

## Undertaking # 4

MPI to advise with respect to the linkage or the analysis done by the Corporation between the raising of the deductible and the potential impact on body shops.

### RESPONSE:

A deductible is the portion of a claim that is not insured under a policy. As established by regulation, the deductible has been maintained at an overall low of \$500 to minimize the financial impact to customers when they experience an accident. This not only allows customers to maintain their vehicle in good repair for longer with relatively low cash flow impact, they are also able to extend the life of a vehicle. Overall, lower deductibles provide a significant value to Manitobans.

Lower deductibles also positively impact the repair industry. As customers are more likely to fix their vehicles when involved in an accident, this in turn provides shops with additional work. More repairs allow shops to process additional jobs in their existing facilities.

### Scope of Impact:

The following table illustrates payments made in the Corporation's fiscal year 2013 where the Standard (Basic) portion was less than \$500. This is equated to smaller repairs where the deductible was low enough to lead to an actual repair job at a Manitoba repair shop.

Peril	Value	Count	Average Value per Event	Abandonment Rate	Residual Private Repairs	Dollar Impact* of Remaining Work
Other Comprehensive	\$ 12,943,584	27,360	\$ 473	50%	13,680	\$ 6,471,792
Collision	\$ 5,729,026	11,624	\$ 493	50%	5,812	\$ 2,864,513
Vandalism	\$ 1,329,547	2,734	\$ 486	60%	1,094	\$ 531,819
Collision With Wildlife	\$ 837,390	1,471	\$ 569	70%	441	\$ 251,217
Misc	\$ 348,723	869	\$ 401	80%	174	\$ 69,745
<b>Total</b>	<b>\$ 21,188,270</b>	<b>44,058</b>	<b>\$ 481</b>	<b>48%</b>	<b>21,201</b>	<b>\$ 10,189,085</b>

\*Dollar Impact: if the jobs get repaired in a shop at MPI rates BUT not paid by MPI.

The table shows that a certain portion of jobs that are dropped from the MPI repair portfolio may never get fixed due to raising the deductible. Basically the customer opts to "live" with the damage (Abandonment Rate) as the vehicle is still drivable. The Abandonment Rates shown reflects the portion, by Peril, that never gets fixed at approximately 50%. However, actual customer behavior in these circumstances is unknown at this time since this is a projection of future behavior.

In some cases they decide to go ahead with the repair and pay the shops directly. MPI does not require that the customer undertake the repair unless there is a safety issue if the repair remains undone.

The dollar impact of remaining work is the value of those jobs where the customer has opted to pay for the repair directly. For simplicity the assumption is that the work is done at MPI rates. We can see that a significant portion of the work still goes to the repair shops.

Total value of autobody payments is around \$265 million; the loss of around \$10 million revenue for smaller jobs to this group is about a 4% loss in revenue to the repair trades. Auto-body repairs are a portion of the smaller jobs affected by the \$500 deductible. MPI has determined that there are around 100 shops doing about 70 MPI paid autobody repairs per year or less than 2 per week. These shops will find any change to deductible as a significant impact to their business.

### **Long Term Impact**

- Having a sustainable repair industry requires that they have the resources to invest and actually be there when larger, more challenging jobs show up.
- Dropping the work volume will most likely put pressure on increasing the return on the remaining work so as to achieve a sustainable base of business across most of Manitoba. The net effect would be a net increase to the costs of remaining MPI repairs. Overall the average claims severity would go up.
- The issues around deductible, coverage, fair compensation to the repair trades are complex and intertwined. A simple change to one area may have significant affects to others. This response presents a simple view of a very complex issue.