jurisdictions; in particular, Quebec and Saskatchewan," be moved to the deferred issues list and revisited at multi-year intervals as it had recently prepared an analysis of long tail experience, which was reported on by the Board in Order 159/18 following the 2019 GRA.

MPI also provided comments on, and suggested changes to, some of the MFRs. MPI advised that its proposed changes were intended to simplify the wording of some of the MFRs, to align the reporting periods with information routinely provided by MPI, or to remove specific references to previous GRAs, particular information requests from previous GRAs, or specific vendors or vendor products.

MPI also suggested that certain MFRs be removed either because they will no longer be relevant to the GRA, or because they have little probative value to the Board's rate-setting role. Those MFRs that MPI took the position are no longer relevant related to MPI's target capital setting exercise: with the registration of the Reserves Regulation it would be anticipated that the Board would not require information related to the target capital analysis, as the amount MPI is required to hold in the Rate Stabilization Reserve is now set by the regulation. MPI also proposed the addition of two MFRs to correspond to the addition of the issue of MPI's Capital Management Plan in the 2020 GRA.

## **5. CAC COMMENTS**

CAC proposed amendments to Issue 19, "Proposed Capital Management Plan, the proposed Basic capital build or release provisions, and the proposed mechanisms for capital transfers from other lines of business, including but not limited to the results of the Capital Management Plan Technical Conference directed in Order 159/18." CAC

proposed adding three further issues, resulting from the adoption of the Reserves Regulation. Those three proposed issues were:

1. Whether the Reserves Regulation is lawfully enacted pursuant to the MPI Act;
2. The relevance of the Reserves Regulation for the rate-setting process; and
3. Should the Reserves Regulation be determined to be lawfully enacted and relevant for the independent rate-setting process, how MPI's proposed Capital Management Plan can be reconciled with the language of the Reserves Regulation.

### **5.1. MPI Response to CAC Comments**

At the request of the Board, MPI provided comments in response to CAC's proposed additions to the Preliminary Issues List.

MPI opposed the inclusion of the validity of the Reserves Regulation in the Preliminary Issues List. In its written comments, MPI relied on the presumption of validity of subordinate legislation, along with sections 33(1) and the 18 of the MPI Act, and took the position that the Reserves Regulation is consistent with those statutory provisions, and provides direction to MPI as to how to fulfill its duty pursuant to section 18 to "establish and maintain reserves in such amounts that, at all times, it has sufficient funds to meet all the payments as may become payable" under the MPI Act and its regulations.

With respect to the relevance of the Reserves Regulation for the rate-setting process, MPI submitted that there ought to be no dispute that, to the extent that the issue of capital (which includes MPI's Rate Stabilization Reserve and Capital Management Plan) is relevant, the Reserves Regulation is relevant to rate-setting. Accordingly, there would be no need to examine this issue in the 2020 GRA.

MPI was not opposed to adding the issue of how its proposed Capital Management Plan can be reconciled with the language of the Reserves Regulation.

## 6. BOARD FINDINGS

With respect to the changes to the Preliminary Issues List proposed by MPI, the Board accepts the changes to Issues 13 and 11. With respect to Issue 5, the Board intends to hear from MPI with respect to the Annual Business Plan, as well as any corporate strategic planning, whether or not it has been formalized in a stand-alone document. Therefore, the Board has not removed reference to a Corporate Strategic Plan in Issue 5, but has added a reference to the Annual Business Plan.

The Board is also prepared to accept the addition of two of the three issues proposed by CAC: the validity of the Reserves Regulation, and how MPI's proposed Capital Management Plan can be reconciled with the language of the Reserves Regulation. With respect to the validity of the Reserves Regulation, this has been raised by CAC and while MPI has provided written comments explaining its position as to why the regulation is valid, the Board finds that this issue cannot be decided on a preliminary basis at this time.

The issue of the validity of the Reserves Regulation, as proposed by CAC, is also relevant to Issue 7. While MPI has proposed that reference to target capital analysis and the target Basic total equity thresholds be removed from Issue 7, the Board notes that should the Reserves Regulation be found to not be valid, the Board would be required to make a finding in the 2020 GRA with respect to the target capital analysis and the appropriate target Basic total equity thresholds. The Board is therefore of the view that target capital analysis and the target Basic total equity thresholds cannot be removed from the Preliminary Issues List at this time. The Board has, however, amended Issue 7 to include reference to the Reserves Regulation.

Lastly, given that the validity of the Reserves Regulation has been raised as an issue, those MFRs related to MPI's target capital setting analysis may still be required as part of the record in the 2020 GRA. Accordingly, those MFRs are to be maintained for the 2020 GRA.

## 7. IT IS THEREFORE ORDERED THAT:

1. The following issues will be considered within the scope of the 2020 GRA in the normal course:

1. Requested vehicle rate and any changes to other fees and discounts;
2. Rate indication based on accepted actuarial practice in Canada;
3. Compliance with Board Orders 130/17 (Directive 11.23), Order 11/18 (Directive 6.13) and Order 159/18;
4. Financial forecast:
  - a. financial forecast accuracy (2018/19 forecast versus actual results);
  - b. changes in projected financial results;
  - c. update of the interest rate forecast; and
  - d. support for the use of the interest rate forecast proposed;
5. Corporate Strategic Plan and Annual Business Plan;
6. Changes, if any, to integrated cost allocation methodology;
7. Capital management plan and update of Dynamic Capital Adequacy Testing;
  - a. Capital rate request based on Man. Reg. 76/2019, the Reserves Regulation;
  - b. Should the Reserves Regulation not be lawfully enacted pursuant to *The Manitoba Public Insurance Corporation Act*, C.C.S.M. c.

P215 (MPI Act), target capital analysis and the target Basic total equity threshold levels;

8. Performance of the investment portfolio and the composition of i) the portfolio, ii) benchmark portfolio(s) on a market value basis (e.g. asset mix);

9. Cost of operations and cost containment measures;

10. Claims forecasting (including PIPP);

11. Operational benchmarking;

12. Run-off of prior year claims during 2018/19;

13. Risk Assessment and Risk Management; and

14. Other issues that may arise (depending upon the nature and scope of the issue) based on a review of the application.

2. The following issues will require more detailed consideration at the 2020 GRA:

15. Driver Safety Rating (“DSR”), in particular, the progress of MPI's public consultation efforts, its preliminary research on the no or low cost options for rating models, and data collection for the higher cost options;

16. Claims experience to date for the Vehicles for Hire (VFH) class;

17. Current IT Strategic Plan and IT Expenses and Projects, including the Physical Damage Re-Engineering Project, Legacy Modernization, and other initiatives planned for or ongoing in the rating years;

18. Proposed Capital Management Plan, the proposed Basic capital build or release provisions, and the proposed mechanisms for capital transfers

from other lines of business, including but not limited to the results of the Capital Management Plan Technical Conference directed in Order 159/18;

- a. Whether the Reserves Regulation is lawfully enacted pursuant to the MPI Act;
- b. Should the Reserves Regulation be determined to be lawfully enacted and relevant for the independent rate-setting process, how MPI's proposed Capital Management Plan can be reconciled with the language of the Reserves Regulation;

19. Asset Liability Management Study, including the implementation thereof, comparison to the shadow portfolios directed by the Board in Order 159/18, the disposition of the existing portfolio to fund new investment classes, interest rate risk exposure changes, investment income reporting changes including the allocation methodology for balance sheet, investment income and Investment Policy Statement changes; and

20. Road Safety, including but not limited to the results of the Road Safety Technical Conference directed by the Board in Order 130/17.

3. The following issues will be deferred from the 2020 GRA to future applications, or will be the subject of a technical conference or another process:

21. Interest Rate Forecasting (other than update referred to in items 4c and 4d above);

22. Long tail experience from other jurisdictions, in particular, Québec and Saskatchewan; and

23. Integrated Cost Allocation Methodology (other than changes referred to in item 6 above).

4. A final Issues List will be approved by the Board in the Procedural Order following the pre-hearing conference for the 2020 GRA.

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.pub.gov.mb.ca](http://www.pub.gov.mb.ca).

THE PUBLIC UTILITIES BOARD

"Irene Hamilton"

Panel Chair

"Rachel McMillin"

Assistant Associate Secretary

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Assistant Associate Secretary