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The Public Utilities Board

MANITOBA

Order No.93/97

THE PUBLIC UTILITIES BOARD ACT

THE MANITOBA PUBLIC INSURANCE CORPORATION AMENDMENT AND CONSEQUENTIAL AMENDMENTS ACT

THE CROWN CORPORATIONS PUBLIC REVIEW AND ACCOUNTABILITY ACT

December 8, 1997

BEFORE: G. D. Forrest, Chairman
D. T. Anderson, Q.C., Member
K. Collin, Member
E. Jacks, Member

AN APPLICATION BY THE MANITOBA PUBLIC INSURANCE CORPORATION FOR AN ORDER APPROVING COMPULSORY DRIVER AND VEHICLE INSURANCE RATES FOR THE 1998/99 INSURANCE YEAR

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The Public Utilities Board

Executive Summary

On June 4, 1997 Manitoba Public Insurance Corporation ("the Corporation") applied to the Manitoba Public Utilities Board ("the Board") for approval of premium rates to be charged for compulsory driver and vehicle insurance to be effective from March 1, 1998 to February 28, 1999. The Board held a public hearing in Winnipeg from October 6 to 15, 1997.

The Corporation projects that the total cost of operating and providing benefits for coverage under the Basic Insurance will be $445 million for the year ending February 28,1999. To cover the total cost of operations and providing benefits and coverage, the Corporation applied to the Board for an increase in premiums charged to Manitoba motorists for compulsory driver and vehicle insurance. On an overall revenue basis, the application requests a 2.5% increase in premiums. However, each motorist will be affected by different increases and decreases because of the four different components that are included in the calculation of appropriate premiums for different insurance coverages.

The Corporation has requested a continuation of the 4% Rate Stabilization Reserve ("RSR") load currently included in premiums, and requested an additional 2% RSR load. This special loading is to replenish the RSR to be used to assist the Corporation in facing adverse financial circumstances and mitigate future significant rate increases that otherwise might be necessary because of unexpected severe loss experiences. In 1996, the RSR for Basic insurance was at a deficit of $50 million after two years of adverse financial circumstances, and is forecast to be at a deficit of $6 million by the end of the 1997/98 fiscal year. The Corporation has a RSR target of 15% of direct premiums written, which is approximately $70 million for Basic insurance. The Board has approved the continuation of the 4% RSR load as well as an additional 1% RSR load. In making this decision to reduce the requested 2% increase, the Board noted that the Corporation should further consider internal savings so as to achieve the target rather than depending on rate increases from Manitoba motorists.

The second component of the rate increase requested relates to experience based adjustments averaging 1% overall, but ranging from -15 to +15% for certain vehicles. Experience adjustments take into account claims history based upon insurance use, territory in which the vehicle is used and type of vehicle. Some vehicles do not pay premiums in accordance with their full cost of benefits and coverage and are therefore facing experience adjustments. Upward adjustments are capped at 15% (13% in the case of motorcycles). The Board has approved all experience based adjustments as applied for.

A third component of the requested premium increase is the implementation of the Canadian Loss Experience Automobile Rating System (CLEAR). Currently being implemented by automobile insurers across Canada as an improved rating system, CLEAR reflects the actual claims cost history for each vehicle model and therefore better aligns the premiums to reflect the risk of claims attached to each vehicle. The Corporation has been implementing the phase in of CLEAR since 1996. As a result of CLEAR, many vehicle owners will experience significant changes in their premiums. Some will experience large rate increases since they have been paying far less than the actuarially indicated premiums and therefore have been subsidized by others. Similarly, a number

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of vehicle owners will receive decreases in their premiums since CLEAR will better reflect relevant claims costs. The Board is of the opinion that the Corporation should expedite the implementation of CLEAR since it is an improved and more accurate automobile insurance rating system. As the Corporation continues to implement CLEAR and move vehicles to their proper rate class, premium increases/decreases of a similar magnitude may be necessary in future years.

The following are examples of some significant premium increases and decreases that various vehicle owners will experience as a result of this decision:

	Rate Group Upgrade	Clear Offset	RSR	Exp. Adj.	Change	Old	New	% Change
Major Increases								
Territory 1 96 Jeep Grande Cherokee Limited Farming All Purpose	$49	$ 37	$ 10	$ 145	$ 241	$1,023	$1,264	23.5%
Territory 3								
96 Chevy Blazer All Purpose	83	48	13	30	174	1,181	1,355	14.7%
Major Decreases								
Territory 1 1997 Ford F150 Pickup U Drive	(155)	62	21	(322)	(394)	2,377	1,983	-16.6%
Commuter								
1977 Pontiac Parisienne All Purpose Passenger	(175)	15	4	30	(126)	547	421	-23.0%

The following table summarizes the average percentage premium revenue change by insurance use:

Insurance Use	Number of Vehicles	Requested Change	Approved Change
Private passenger	578,000	2.7%	1.7%
Commercial	47,000	-5.7%	-6.7%
Public	7,000	-8.8%	-9.8%
Motorcycles	7,000	14.9%	13.9%
Trailers	80,000	15.2%	14.2%
Off Road Vehicles	24,000	14.9%	13.9%

The Board also made a number of recommendations for the Corporation to file reports on the appropriate RSR target, the implementation of CLEAR, and other matters. The Board urged the Corporation to take all measures possible to control the increase in claims incurred and related expenses. The Board noted that the Corporation, while objectively looking after the needs of the accident victims, should be more aggressive in rebuilding its financial reserves by controlling and reducing expenses, especially with respect to staffing and computer expenditures.

The following illustrates the impact of the various components reflected in premium increases for the following vehicles, as applied for by the Corporation:

Vehicle	Rate Group Upgrade	Clear Offset	RSR	Exp. Adj.	Change	Old	New	% Change
Major Increases								
Territory 1 96 Jeep Grande Cherokee Limited Farming All Purpose	$49	$37	$ 20	$ 145	$ 251	$1,023	$1,274	24.5%
Territory 2								
97 Ford Explorer Farming All Purpose	54	33	16	92	195	765	960	25.5%
Territory 3								
96 Chevy Blazer All Purpose	83	48	25	30	186	1,181	1,367	15.7%
Territory 4								
1997 Dodge Charger V8 All Purpose	136	14	8	11	169	265	434	63.7%
Commuter								
96 Dodge Neon Highline All Purpose	128	41	21	80	270	898	1,168	30.1%
Major Decreases								
Territory 1 1997 Ford F150 Pickup U Drive	(155)	62	42	(322)	(373)	2,377	2,004	-15.7%
Territory 2								
1997 Ford F 150 2WD Common Carrier	(66)	65	19	(126)	(108)	1,023	915	-10.6%
Territory 3								
1997 U- Drive Truck GVW 4,541 to 16,330 kg	(138)	0	40	(234)	(332)	2,115	1,783	-15.7%
Territory 4								
1988 Common Carrier GVW 4,541 to 16,330 kg	(360)	0	20	(126)	(466)	1,379	913	-33.8%
Commuter								
1977 Pontiac Parisienne All Purpose Passenger	(175)	15	8	30	(122)	547	425	-22.3%

The total estimated premium impact of all rate changes requested in this application is summarized as follows:

Change in Premiums	# of Vehicles	% of Total	Annual Premium Impact
(Decreases)/Increases $			($Thousands)
(501) - (605)	32	0.00%	19.1
(351) (500)	522	0.10%	(202.1)
(251) (350)	291	0.00%	(90.5)
(151)-(250)	4,231	0.60%	(889.4)
(101)- (150)	6,222	0.80%	(720.8)
(81) - (100)	6,827	0.90%	(611.0)
(51) - (80)	15,848	2.10%	(1,007.5)
(26) - (50)	42,516	5.70%	(1,461.2)
(11) - (25)	38,713	5.20%	(665.5)
(1) - (10)	23,550	3.20%	(142.1)
No Change	7,744	1.00%	-
$ 1 - 10	138,602	18.60%	916.3
11 - 25	198,678	26.70%	2,817.1
26 - 50	180,569	24.30%	6,441.8
51 - 100	62,961	8.50%	4,177.4
101 -150	12,269	1.70%	1,483.3
151 - 250	3,388	0.50%	618.6
251 - 350	223	0.00%	62.3
351 - 500	31	0.00%	11.6
Total	743,217	100.00%	10,719.2

The impact of the premium changes proposed will result in 80% of all vehicles experiencing an increase in premiums. The majority of the vehicle owners, approximately 85%, will experience increases and decreases in premiums ranging from $1 to $50. At the extremes of the range, some individuals will experience significant changes in rates far exceeding the 2.5% increases indicated overall. Some individuals will experience changes in premiums of over 30% from the previous year, and in one instance will experience a 99% increase.

13.0 IT IS THEREFORE ORDERED THAT:

1. Except as hereafter set forth, Motor Vehicle premiums for the Basic Automobile Insurance Program as applied for by the Corporation for the insurance year commencing March 1, 1998, BE AND ARE HEREBY APPROVED.

2. The introduction of short term policies as requested, BE AND IS HEREBY APPROVED.

3. The $15 fee for document searches as requested, BE AND IS HEREBY APPROVED.

4. A general increase of $1 for permits and certificates as requested, BE AND IS HEREBY APPROVED.

5. Modifications to the formula used to calculate the short rate charge as requested, BE AND ARE HEREBY APPROVED.

6. Changes in the eligibility rules for the Vehicle Merit Discount Program to extend to single shareholder limited companies, BE AND ARE HEREBY APPROVED.

7. The continuation of the existing 4% adjustment to fund the Rate Stabilization Reserve for a period of one year beginning on March 1, 1998, BE AND IS HEREBY APPROVED.

8. The requested additional 2% contribution to the Rate Stabilization Reserve is reduced to 1%.

9. The Corporation contribute to the rebuilding of the Rate Stabilization Reserve by looking internally. The Corporation should be more focused in controlling staffing levels and costs and look at other initiatives to reduce the level of expenses.

10. The Corporation file a long term strategic plan for Information Technology at the next General Rate Application.

11. The Corporation file a detailed implementation plan for the new claims management system at the next General Rate Application, including a detailed cost benefit analysis for the expenditures.

12. The Corporation provide a report at the next General Rate Application that will address the issue of who should pay for specific programs that are targeted at specific vehicle populations or territories.

13. The Corporation re-examine the methodology for allocating expenses between the Basic, Extension and Special Risk Extension insurance plans and provide a new independent cost allocation study at the next General Rate Application to demonstrate that the cost allocation methodology remains appropriate.