

# A FINE BALANCE: PROTECTING CURRENT AND FUTURE CONSUMERS

OPENING STATEMENTS OF THE CONSUMERS'  
ASSOCIATION OF CANADA  
(MANITOBA BRANCH)

2016/2017 MPI GRA

October 5, 2015

# CAC Manitoba

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- Over two decades of rate hearings
- Core Consumer Rights:
  - to be informed
  - to choose
  - to be heard
  - to consumer education



# Developing the CAC Manitoba Position

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- Day to day consumer contact
- Focus groups/stakeholder advisory panels:
  - client
  - Probe Research
- CAC Manitoba Board

# The Risk of RSR Fatigue - Why CAC Manitoba cares

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- Captive consumers of monopoly
- Money being held by monopoly in RSR
  - no guarantee they will ever see it again:
    - extreme unlikely events
    - issues of intergenerational inequity
  - MPI may misspend
    - too much = comfortable cushion for Corporation
  - too much = temptation to government
    - may seek to send it elsewhere - universities (2000)

# The Risk of RSR Fatigue - Why CAC Manitoba cares

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- Compounded by significant retained earnings held in Extension – *de facto* monopoly:
  - consumers no voice – no regulatory oversight
  
- Concerned about transparency



# Consumer Questions Related to the RSR

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- Is it evidence based with reasonable risk tolerances?
  - has MPI been listening to Board Guidance on risk tolerance over the last 20 years?
  - can the probability level attributed to the interest rate and combined scenarios properly be characterized as evidence based?
- Is the MPI target range about protecting consumers or providing aid and comfort to management

# Consumer Questions Related to the RSR

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- Are we being transparent with consumers?
  - does the RSR guard against all types of rate shock or only against an overall, average rate increase?
  - Does the use of the RSR accord with what we tell consumers?
- What insight can we get by listening to the voices of Manitoba consumers?

**HAS MPI BEEN LISTENING?**

# The Test

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- MPI onus
  
- Just and Reasonable Rate
  - *PUB Act, s. 77*
  - *CCPRAA, s. 26 (4)*
  - *Order 98/14, p. 28*



# Setting Just and Reasonable Rates

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- Forecasts reasonably reliable
- Actual and projected costs - necessary and prudent;
- Reasonable revenue needs of an applicant in the context of its overall general health (including reserves)
- Appropriate allocation of costs between and within classes
- Just and reasonable rates in accordance with statutory objectives.

*Order 98-14, p. 28*

# Ensuring that Forecasts are Reasonably Reliable

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## Top Priority

- Collision severity
- Bodily injury WI and Other

## Clarity

- Staffing levels and vacancy management
- Investment income
- Interest rates

# Is the Claims Incurred Forecasting Process Reasonably Transparent?

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*The forecasting of claims is done on an accident year (i.e. insurance year) basis as described in the main Claims Incurred document. The **accident year forecast is then converted into a fiscal year reported basis** (accounting statement basis) using the expected claims development patterns from the actuarial report. Due to timing differences in when claims dollars and claims (or cover) counts are reported, **it is often not appropriate to calculate or compare severities on a fiscal year basis.***

*(MPI/CAC 1-21, emphasis added)*

# Are Costs Necessary and Prudent?

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- Has MPI presented a transparent and defensible architectural roadmap for IT expenditures?
- Are information technology expenditures delivering reasonably improved value and appropriate cost savings for consumers?
  - Implications of over budget HRMS for 2014/15 operating statement
  - What are the financial and human opportunity costs associated with failure to reach pre- BI3 benchmarks?
  - What can we learn from the underperformance (to date) of BI3?
- What is driving the 2 year delay in PDR? What are the risks and opportunities associated with the 2 year delay?

# Are Costs Necessary and Prudent?

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- What are the implications of PDR for the service centres?  
*Once fully deployed, our long-range plans for Physical Damage Re-engineering **will reduce the space required at service centres.** Customer usage patterns and location specific demand will be the primary driver in determining the long range service centre usage strategy.  
(MPI/CAC 1-29 emphasis added)*
- Is the Board receiving timely disclosure of the business cases associated with major IT investments?
- Where is the business charter to support the \$33.3 million for the Technology Modernization Initiative?

# Are Costs Necessary and Prudent?

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- Are long term levels of internal and external FTEs justifiable?
- Are road safety expenditures prudent and necessary?
  - what is driving the disproportionately high reports of injuries in Manitoba as compared to other jurisdictions?
  - is occupant restraint no longer a significant road safety priority?
  - are we missing road safety opportunities?
- Can we reasonably expect MPI to meet what appears to be an aggressive schedule in terms of its road safety agenda?

# Assessing the Reasonable Revenue Needs of MPI in the Context of its Overall General Health

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## Balancing Investment Risks and Opportunities

- Are risks and opportunities related to investments prudently and reasonably balanced?
  - does ALM approach appropriately balance risk and opportunity
  - what is the status of the ongoing dialogue related to Corporate Bonds
  - is the Aon Hewitt base case and analysis sufficiently robust?
- Can the Corporation meet its onus of proof?
  - why were no Aon Hewitt witnesses brought in support of the application?

# Assessing the Reasonable Revenue Needs of MPI in the Context of its Overall General Health

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## The RSR

- Does the MPI RSR proposal offer more value to management than to ratepayers?
- Why does MPI place such little reliance on the insight from past Board Orders?
- Why didn't MPI conduct focus groups or consumer surveys on issues related to rate shock and risk tolerance?



# The CAC Manitoba RSR Team

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- Robust skill set and many years of experience in modern risk analysis from the econometric and actuarial perspectives
- Both public and private sector experience
- Heavy focus on Prior Board Orders
- Connected to the original purpose of the RSR

# Determining an Appropriate Allocation of Costs Between Classes

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- Are the proposed rates between and within classes actuarially indicated and statistically sound?

# Setting Just and Reasonable Rates in Accordance With Statutory Objectives

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- Is the proposed rate just and reasonable?



# Aspects of the Application – CAC Manitoba is encouraged by

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- 2015/16 operating expense reductions
- Efforts to show leadership in road safety
- \$75 M transfer of funds from other lines of business
- Mutual learning achieved in collaborative discussions on RSR – including active demonstration of model
- Openness to opportunities to improve clarity of future actuarial reporting
- Shared care residence pilot

Thank You



**Manitoba**

Consumers' Association of Canada (Manitoba Branch)