2015/16 MPI GRA

Recommendations

CAC Manitoba

November 13, 2014

Recommended - forecasts reasonably reliable

In terms of the interest rate forecast:

- that the most current consensus forecast be employed for the current rate application given its materiality;

- that the so called “risk averse” interest rate scenario proposed by MPI be rejected on similar grounds to last year's application namely that it:

    - was unsupported by independent expert opinion;
    - it has not been demonstrated to be the best estimate of interest rates; and,
    - the Corporation did not perform a robust comparison of its proposed approach as compared to a revised consensus approach or alternative risk averse scenarios

- in the event that the Corporation wishes to revisit the interest rate methodology that the Corporation consider the methodological approach recommended by the PUB for other regulated Crowns (ie Centra/Hydro) and provide a comparative report supported by backtesting dating back at least one decade of different interest rates approaches including a revised consensus forecast (most current available);

In terms of the overall investment income forecast, that for the next General Rate Application the Corporation provide a comparative assessment including backtesting of its investment income forecast methodology as compared to other alternatives included but not limited to the five year rolling average approach considered during the 2012 General Rate Application.

Recommendation - prudent and necessary expenditure

Given:

- one of the justifications for BI3 was that it would improve claims duration management as compared to pre BI3 standards;
- identified current challenges in meeting the pre BI3 standards

Consideration be given to directing MPI as part of its next rate application to provide an update on the duration issue with regard to the management of PIPP claims. In providing an update, MPI is to report on:

- whether pre-BI3 benchmarks are being achieved; and,

- when higher post BI3 benchmarks will be implemented and what those benchmarks will be.

Recommendation – prudent and necessary expenditures

Recommendation

In light of:

- suggestions of “turnover”;
- challenges in meeting pre-BI3 initiative duration expectations;
- challenges in complying with reserving guidelines; and,
- the apparent failure of monthly reporting processes to identify challenges in complying with reserving guidelines;

Consideration be given to undertaking an external independent review of the management and oversight of PIPP claims in the wake of BI3 initiative.

Recommendation – prudent and necessary expenditure

Recognizing:

- the ongoing challenges of the Corporation in developing cost containment metrics for claims management and physical damage (*Order 151*/13, also BI3 Johnston evidence);
- the recommendation of MNP to revisit time estimates of repair shop interaction with MPI in order to develop baselines to measure the success of PDR;
- the apparent refusal by MPI to follow the advice of MNP in terms of the development of those baselines; and,
- the indication by MPI that certain preliminary performance indicators for PDR are in development;

That MPI be directed as part of its submission in the next general rate application to provide baselines in terms of duration of repair shop contact with MPI as well as preliminary metrics by which to assess cost containment achievements of its PDR endeavour.

Recommendation – prudent and necessary expenditure

Recognizing:

the risk of leakage in terms of collision estimating;

the current importance of service centre estimating in controlling estimation leakage;

the apparent intention of MPI to turn to "management by exception" in terms of collision estimating;

the current state of training and expertise of collision estimators within the collision repair industry;

the deterioration in the projected savings associated with PDR

Consideration be given to directing MPI to provide an updated estimate of the projected costs and benefits associated with PDR including empirical information assessing the success of management by exception in terms of collision estimating as compared to other collision claims control options.

Recommendation – prudent and necessary expenditure

Given:

- given the relatively rapid developments in the collision repair industry;
- concerns raised about the adequacy of formalized training such as apprenticeship technical training;
- identified low training activity in the collision repair industry;
- identified gaps in training relating to estimating and lean production/management

Consideration be given to directing MPI to report back to the PUB on how barriers (including training) to cost effective estimating and collision repair are being addressed.

Recommendation– prudent and necessary expenditure

That the PUB note the expanded legislative mandate of MPI and the expanded opportunity to engage in proactive investments aimed at minimizing the tragic social and economic costs of accidents;

That the PUB note with regret the failure of MPI to justify its expenditures on road safety at portfolio level;

That the PUB reiterate the message of Ms Johnson that road safety expenditures should be justified in terms of their cost effectiveness both financially and socially at the program level, the portfolio level and within an integrated road safety approach;

That the PUB exercise care in considering a proposed analysis based upon a merging of the loss prevention and road safety analysis given the risk that social and financially desirable investments will be missed

That the PUB direct MPI to provide an update on the cost effectiveness of the drivers education program within a reasonable time period (including a follow up to 2014 AAA study)

Recommendation – prudent and necessary expenditure

That MPI report to the Province and to the PUB on the trade-offs associated with increasing the basic deductible in terms including but not limited to rate impacts, impacts on consumers, vehicle safety and impacts upon the repair industry.

Recommended Findings and Recommendation – prudent and reasonable management

Given:

- the disproportionate downside risk faced by the Basic Portfolio in a declining interest rate environment;
- given the acknowledged significant impact on the Basic line of business from earlier mismatches in a declining interest rate environment;
- given the insight provided by CAC 1-146 and CAC 3-23 in terms of MPI challenges in adhering to the previous 2 year bandwidth in certain quarters

That MPI be directed to provide a report in next year's GRA demonstrating compliance with the current one year bandwidth on a quarterly basis

Recommendation

Recognizing:

> the risk of substantial consumer confusion relating to the treatment of the Rate Stabilization Reserve and the RSR surcharge;
>
> the RSR could be drawn down for purposes that are not expressly related to its stated purpose (ie IT Optimization Fund or a net income loss unrelated to unforeseen, non-recurring events);
>
> recognizing that there is no express guarantee that a surcharge expressly designated for the RSR will be directed into the RSR (ie net income loss in the same years as the RSR surcharge); and,
>
> recognizing that investment income associated with the RSR is directed into net income rather than be using to build or rebuild the RSR

That consideration be given to whether the RSR needs to be more expressly segregated from retained earnings or whether a more express segregation of RSR would result in undue rate volatility.

Recommendation

For the purposes of providing guidance for the RSR range, that MPI be directed to consider the recommendation of Dr. Simpson with regard to:

- the interest rate scenario; and,
- the combined scenario

Recommendation – Reasonable Reserves

The Corporation should explore DCAT interest rate scenarios based upon a 1/20 and 1/40 confidence levels:

a) shortened history excluding the stagflation period and including an interest rate floor that is the four year minimum based on the shortened history of Government of Canada 10 year bond rate.

b) methodology similar CAC 1-4(ie removing stagflation and adjoining periods)and including an interest rate floor that is the four year minimum based on the shortened history;

The Combined Scenario should be considered to reflect changes required in the Interest Rate Decline Scenario.

Recommendation – Reasonable Reserves

Following consultation with PUB advisors and interveners, consideration should be given to whether the combined scenario should include a more robust combination of variables.

Such consultation could be undertaken by correspondence and follow up phone calls if necessary.

Recommendation – Reasonable Reserves

MPI give consideration to developing a RSR target range out of the 1/20 and 1/40 range of a revised, more robust combined scenario.

Recommendation – Are costs appropriately allocated and are the proposed rates actuarially indicated?

In terms of whether drivers who do not own vehicles should make a RSR contribution, CAC Manitoba understands the philosophical argument that they may derive a rate stabilization benefit, but they are uncertain whether the administrative challenges outweigh the potential philosophical benefit.

Recommended Findings and Recommendation – Are costs appropriately allocated and are the proposed rates actuarially indicated?

In terms of the treatment of investment income in the determination of whether the rates are calculated using accepted actuarial practice, CAC Manitoba notes that in some other jurisdictions an approach has been to:

- calculated the required rate by coverage;
- then subtracted the amount of investment income forecast divided by forecasted number of units to determine the required rate after investment income;
- divide by the current rate to yield a rate indication.

Recommendation – Just and Reasonable Rates

- That an overall rate increase of 2.75% be granted.

- That no RSR surcharge or rebuilding fee be granted.