

**Order No. 79/20**

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

**INTERIM PROCEDURAL ORDER RESPECTING PRELIMINARY ISSUES LIST  
FOR 2021 GENERAL RATE APPLICATION FOR  
COMPULSORY 2021/2022 DRIVER AND  
VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS**

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**June 2, 2020**

**BEFORE:** Irene A. Hamilton, Q.C., 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 April 1, 2021.

## 2. PROCEDURAL HISTORY

By letter to MPI dated April 6, 2020, copied to prospective interveners, the Board advised that it would be advancing the determination of the scope of issues to be considered at the 2021 GRA hearing on a preliminary basis. Included with the letter of April 6, 2020 was a Preliminary Issues List for the 2021 GRA. The Board invited MPI and the interested parties and prospective interveners to provide their comments on the scope of the issues by April 16, 2020, following which this Interim Order would issue. In addition, the Minimum Filing Requirements (MFRs) for the 2021 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 15, 2020, the Board received written comments on the Preliminary Issues List from MPI, and on April 16, 2020 the Board received written comments from two prospective interveners, Consumers' Association of Canada (Manitoba) Inc. (CAC) and Coalition of Manitoba Motorcycle Groups (CMMG).

On April 27, 2020, MPI filed a Special Rebate Application with the Board, seeking an order directing MPI to rebate ratepayers a percentage of their annualized Basic Insurance in force and earning premium on March 15, 2020, in the amount of approximately \$58

million. The Special Rebate Application requested a variance of prior Orders, 159/18 and 176/19, to the extent that they did not allow for rebates. On May 1, 2020 the Board issued Order 67/20 in which it varied the Special Rebate Application, by approving the amount of the rebate requested but directing that the Motorcycle class, which had been excluded from MPI's proposal, be included. The Board also directed MPI to file a comparison of monthly claims costs versus budget for universal compulsory automobile insurance for the period commencing March 1, 2020, and continuing thereafter until September 30, 2020.

On May 7, 2020, the Government of Manitoba enacted amendments to the *Automobile Insurance Coverage Regulation*, Man. Reg. 290/88 under *The Manitoba Public Insurance Corporation Act*, C.C.S.M. c. P215, which resulted in changes to MPI Basic insurance products. Among other things, the amendments increase the Basic third party liability coverage from \$200,000 to \$500,000, the maximum insured value for a vehicle from \$50,000 to \$70,000, and the Basic deductible from \$500 to \$750 for the Private Passenger and Motorcycle classes.

### **3. PRELIMINARY ISSUES LIST**

The Preliminary Issues List as determined by the Board and circulated to MPI and the Interveners of record on April 6, 2020, set out the following issues as those to be considered in the 2021 GRA.

First, the following issues would be considered within the scope of the 2021 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 176/19, 6/20 and 46/20;

4. Financial forecast:
  - a. financial forecast accuracy (2019/20 forecast versus actual results, including 13-month fiscal year impact);
  - 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. Annual Business Plan;
6. Changes, if any, to integrated cost allocation methodology;
7. Capital management plan;
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. Current IT Strategic Plan and IT Expenses and Projects, including Project Nova and other initiatives planned for or ongoing in the rating years;
11. Claims forecasting (including PIPP);
12. Claims experience to date for the Vehicles for Hire (VFH) class;
13. Operational benchmarking;
14. Run-off of prior year claims during 2019/20;
15. Risk Assessment and Risk Management; and
16. Other issues that may arise (depending upon the nature and scope of the issue) based on a review of the application.

The following issues would require more detailed consideration at the 2021 GRA:

17. Driver Safety Rating (“DSR”), in particular:

- a. the timeline and major milestones for the determination of a rating model;
- b. the pricing examination of the financial impact of the Registered Owner and Primary Driver models;
- c. MPI's efforts to date to collect data to recalibrate the amounts of driver premium to be charged under the DSR system to be more statistically sound, based on experience; and
- d. MPI's review of best practices for rating models in other Canadian jurisdictions;

Finally, the following issues would be deferred from the 2021 GRA to future applications, or would be the subject of a technical conference or another process:

18. Road Safety (other than costs and budget of Road Safety programs);
19. Interest Rate Forecasting (other than update referred to in items 4c and 4d above);
20. Long tail experience from other jurisdictions, in particular, Québec and Saskatchewan; and
21. 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:

- With respect to Issue 7, MPI noted that in Order 176/19 following the 2020 GRA, the Board approved its use of the Capital Management Plan (CMP) for a two-year period. MPI therefore proposed that it simply maintain the CMP that it presented in the 2020 GRA.
- MPI advised that, with respect to Issue 17, it would not be in a position to decide on the direction of any changes to the DSR in the 2021 GRA, including any meaningful timelines or milestones. MPI therefore proposed that this issue be deferred from the 2021 GRA to a future application, or be the subject of a technical conference or other process. According to MPI, its Board of Directors does not intend at present to make any major changes to the DSR. MPI is currently devoting significant resources to modernizing its legacy systems through Project Nova, and this initiative has taken priority over all other changes, including changes to the DSR. Any changes to the DSR will require coordination with Project Nova, and will require legislative amendments.

MPI also provided comments on, and suggested changes to, some of the MFRs. First, MPI proposed that MFRs related to Road Safety be removed because that issue has been deferred from the 2021 GRA to a technical conference. As the Board approved the CMP for a two-year period, MPI also proposed that MFRs related to the CMP be removed.

## 5. CAC COMMENTS

CAC recommended that the 2021 GRA process be focused on the impact of the COVID-19 pandemic and Project Nova, and proposed two issues for detailed consideration:

- The operational and financial implications of the COVID-19 public health emergency on MPI's 2020/21 and 2021/22 forecasts and rate indications, including just and reasonable options to mitigate the financial impact of COVID-19; and
- The status of Project Nova, including operational and financial implications.

CAC argued that Project Nova is a significant and high risk project and, given those risks, there would be value in the Board receiving an operational assessment and business case. CAC also noted that in the event that Bill 44 (which is currently before the Manitoba Legislature, and which limits the Board's jurisdiction to consider evidence about MPI's operations) is passed, this GRA may be the last meaningful opportunity in the next five years for Manitoba consumers to consider the implications of Project Nova on Basic rates.

CAC also proposed that Issue 12 be revised to include a reference to the implications of new market entrants on the Vehicles for Hire (VFH) class, given recent media reports suggesting that UBER is exploring a presence in Manitoba.

Lastly, CAC agreed with MPI that a thorough review of DSR as contemplated by Issue 17 is likely not possible in the 2021 GRA given that MPI has not yet completed the necessary background work. CAC recommended that a technical conference on the DSR be undertaken in 2021.

CAC also provided some comments on the MFRs. CAC did not agree with MPI's proposal that the MFRs related to Road Safety budget be removed, because information related to the budget and expenses for Road Safety is still relevant to the reasonableness of MPI's overall expenditures. CAC was also opposed to MPI's suggestion that the MFR



related to Target Capital Scenario Testing be removed. CAC argued that because the CMP has only been approved for two years, this information may be useful to the Board when it assesses the CMP in a future GRA. Further, given the COVID-19 public health emergency, consideration should be given to tools that are more flexible than the current CMP, allowing for rebates.

## 6. CMMG COMMENTS

CMMG was opposed to MPI's proposal to remove Issue 17 from a detailed review in the 2021 GRA. CMMG noted its concern with MPI's position, which appeared to indicate a resistance to a review of the DSR. The prospect of changes to the DSR was raised in the 2018 GRA, and cannot be indefinitely postponed. If the Board were to accept MPI's position, CMMG was then supportive of CAC's proposal that a technical conference be undertaken in 2021.

CMMG expressed concern with the deferral of Issue 20, commenting that in the 2020 GRA the evidence showed that the Motorcycle class is disproportionately affected by declining interest rates. The COVID-19 pandemic has reduced interest rates, and CMMG noted its concern that the 2021 GRA will propose inflated premiums for the Motorcycle class as a result of declining interest rates.

## 7. BOARD FINDINGS

The Board has considered the comments of MPI and the prospective interveners, as well as the recent regulatory changes in determining the composition of the Preliminary Issues List. In addition, after receipt of comments from MPI and prospective interveners, the Board issued Order 67/20 following the Special Rebate Application. Some of the issues considered by the Board in the Special Rebate Application are also relevant to the 2021 GRA.

Given the status of MPI's progress towards a new DSR model, the Board is prepared to accept MPI's request that Issue 17 not be subject to a detailed review in the 2021 GRA. However, the Board is not prepared to defer the issue in its entirety. In Order 6/20, issued following MPI's application for a review and variance of the Board's directive in Order 176/19 on the DSR, the Board commented that the need for progress towards a new DSR model was raised by it following the 2018 GRA. In Order 130/17, the Board stated that it expected in future applications MPI would use more robust analytical tools to provide a more statistically-driven and performance-based evaluation systems to support driver premiums and vehicle premium discounts. The Board's directives on DSR in Order 130/17 were subject to an application for review and variance by MPI, which was granted by the Board, permitting MPI more time to analyze the issue. Taking this history into account, the Board stated in Order 6/20 that it expected MPI would set its timeline and milestones with a view to progressing on a new DSR model in a timely manner. Accordingly, the Board finds that the DSR should remain an ongoing issue in GRAs in the normal course. With respect to the proposal by CAC that the DSR be subject to a technical conference, the Board finds it is premature to give such a direction at this time, but this suggestion may be addressed in the course of the 2021 GRA.

With respect to the CMP, while the Board approved it for a two-year period in Order 176/19, the implementation of the CMP and its impact on the indicated rate remains an

issue on an annual basis, and therefore, Issue 7 will remain in the normal course for the 2021 GRA.

The Board does not accept CAC's proposal that the status of Project Nova be subject to a detailed review in the 2021 GRA. MPI's IT Strategic Plan, expenses, and projects (including Project Nova) are issues to be considered in the normal course. As Project Nova is in its early stages, the Board will review the evidence on this initiative but does not intend to review it in detail until further along in its development. The Board is prepared to accept CAC's proposal that Issue 12 be revised to take into account the implications, if any, of new market entrants on the VFH class.

With respect to CMMG's request that Issue 20 not be deferred, the Board finds that the issue raised by CMMG concerns investment strategies rather than claims experience. MPI's investment strategy is included in Issue 8 in the normal course. Moreover, directive 13.12 in Order 176/19 required MPI to consider an investment strategy, or other strategy, to ameliorate the effect of interest rate changes on the Motorcycle Class, including the inclusion of equities or other growth assets in the reserves supporting long-tail liabilities, and report on the results of that review in the 2021 GRA. This evidence would be captured by Issue 8. Therefore, Issue 20 will remain deferred to a future GRA or another process.

The Board also finds that recent events have necessitated the addition of certain issues requiring detailed review in the 2021 GRA. Issues arising from the Special Rebate Application and the effect of the COVID-19 pandemic on claims experience should be reviewed in detail. The Board has therefore revised the Preliminary Issues List accordingly. In doing so, the Board has taken into account CAC's proposed areas of review of the implications of the COVID-19 pandemic on MPI's financial forecasts, but finds that the necessity for emergency or interim relief, which was proposed by CAC, was rendered moot by the intervening Special Rebate Application.

Lastly, the Board finds that a detailed review of the impact of the changes to Basic coverage enacted on May 7, 2020 is necessary in the 2021 GRA and accordingly this issue will be included.

With respect to the MFRs, the Board accepts CAC's position that MFRs related to the Road Safety budget should remain, particularly given that Issue 18 makes clear that the costs and budget of Road Safety programs are not deferred for the purposes of the 2021 GRA. The Board is prepared to accept MPI's position that the MFR related to Target Capital Scenario Testing is not necessary in this GRA given that the CMP has been approved for a two-year period and sets the Basic Rate Stabilization Reserve at 100% MCT. Further, given that the CMP contains a commitment to transfer any excess Extension reserves over 200% MCT to Basic, additional MFRs have been included, requiring certain information on Extension's financial position.

## **8. IT IS THEREFORE ORDERED THAT:**

1. The following issues are considered within the scope of the 2021 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 176/19, 6/20, 46/20 and 67/20;
4. Financial forecast:
  - a. financial forecast accuracy (2019/20 forecast versus actual results, including 13-month fiscal year impact);
  - 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. Annual Business Plan;
6. Changes, if any, to integrated cost allocation methodology;
7. Capital Management Plan (CMP);
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. Current IT Strategic Plan and IT Expenses and Projects, including Project Nova and other initiatives planned for or ongoing in the rating years;
11. Claims forecasting (including PIPP);

12. Claims experience to date for the Vehicles for Hire (VFH) class and implications, if any, of new market entrants;
  13. Driver Safety Rating (DSR), including but not limited to MPI's progress towards changes to the DSR system;
  14. Operational benchmarking;
  15. Run-off of prior year claims during 2019/20;
  16. Risk Assessment and Risk Management; and
  17. 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 require more detailed consideration at the 2021 GRA:
18. Issues arising from the 2021 Special Rebate Application and Board Orders No. 67/20 and 71/20, including but not limited to:
    - a. Claims forecasting versus actual results;
    - b. Assumptions in the Special Rebate Application forecast;
    - c. Implementation of and deviation from the CMP; and
    - d. Operational and financial impact of COVID-19 on MPI financial results and CMP for the 2020/21 and 2021/22 rating years and beyond;
  19. Impact of the changes to Basic coverage and deductibles enacted on May 7, 2020;
3. The following issues are deferred from the 2021 GRA to future applications, or will be the subject of a technical conference or another process:

20. Road Safety (other than costs and budget of Road Safety programs);
  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 2021 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 A. Hamilton, Q.C."  
Panel Chair

"Darren Christle, PhD, CCLP, P.Log., MCIT"  
Secretary

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Secretary