Undertaking # 10

MPI to indicate the number of transfers within households that would be from an individual with a lesser DSR rating to one with a better DSR rating, and if there's any indication of a corresponding dollar loss to the Corporation.

RESPONSE:

Attached is the information regarding family transfers filed as SM.5.6 in the 2011 Rate Application.

The Corporation submitted its Policy for Allocation of Assets and Policy for Allocation of Liabilities to the Board on January 29, 2010. A copy of that submission, the subsequent Information Requests and responses, have been provided in SM.6.

The Corporation has subsequently engaged Deloitte to perform an Asset/Liability Allocation study. This study will be submitted in the course of the general rate application process.

SM.5.6 Family Transfers

In Order 89/09, and repeated in Order 98/09, the Public Utilities Board ordered that "MPI is to undertake and file with the Board, on or before the filing of the 2011/12 GRA:"

> "b) Research into the possible future variance of the DSR approach to "follow the vehicle's past experience" with respect to transfers of vehicles involved in accidents which are subsequently transferred to another family member living in the same residence as the prior family owner."

Analysis Performed

The Corporation performed an analysis of all vehicle transfers over the 10-year period from 2000 through 2010, to determine how many family transfers are actually taking place and the cost to the Corporation of these transfers.

To identify family transfers, all transfers that occurred through a Retail Sales Tax exemption of "Gift" were considered as candidates. For each transfer, the Corporation identified the original vehicle owner and the related old policy, the new vehicle owner and the related new policy, as well as the discount levels on the old policy and the new policy. The difference in premium collected was then calculated, comparing the non-discounted annual premium on the old policy (i.e. what the original owner would have had to pay due to a lost discount) with the annual premium written on the new policy.

Where possible, the Corporation also determined if the transfer went to a driver living at the same address. Because the driver's address field is a free-form text field, there are often inconsistencies in the data for two drivers who truly live at the same address. By combining the postal code and municipality name it was possible to obtain more accurate counts.

Results of Analysis

On an annual basis, there are on average 4,948 instances of drivers transferring vehicle ownership as a "gift" (i.e.: family members) where the new owner received a higher vehicle discount than the previous owner. There can be many reasons for family members to give vehicles to each other, regardless of whether the result is that the new owner would attract a higher vehicle discount. For this analysis the Corporation assumed that all of these transfers were purposeful to obtain a more advantageous discount, which, again, overstates the magnitude of any lost revenue. The premium lost to the Corporation as a result of these 4,948 (average) transfers is approximately $1,165,190 per year. However, since on average it takes a driver 5 years to regain their full vehicle discount, this premium loss carries forward (at a decreasing amount) for 5 years. So the maximum premium that is lost to the Corporation on an annual basis is $5,359,874. This represents less than 1% of annual premiums collected (approximately $775,000,000).

These figures represent a worst-case scenario, in that the Corporation has inferred that all of these transfers are strictly to take advantage of higher discounts. Included in these transfers will be legitimate gifts, for example a parent giving a vehicle to a child. Also not all transfers involve drivers going from 0% discount to the full 25% discount, so it would not take a full five years for the original driver to regain the full discount. When extrapolating the lost premium over 5 years, the Corporation has assumed that it will always lose premium over the full five years. Since the data used in the analysis is based on the old merit discount/surcharge system, there are also transfers where the driver lost their only merit point due to a conviction, resulting in a loss of their vehicle discount. In this case, after 2 years the driver would have earned the merit back and would then qualify for up to the full 25% discount, but this analysis assumed those transfers would have had a financial impact to the program for the full five years.

Comparison of Transfers versus At-Fault Claims

During the time period used in the analysis (2000 through 2009), there were 51,072 at-fault claims per year, involving an average of 47,711 drivers (all figures are an average over the 10-year period). Of these drivers, for 28,391 it was their first claim in at least six years, so they would have maintained their current vehicle discount level. In these cases it would be of no financial benefit to transfer the ownership.

A Sample of Possible Reasons for Transferring Vehicles to Family Members

- A couple decides that it is easier and simpler for the couple to have one person register and insure both vehicles for the couple (or that this better aligns with their family values)
- A couple decides to make a concerted effort to have one individual retain no assets
- One parent registers and insures both vehicles for the couple and also a number of vehicles they have purchased for their children to use then, through time, gives the vehicles to the children
- Parents finance a child's vehicle purchase and gives the vehicle to the child once the financing is repaid
- Grandparents choose to give vehicles to grandchildren

Summary

1. The maximum impact to the basic insurance program revenue is $5 million per year, or 0.71%.

2. While it is impossible to determine the actual impact, there are a number of reasons that indicate it is less than $5 million:

   a) Not all transfers involve the original owners going from a full 25% discount down to a 0% discount, and not all new owners qualify for a full 25% discount
   b) Some transfers are due to a loss in merit point and it would only take 2 years, not 5 years, to return to a full 25% discount
   c) The $5 million amount includes transfers for reasons other than to avoid losing discounts

3. The advantages of changing vehicle ownership are reduced under DSR since there are more opportunities for “partial forgiveness” of at fault claims. In other words, because of the DSR scale and the percentage discounts available at different points on the scale, it would rarely take someone five full years to fully recover a discount lost or reduced because an at-fault accident or convictions. As well, the demerit points will take effect at a lower number of demerits than under the old system, which helps ensure that higher risk drivers pay a higher share of claims costs regardless of whether they own vehicles.

Conclusion

There is no evidence that a problem worthy of fixing exists. The Corporation recognizes that there is a perception contrary to these findings, but is confident the basis of the analysis is sound.

SM.5.7 Transition to Higher Demerit Premiums

In Order 89/09, the Public Utilities Board ordered that “MPI is to undertake and file with the Board, on or before the filing of the 2011/12 GRA:”

> “c) An update on the Corporation's plans with respect to the continuing transition to higher "demerit" costs under the new DSR”.

For 2011/12, the Corporation has applied for higher driver premiums for drivers with four to twenty demerits. It anticipates applying for additional rate increases for the demerit levels in future years, as shown in TI.18, Appendix A, Exhibit 1.

SM.5.8 Driver Safety Rating (DSR) Forecasts and Goals

In Order 89/09, and repeated in Order 98/09, the Public Utilities Board ordered that “MPI is to undertake and file with the Board, on or before the filing of the 2011/12 GRA:”

> “d) Forecasts, and supporting assumptions, for goals and implications for