

## Manitoba Public Insurance 2016/17 General Rate Application

PUB/CAC-1-1

<b>Volume:</b>	N/A	<b>Page No.:</b>	Exhibits A and B
<b>Topic:</b>	CAC Discussion Paper on DCAT and RSR		
<b>Subtopic:</b>	Report Authored by Ms. Sherry and Dr. Simpson		
<b>Issue:</b>	Expert's Declarations		

### **PREAMBLE TO IR (IF ANY):**

Exhibits A and B to the report contain declarations from Ms. Sherry and Dr. Simpson, which have not previously been included in reports submitted on behalf of CAC.

### **QUESTION:**

Please advise as to why CAC has included the declarations in this report when it has not done so in previous years.

### **RATIONALE FOR QUESTION:**

To understand any change in circumstances giving rise to the inclusion of the declarations.

### **RESPONSE:**

The Response to PUB CAC 1-1 has been prepared by legal counsel because the information for the answer is not within the knowledge of Dr. Simpson or Ms Sherry.

What is driving the use of expert declarations?

This hearing marks the second PUB proceeding in which witnesses retained by CAC Manitoba have been asked to sign an independent witness declaration. In the recent

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Hydro GRA, the depreciation expert retained jointly by CAC Manitoba and MIPUG also was asked to sign a similar document.<sup>1</sup>

In our view, the declaration is reflective of recent judicial guidance regarding the appropriate role of independent, expert witnesses in judicial and quasi-judicial proceedings. It reflects the actual practice of CAC Manitoba for many years in which experts have been advised that while they are retained by PILC, their role is to provide their professional opinion to the PUB (or the CEC or the CRTC or the NEB).

Witnesses also have been informed that in providing their views, their opinions should not be affected by what they perceive to be the expectations or best interests of the party that retained them. The objective is to reassure both the experts and the tribunal that the experts need not have conflicted loyalties. The decision to ask witnesses to sign the declaration reflects our observations that:

- some court rules or proceedings are now requiring independent experts to sign a similar declaration;
- certain panels (not the current panel) have expressed confusion as to the role of independent experts. Some panel members have made statements which appear to conclude either that CAC Manitoba is bound by the opinions of their experts or that the experts are providing the views of CAC Manitoba

### Why wasn't the declaration used previously?

The general practice of PILC counsel has been to advise experts during the initial retainer of their role in providing expert advice to the tribunal. This is reinforced in oral evidence preparation where witnesses are reminded in writing of their duties to the tribunal. The declaration is simply a written acknowledgement of long standing practice.

### **RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:**

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<sup>1</sup>The declaration is drawn from Ontario examples we have observed and modelled upon one which is used by some legal counsel for TDS LLP.

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<b>Topic:</b>	CAC Discussion Paper on DCAT and RSR		
<b>Subtopic:</b>	RSR		
<b>Issue:</b>	1 in 40 adverse scenario		

**PREAMBLE TO IR (IF ANY):**

On page 6 of the report it is stated:

"It can be argued that the 1-in-40 adverse scenarios should be the target of the RSR, therefore being the midpoint of the RSR range."

**QUESTION:**

Please provide the arguments referenced, that 1-in-40 adverse scenarios should be the midpoint of the RSR range.

**RATIONALE FOR QUESTION:**

To clarify the position taken by CAC.

**RESPONSE:**

On some occasions, it has been argued that a 1-in-40 probability may be excessive as a lower target for a crown monopoly and that a 1-in-20 probability may be more appropriate. For example, in Board Order 177/99 at page 36, the PUB appears to have considered whether the 1-in-20 probability was appropriate for determining the low end of the RSR Target:

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By excluding operating expenses, the low end of the RSR Target as calculated by the Risk Analysis decreases to \$67 million from \$78 million at the 95% confidence level.<sup>2</sup>

In either case, aiming for the lower end of the range risks falling short; one should aim for the middle of the range as the appropriate “target.” If that target is based on a 1-in-40 (or 1-in-20) probability, then it should roughly determine the midpoint of the range, equidistant between a minimum and a maximum determined according to some appropriate and consistent criterion.

### **RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:**

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<sup>2</sup> See also Board Order 151/00 at page 46.

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<b>Volume:</b>	N/A	<b>Page No.:</b>	7
<b>Topic:</b>	CAC Discussion Paper on DCAT and RSR		
<b>Subtopic:</b>	RSR		
<b>Issue:</b>	Rate Increase/RSR Rebuilding Fee		

### **PREAMBLE TO IR (IF ANY):**

On page 7 of the report it is stated:

"Limiting the amount of a rate increase following an adverse event simply means that policyholders pay now and MPI holds their money."

### **QUESTION:**

Please explain how and why limiting the amount of a rate increase following an adverse event means that policyholders pay now and MPI holds their money.

### **RATIONALE FOR QUESTION:**

To clarify the position taken by CAC.

### **RESPONSE:**

The statement from the report is suggesting that if policyholders pay now to ensure the RSR is at the level required for the Corporation to cover the costs of an adverse event, MPI will hold that money until the adverse event actually occurs, if it does. At that time the rate increase may be limited, but the Corporation has held the policyholder's money over time.

Please also refer to PUB/CAC 1-8.

### **RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:**

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<b>Volume:</b>	N/A	<b>Page No.:</b>	7
<b>Topic:</b>	CAC Discussion on DCAT and RSR		
<b>Subtopic:</b>	RSR		
<b>Issue:</b>	Rate Increase/RSR Rebuilding Fee		

### **PREAMBLE TO IR (IF ANY):**

On page 7 of the report it is stated that an alternative scenario "is to allow larger rate increases following an adverse event."

### **QUESTION:**

Given MPI's selection of 5% as the maximum combined rate increase and/or additional RSR rebuilding fee in a given rate application, at what point does a larger maximum violate the rate stability the RSR is there to provide?

### **RATIONALE FOR QUESTION:**

To clarify the position taken by CAC.

### **RESPONSE:**

Ms Sherry and Dr. Simpson respond that:

The statement on page 7 is given as an alternative to the holding of a large RSR. It suggests the possibility that larger rate increases when required may be more beneficial to the economy and the policyholder than the holding of a large RSR.

### CAC Manitoba comments

To assist the Board in understanding the deliberations of CAC Manitoba, CAC Manitoba has chosen to offer some additional comments. These comments are without prejudice

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to its final position at argument. With reference to the overall average rate change, CAC Manitoba observes different characterizations of the concept of rate stability:

- During the Probe Research Focus Groups, consumers were asked what they regarded as an “acceptable percentage increase in a single year MPI premium as a consequence of a financially bad year from the insurance company?” Their comments can be found at page 5 of the report.
  - In Board Order 151/00 (page 43) the Board noted that:
    - an expert witness for CAC/MSOS “cautioned against a one-time refund of 16.6% noting that this should be spread over two years to avoid future rate shock, and urged the Board to approve an 11.6% surplus dividend and a 5% reduction in base premiums for fiscal 2002. Many other intervenors and presenters urged the Board to approve the one-time 16.6% refund. . .” (page 43)
    - As previously stated, the Board will approve a one-time surplus dividend of 16.6% to be refunded to each policyholder for all policies issued between March 1, 2001 and February 28, 2002. (page 44)
  - In Board Order 156/06 (page 43), the Board indicated that:
    - As to what constitutes rate shock and whether rate shock should always be avoided, the Board is less sanguine. At one time in these annual proceedings, rate shock was considered to be a rate increase of 10% or more. If this is the definition, avoiding rateshock has not always been sought by MPI or realized in practice.
  - In Board Order 157/08, the Board commented at page 75:
    - The Basic program’s Rate Stabilization Reserve is intended to be sufficient so as to avoid occasions of rate shock. While rate shock has been defined in other Board proceedings as an annual overall average increase in premium rates of 10% or more, the “common understanding” of a rate shock in MPI’s case, particularly in these times of low inflation, would likely extend to an overall rate increase lower than 10%. And, of course, policyholders experience different levels of premium change regardless of an overall change. In short, to some extent rate shock is “in the eye of the beholder”, or in other words, different perspectives are present in different circumstances, and there is no concrete definition of rate shock.
    - A rate level increase in the magnitude of 10% or more has never occurred since Board regulation began in 1988, and presumably would
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occur only under dire circumstances, such as an outbreak of severe and sustained inflation, a sustained and dramatic fall in investment values (so severe that it appeared unlikely that full recovery in values would occur), or a catastrophic claims event not adequately covered by reinsurance (the latter potential event would not necessarily lead to a required rate level increase, although it, like the other examples, would most certainly diminish the RSR). Under such circumstances, an already-diminished balance in the RSR might then need to be further “drawn on” to reduce a significant overall rate level increase. Subsequent to the event requiring the RSR to be “drawn on”, the RSR balance would be re-built through a measure such as a premium surcharge for a period of a year or more.

The Board and MPI also considered issues related to rate shock in the discussion of CLEAR implementation. For example in Board Order 54/97 (page 39/40), the Board commented:

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.

Some individuals will be subjected to major changes. The Corporation noted that they had attempted to limit increases to 15%, and acknowledged that some vehicles would be receiving increases in excess of that amount. The Corporation submitted that the major cause for the changes in the premiums was due to the implementation of CLEAR. The Corporation was questioned if any further measures have been considered to mitigate the rate shock of the changes that were significant. The Corporation stated that the impact of the increases has been tempered by the gradual phase in period of CLEAR implementation. (emphasis added)

The Corporation noted that there was a need for the increases to address the historical inequities of having individuals not paying the appropriate amount for insurance.

In Board Order 154/98:



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The Board also approved CLEAR offset adjustments, ranging between +0.5% and + 17.3% and averaging 5.8%, to achieve revenue neutrality from the implementation of CLEAR. (Page iii)

In terms of the rate stability issue, the ultimate judgement is that of the regulator in the public interest. Some factors which may be considered are:

- past practice of the Board
- current economic conditions
- public expectations which may be informed by qualitative or quantitative research
- advice from intervenors and MPI

### **RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:**

<b>Volume:</b>	N/A	<b>Page No.:</b>	8
<b>Topic:</b>	CAC Discussion on DCAT and RSR		
<b>Subtopic:</b>	RSR		
<b>Issue:</b>	DCAT		

**PREAMBLE TO IR (IF ANY):**

On page 8 of the report it is stated:

"Thought should be given to actions that could be taken now to reduce the adversity of those events contemplated in the equity decline and interest rate scenarios."

**QUESTION:**

- a) Does CAC agree that the recent Aon Hewitt ALM Study is an example of an action taken to reduce the adversity of events contemplated in the equity decline and interest rate scenarios?
- b) What other actions would CAC recommend be taken in this regard?

**RATIONALE FOR QUESTION:**

To clarify the position taken by CAC.

**RESPONSE:**

- a) Yes
- b) We are not aware of a cost benefit analysis of various investment mixes, including projected financial statements with the various mixes, showing the impact on both investment income and the adverse scenario results. An analysis of this nature would be beneficial to ensure that the investment mix

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held by the Corporation is at the optimal level in terms of keeping the results of the adverse scenarios to a minimal level.

**RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:**

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<b>Volume:</b>	N/A	<b>Page No.:</b>	9-10
<b>Topic:</b>	CAC Discussion on DCAT and RSR		
<b>Subtopic:</b>	RSR		
<b>Issue:</b>	Interest Rate Decline Scenario		

### **PREAMBLE TO IR (IF ANY):**

On pages 9 - 10 of the report it is stated:

"One can expect, as in the equity decline scenario that is fully based on the historical evidence (p. 38), that more risky scenarios associated with a lower probability of occurrence lead to more adverse outcomes or lower total equity. This does not occur for the interest rate scenario because of the presence of the ad hoc interest rate floor assumption which constrains interest rates immediately in 2016/17 and dominates the scenario calculations thereafter (p. 58)."

### **QUESTION:**

What approach does CAC recommend in lieu of imposing an interest rate floor?

### **RATIONALE FOR QUESTION:**

To clarify the position taken by CAC.

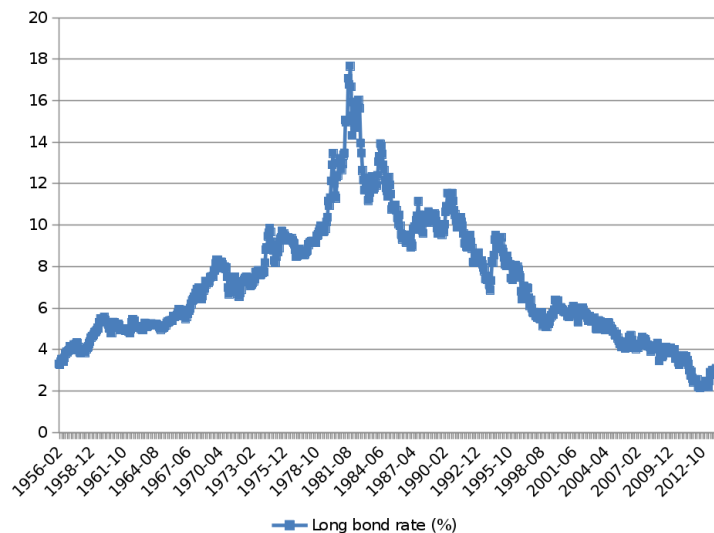
**RESPONSE:**

It is not evident that the interest rate decline scenario can be designed to reflect the historical evidence, since an extensive period of low interest rates has not been observed in the last fifty years. (See graph from Simpson evidence to 2015 GRA below.) The removal of the stagflation period from 1976-85 is a small improvement. But there is little evidence on how interest rate declines might occur when the nominal interest rate is so low that monetary policy cannot effectively reduce it further.

We have suggested some improvements to the determination of the floor, e.g. determination of the annual (rather than monthly) interest rate floor, since we are working with annual scenarios over a horizon of four years. But these improvements do not change the arbitrary nature of the introduction of an interest rate floor, which seems necessary to prevent interest rates from becoming negative or close to zero. This raises the question of whether an evidence based confidence level based on a plausible scenario can be developed for the interest rate scenario.

Since the basis for the scenario cannot be historical evidence, we suggest that it be discounted in determining the range of the RSR. MPI may choose to use it for other purposes.

We would note that the effect of this discounting, or emphasis on the equity decline and high loss ratio scenarios, would be to bring the RSR target roughly in line with the range determined by the percentage of premiums (Kopstein) methodology.



**RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:**

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<b>Volume:</b>	N/A	<b>Page No.:</b>	11
<b>Topic:</b>	CAC Discussion on DCAT and RSR		
<b>Subtopic:</b>	RSR		
<b>Issue:</b>	Reporting		

### **PREAMBLE TO IR (IF ANY):**

On page 11 of the report it is stated: "The RSR should be reported separately to ensure transparency."

### **QUESTION:**

- a) What aspects of MPI's current reporting practice does CAC say fail to meet the objective of separate reporting?
- b) How should MPI's reporting on the RSR change in order to improve transparency?

### **RATIONALE FOR QUESTION:**

To clarify the position taken by CAC.

### **RESPONSE:**

- a) The stated purpose of the RSR is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors. The reality is that the RSR is used to cushion the differences between forecast (plan) and actual results and not unexpected non-recurring events. Differences between forecast (plan) and actual results will occur and are recurring annually.

The Basic Insurance RSR is currently contained as part of Total Equity. Total Equity is further reported as Retained Earnings and Accumulated Other Comprehensive Income. Retained Earnings is considered RSR unless it exceeds the upper limit of the PUB

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approved RSR limit at which time Retained Earnings are referred to as RSR for the value of the PUB approved upper RSR limit and the amount in excess of this limit is then referred to as excess Retained Earnings.

From a consumer perspective this style of reporting is confusing and not transparent and are not aligned with the RSR stated purpose.

b) The stated purpose of the RSR is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors. Assuming the stated purpose of the RSR is not changed, the option set out below might assist with the objective of better transparency for consumers:

To align with the stated purpose of the RSR and improve the transparency of the operations of the RSR, the RSR amount could be reported as a separate account on the Statement of Financial Position and Statement of Changes in Equity and a draw could be made on this account in the event of an unexpected and non-recurring event with full disclosure of this event in the notes of the financial statements. Normal differences between forecast (plan) and actual results, such as an increase in collision frequencies during winter months caused by weather one year and not the following year, should be managed operationally on an annual basis. The RSR, if held in a separate account, would earn investment income to, in part, fund itself.

**RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:**



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<b>Volume:</b>	N/A	<b>Page No.:</b>	12-13
<b>Topic:</b>	CAC Discussion on DCAT and RSR		
<b>Subtopic:</b>	RSR		
<b>Issue:</b>	Intergenerational Inequity		

### **PREAMBLE TO IR (IF ANY):**

On page 12 of the report it is stated:

"The extra amount paid to MPI by policyholders increases the amount paid by current policyholders for an event that may or may not occur so that future policyholders will be spared the extra expense (intergenerational inequity)."

### **QUESTION:**

- a) Are concerns regarding intergenerational inequity sufficient to outweigh the benefits for rate stability of having an RSR?
- b) Is it CAC's position that there should be no RSR?
- c) Are the examples provided at page 13 of the Report to demonstrate that if the lower target level of the RSR is too high, concerns of intergenerational inequity arise?

### **RATIONALE FOR QUESTION:**

To clarify the position taken by CAC.

**RESPONSE:**

- a) The paper presents both sides of this question and presents the arguments to the PUB for consideration.
- b) As experts providing evidence-based opinion to the PUB on behalf of CAC/MB, we do not speak for CAC/MB regarding its policy with respect to the viability of the RSR. Our point is that it is not immediately obvious that a RSR is in the interest of ratepayers. The RSR is only preferred by ratepayers if it smooths out spikes, or rate shocks, and does not excessively penalize current ratepayers to the benefit of future generations of ratepayers. Thus, a rush to replenish the RSR whenever there is a decline in its balance (which would lead to rate instability of the sort the RSR is supposed to avoid) or an excessive RSR target range (which would penalize current ratepayers at the expense of future ratepayers) might leave current ratepayers worse off than they would be without an RSR.
- c) Yes. Intergenerational inequity can exist with any level of RSR. In fact in Board Order 177/99 at page 38, the PUB observed that:

By its very nature, the RSR creates inter-generational inequity by creating a reserve fund that is to be held until a draw is required.

The larger the RSR the larger the amount of intergenerational inequity that can exist.

**RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:**

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<b>Volume:</b>	N/A	<b>Page No.:</b>	Covering Letter
<b>Topic:</b>	CAC Discussion on DCAT and RSR		
<b>Subtopic:</b>	Probe Research Report		
<b>Issue:</b>	Rate Volatility and RSR		

**PREAMBLE TO IR (IF ANY):**

**QUESTION:**

Please file the Probe Research Report upon which CAC relies.

**RATIONALE FOR QUESTION:**

To understand the basis for CAC's position on rate volatility and the RSR.

**RESPONSE:**

The Probe Research Report is attached and marked as PUB/CAC 1-9, Attachment A. It was prepared under the direction and control of Mr. Lloyd Fridfinnson, Vice President of Probe Research Inc.

**RATIONALE FOR REFUSAL TO FULLY ANSWER THE QUESTION:**

# MPI Rate Stabilization Reserve Public Perceptions

## Focus Groups

Prepared for the:

**Consumers' Association of Canada**

October 2, 2015



RESEARCH INC.

*...for what you need to know.*

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### APPENDICES:

- ✓ Screener Instrument
- ✓ Moderator's Guide

## Background & Methodology

The Public Interest Law Centre and the Consumers' Association of Canada commissioned Probe Research, Inc. to conduct focus groups in Winnipeg among Manitoba Public Insurance registered vehicle owners.

Focus group participants were recruited from among a random selection of Winnipeg residents contacted by telephone. This selection of participants also included individuals who are within the database of the Probe Research online panel participants. All were screened using a custom-designed screening questionnaire developed by Probe Research (see Appendix I). Participants were each paid \$75 for their contribution.

The following table describes the location and composition of each focus group session:

Wednesday, September 16 6 PM	<ul style="list-style-type: none"> <li>• <b>Female</b></li> <li>• Mix of age, education and income</li> </ul>
Wednesday, September 16 8 PM	<ul style="list-style-type: none"> <li>• <b>Male</b></li> <li>• Mix of age, education and income</li> </ul>

The focus group sessions followed a Moderator's Guide prepared by Probe Research Inc. in close consultation with representatives of the CAC (see Appendix II).

All focus group sessions were moderated by Lloyd Fridfinnson, Vice-President of Probe Research, Inc. Kevin McDougald of Probe Research observed and took notes at both sessions from the viewing room.

Participants recruited to these focus group sessions constitute a sample of convenience, the findings of which cannot be considered statistically representative of the larger population.

For more information on this research project, please contact:

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## MPI Comprehension

*Module Synopsis: This module gauged participant comprehension of MPI's performance as an organization as well as the nature of its financial operations.*

### Top-of-Mind Comprehension

- The discussion began with participants being asked to imagine themselves having to explain Manitoba Public Insurance to someone who is unfamiliar with the company by describing the best and worst aspects of the organization.

Women		Men	
Best	Worst	Best	Worst
<ul style="list-style-type: none"> <li>Insurance allows a person to drive someone else's car</li> <li>Service</li> <li>Sympathetic in the instance of a collision involving a drunk driver</li> <li>Some employees</li> <li>Payment options</li> <li>Refund</li> </ul>	<ul style="list-style-type: none"> <li>No choice, can't shop for insurance</li> <li>No fault policy</li> <li>Service</li> <li>Claimant is assumed to be guilty</li> <li>Tries to impose 50/50 responsibility for an accident</li> <li>Windshield deductible</li> <li>MPI doesn't explain what I'm paying for</li> <li>Some employees</li> <li>Website</li> </ul>	<ul style="list-style-type: none"> <li>Responsible to us</li> <li>Affordable/good value rates</li> <li>Good/fair with claims</li> <li>One stop shopping</li> <li>Claims easy to deal with</li> <li>Fair</li> <li>Transparency</li> <li>Political interference?</li> </ul>	<ul style="list-style-type: none"> <li>Rate increases yearly</li> <li>Rates may not be good for really good drivers</li> <li>Driver rating system means too many points are taken</li> <li>Motorcycle rates</li> <li>Decisions may be arbitrary</li> <li>Political interference?</li> </ul>

- Participants in both the male and female sessions appear to have a reasonable understanding the MPI is owned "by the government" or "citizens/us".

### Operations & Administration

- Participants were also asked to identify MPI revenue and expenses. Asterisks identify expenses and revenues which were identified as being most significant.

Women		Men	
Revenue	Expenses	Revenue	Expenses
<ul style="list-style-type: none"> <li>Insurance premiums *</li> <li>License fees</li> <li>Other insurance lines (cottages, boats, RVs)</li> <li>Tax money?</li> <li>Auction income</li> </ul>	<ul style="list-style-type: none"> <li>Salaries *</li> <li>Offices*</li> <li>Claim Centres</li> <li>Broker commissions</li> <li>Advertisements</li> <li>Claims (lost wages, repair)*</li> <li>Impound</li> </ul>	<ul style="list-style-type: none"> <li>Insurance premiums *</li> <li>Licensing fees</li> <li>Mall ownership?</li> <li>Selling salvage</li> </ul>	<ul style="list-style-type: none"> <li>Claims *</li> <li>Medical</li> <li>Advertisements</li> <li>Staff *</li> <li>Police ticket blitz</li> <li>Infrastructure</li> <li>Taxes</li> <li>Claim Centres</li> <li>Driver training</li> <li>Elementary school patrol program</li> <li>Fraud</li> </ul>

- When asked as to the operating budget of MPI, female participants stated that they simply did not know.
- While men were also unable to specify a figure, a couple speculated that the MPI operating budget would be in the “hundreds of millions”.

### Impacts Upon Premium Costs

- When participants were asked to describe the factors that might cause premium costs to rise the responses below were provided.

Women		Men	
Increases Cost	Decreases Cost	Increases Cost	Decreases Cost
<ul style="list-style-type: none"> <li>• High risk vehicle</li> <li>• Residing in an urban area</li> <li>• All purpose insurance</li> <li>• Driving badly</li> <li>• Offenses (recurring accidents, speeding)</li> <li>• Demerits as a result of offenses</li> <li>• An increase in overall claim costs resulting in a rate increase</li> <li>• Installment payment method</li> <li>• How MPI uses money, e.g. for police services</li> </ul>	<ul style="list-style-type: none"> <li>• Residing in a rural area</li> <li>• Personal use insurance</li> <li>• Driving well</li> <li>• Having an immobilizer</li> <li>• Having merits</li> </ul>	<ul style="list-style-type: none"> <li>• Driving record</li> <li>• Younger driver</li> <li>• Claims</li> <li>• Weather events</li> <li>• Number of cars?</li> <li>• Stolen vehicle</li> <li>• High risk vehicle</li> <li>• Residing in an urban area</li> <li>• Car make and model</li> <li>• All purpose insurance</li> <li>• Government of the day</li> <li>• PUB decision</li> </ul>	<ul style="list-style-type: none"> <li>• Older driver</li> <li>• Residing in a rural area</li> <li>• Car make and model</li> <li>• Personal use insurance</li> <li>• Government of the day</li> <li>• PUB decision</li> </ul>



## Risk Tolerance

*Module Synopsis: This module measured the willingness of participants to tolerate to risk within the context of MPI's role as they currently understand it.*

### Risk Tolerance

Participants were provided with the following description of MPI.

Manitoba Public Insurance Corporation is a Crown Corporation. It operates an automobile insurance division. The automobile insurance division provide basic universal compulsory automobile insurance as well as extension and special risk coverages.

For the basic universal compulsory automobile insurance line of business (basic insurance) separate financial statements are prepared and rates are reviewed and approved by the Public Utilities Board on an annual basis.

The discussion today relates to the “basic insurance” line of business only

Costs to insurance corporations, whether it be MPI or any other company, are sometimes subject to significant costs when there is a bad year. Costs are then typically passed on to those buying the insurance. A big single year increase in premiums is known as a “rate shock”. Actuaries and other financial experts attempt to predict how often bad years occur; ensuring rates are adequate to cover the costs of those bad years over time. Essentially they create a reserve fund to avoid a rate shock during a bad year or years. In other words, the trade off in avoiding a rate shock is that someone buying insurance in any given year is paying more than necessary to cover the insurance claim costs for an average year.

Some people support this arrangement. Others argue that the amount paid each year to avoid a rate shock is too high and that people are willing to assume some risk of a single year increase in order to minimize accumulated overpayment for a series of average years. Keep in mind, when all is said and done the person paying the premium will be paying very close to the same amount for their insurance. The difference is that the willingness to accept occasional rate shock means lower premiums and the money stays in your pocket until the bad year comes along.

Participants were subsequently asked what they regarded as an “acceptable percentage increase in a single year MPI premium as a consequence of a financially bad year for the insurance company?” Participants indicated their tolerance by placing their name on a line from zero to fifty percent.

- Women provided responses ranging from 1% to 10%. However, the most significant cluster was 5%, with six of the ninth participants indicating this as their preferred premium rate increase threshold. The collective rationale for providing this figure frequently referred to the need or desire to budget, or fixed income constraints.
- Men demonstrated a somewhat higher tolerance for premium increases, with a range of 5% to 18%. Four male responses were between 9% and 11%, with one response being lower and four responses being higher than this range.

Participants were also asked to indicate the magnitude of event from which they wish to be protected by placing their name on a line with a 1-in-200 year event on the right hand side of the scale and a 1-in-1 year event on the left hand side of the scale. It was further explained that the premiums associated with coverage for adverse events that can be expected every year would be minimal, while there would be a much higher cost associated with premiums for an event occurring once in every 200 years.

- It was evident that several participants had difficulty comprehending this concept even after a detailed description of the financial implications of frequently occurring versus infrequently occurring events. Several participants in the female session, who had already displayed caution and a desire for minimum premium increases following a “bad year” for MPI, gravitated towards the left hand side of the scale. Responses ranged from a 1 in 1 year event (2 participants) to a 1 in 25 year event (1 participant). Most were comfortable having coverage sufficient to protect them against a 1 in 10 year event.
- Men, generally provided responses ranging from 1 in 1, to 1 in 150 years, with most preferring coverage near 1 in 20 years. The 1 in 150 years outlier explained that he felt climate change would lead to events that are not adequately anticipated by the insurance industry. An older gentleman indicated that his satisfaction with 1 in 5 years protection was premised on his advanced age and the unlikelihood that he would live long enough to require more significant coverage.

## Test of Current RSR

*Module Synopsis: This module examined existing levels of awareness of the Rate Stabilization Reserve. This module also tested reaction to information that is generally not well known to the public concerning the RSR.*

### RSR Awareness

- A majority of participants in both focus group sessions stated that they knew or assumed that MPI had a reserve fund to accommodate years during which it experiences an unexpectedly high number of expenses. Several participants, particularly men, referred to this as a “rainy day fund”.
- Very few participants were able to attribute their knowledge of the fund to a specific source and instead suggested that it was simply assumed to exist as a component of good business practice.
- None of those participating in the research were able to identify a dollar amount associated with the reserve fund.
- Participants were also universally unaware that the name for the MPI fund is the Rate Stabilization Reserve.
- Informing participants of the correct name of the Rate Stabilization Reserve and its current valuation of \$213,000,000, led to mixed reactions. Some suggested that they felt this number was too high, while others felt that it was too low. Still others reserved judgment. There was no indication of a consensus as to whether this was an appropriate reserve to be maintained by MPI, with several participants requesting further context in order to better inform their opinion.

### RSR Usage

- A single participant in each session pointed to an event where they recalled MPI drawing from a reserve fund. A female participant stated that the fund had been used following a hailstorm in Dauphin, with the sole male participant stating that it had been used for an unspecified event in 1988.
- One male participant stated that the MPI reserve fund was “close to \$450,000,000 when they sent out the cheques” for the most recent rebate to motorists.
- There was near universal consensus that the Rate Stabilization Reserve should only be used for purposes directly pertaining to insurance coverage. Participant positions softened somewhat during subsequent conversation, whereby using the Rate Stabilization Reserve to offset costs for the purchase of equipment such as immobilizers was considered appropriate by most participants.
- Several participants stated that if the fund was sufficiently robust to pay for needs not directly related to insurance, then the money should be redirected to the policyholder.
- Unlike some other aspects of the Rate Stabilization Reserve, there was a comparatively strong consensus that this fund should be separate from other MPI cash or Investment holdings and should be subject to rules concerning specific use. To the extent that there was a departure from this position, a couple of men suggested that it is likely not necessary to change the way fund is currently managed.

## RSR Maintenance

Participants were asked whether MPI should maintain the Rate Stabilization Reserve at a certain level regardless of minor fluctuations every year or if it should be used to smooth out annual rate increases.

- There were mixed views on this matter in the session consisting of female participants. There was, however, a general consensus that surplus funds should be used to minimize costs to policyholders.
- Men were inclined to suggest that the fund should be used to offset increases beyond the range of 3% to 5%. Moreover, it was also suggested that premium increases should be at or near the rate of inflation.
- Men were also more likely to suggest that failure to pass along financial benefits to consumers implied that the money was being used for other, less appropriate, reasons. Similarly, some thought that the money was being retained by government or could potentially be used this way.

## RSR in Practice

- When asked to clarify what they had been thinking about in previous discussion of “bad years” or “adverse events” for MPI, participants in both focus group sessions identified weather and crime as being the primary considerations. A single participant in the male session identified the economy as a consideration.

Women	Men
<ul style="list-style-type: none"> <li>• Too many accidents</li> <li>• Natural disasters</li> <li>• Damage to the vehicle when it's not being driven</li> <li>• Auto theft – bad year</li> <li>• Vandalism</li> <li>• Personal injuries</li> <li>• Falsifying personal injuries</li> <li>• Insurance fraud</li> </ul>	<ul style="list-style-type: none"> <li>• Hail</li> <li>• Tornados</li> <li>• Snow</li> <li>• Recent storm we had – likely a number of cars that were wiped out</li> <li>• Rash vandalism</li> <li>• Crime</li> <li>• The economy – if they are invested in funds and the returns go down</li> <li>• If the government has a bad year and they need to take money out.</li> <li>• Terrorism</li> <li>• High incidence of claims</li> </ul>

Participants were then provided with the following information:

- *MPI has revenues of about \$804 million from policies from people such as yourselves.*
- *MPI also has over \$2 billion dollars in investments which generated approximately \$188 million in income last year.*
- *Last year MPI's profit was \$2.4 million on the basic insurance.*
- *MPI rates for 2015/16 increased about 3.5%*
- *MPI has had significant year-end losses in two of the past 14 years.*

Participants were also informed that MPI considers four categories of risk with respect to the Rate Stabilization Reserve:

- *A series of bad accidents, such as what might happen during an especially bad winter.*
- *A bad storm or flood.*
- *Fluctuations in the investment market, that cause a decrease in MPI investment income.*
- *Changes in interest rates that hurt the profits of MPI. Interest rate changes affect both costs and revenues.*

Participants were then asked which of these four categories they perceive as presenting the most significant threat to the Rate Stabilization Reserve.

- Two female participants immediately identified changes in investment income as being a threat to the Rate Stabilization Reserve. One participant dissented, arguing that MPI investments would be very low risk, while others in session declined to offer an opinion.
- Despite the inclusion of fluctuations in investment markets and interest rates, a majority of male participants persisted in their belief that weather-related natural disasters and an unusually high number of claims remain the primary threats to the Rate Stabilization Reserve.

Participants were informed that MPI regards “downturns in investment income, changes in interest rates and higher claims losses than expected” as being the largest risk factors threatening the Rate Stabilization Reserve. Participants were subsequently asked if this new information had any impact on their risk tolerance.

- This new information did not appear to have a significant impact upon risk tolerance for female participants. In those instances where there was movement, the pattern was inconsistent. Indeed, the two female participants who indicated that the new information caused them to be willing to tolerate a greater rate shock following a bad year for MPI also stated that they now wish to have coverage sufficient to address an event of decreased frequency (e.g. a 1 and 30 year event where the previous tolerance was for a 1 in 5 year event).
- The rate shock tolerance was unchanged for six men, with a lack of consistency in the responses from the other three individuals. Similarly, eight of the nine men indicated no change in their desire to be protected against an event likely to occur in any given number of years. However, at this point in the discussion some men questioned the advisability of MPI holding investments, as they regard this as a departure from the core business of the corporation.

## Related Issues

*Module Synopsis: This module examined additional issues related to the Rate Stabilization Reserve.*

### RSR Within a Monopoly

- Participants were provided with the following two broad arguments with respect to the management of the Rate Stabilization Reserve:
  - *One (argument) is that MPI is user funded and should never have to turn to the provincial purse. Therefore premiums should be high enough to maintain a reserve fund comparable to that of the private sector, which is usually prepared for a 1 in 100 year event.*
  - *The other argument is that it is not reasonable for MPI to hold money that belongs to the public when it is ultimately backed by the government and that a lower threshold is appropriate.*
- There were mixed responses with respect to the above arguments among participants in both sessions. Once again, there was a request for further information and some speculation about the disposition of income generated by MPI in relation to the provincial government coffers.
- On balance, men tended to hold the view that MPI “should not be run like a private company”.

### Special Cases

Participants were asking if individuals with poor driving records and owners of makes and models of vehicles that are high risk should see their individual insurance rates rise at a pace different than the rest of the driving public.

- Although there was some element of disagreement, the general consensus among women is that it is indeed fair to implement higher rates of increased premiums in these cases. The dissenting voice on this issue came from a single mother who stated that she has limited options as to what vehicle she can drive and should not be penalized for her lack of choice.
- There was a strong consensus of opinion among men that the special categories should be subject to higher rates of increase than is the case for the general population of vehicle owners.

# Appendix I

## Recruitment Screener Instrument

## FOCUS GROUP SCREENER QUESTIONNAIRE

My name is ..... and I am from Probe Research, a professional public opinion research company. We are looking for people to join a special in-person discussion session on the evening of Wednesday, September 16 about issues that are important to people paying auto insurance in Manitoba.

These sessions are lively and entertaining and you do not need any special knowledge or skills to contribute to these sessions. All we are looking for are friendly people who are willing to share their ideas and observations in a group with around six or eight people like yourself. If you decide to attend this focus group session, you will be paid \$75 cash in exchange for around an hour and a half of your time.

This focus group session is strictly for research purposes and all of the comments you provide at this session are held in strict confidence. No one at this focus group will be offering to sell you anything or sign you up for anything. It is also important for you to know that if you come to this focus group your name will not be passed on to any other party.

1. Do you think you might be interested in attending a focus group session in the afternoon/evening of Wednesday, September 16?

Yes ..... (ASK NEXT Q.)

No ..... (THANK AND TERMINATE)

2. Do you have a few minutes to answer some questions to see if you qualify for participation in this research?

Yes ..... (ASK NEXT Q.)

No ..... (RESCHEDULE RECRUIT CALLBACK)

3. On a scale of 1 to 7 where "1" means "you are not at all comfortable" and "7" means "you are very comfortable", how comfortable would you be speaking in a group with about 10 other people?

Not at all Comfortable Very Comfortable

1 ..... 2 ..... 3 ..... 4 ..... 5 ..... 6 ..... 7

( ..... )

( ..... )



(THANK & TERMINATE)

(CONTINUE)

4. On a scale of 1 to 7 where "1" means "you are very unknowledgeable" and "7" means "you are very knowledgeable", how much knowledge do you have about insurance?

Very Unknowledgeable Very Knowledgeable

1 ..... 2 ..... 3 ..... 4 ..... 5 ..... 6 ..... 7

( ..... )

( ..... )





(CONTINUE)



(THANK & TERMINATE)

- 5. Have you attended a focus group discussion within the past six months?  
 Yes ..... (THANK AND TERMINATE)  
 No..... (ASK NEXT Q.)
  
- 6. Do you, or does anyone else in your household work for a media outlet an advertising company, a market research company, Manitoba Public Insurance, insurance or financial services professional?  
 Yes ..... (THANK AND TERMINATE)  
 No..... (ASK NEXT Q.)
  
- 7. Do you have a vehicle insured through Manitoba public insurance?  
 Yes ..... (CONTINUE)  
 No..... (THANK & TERMINATE)
  
- 8. Are you fully, partially or not all responsible for decisions concerning your vehicle insurance coverage through MPI?  
 Fully..... (CONTINUE)  
 Partially ..... (CONTINUE)  
 No..... (THANK & TERMINATE)
  
- 9. How many vehicles do you have license through Manitoba public insurance?  
 Record verbatim # \_\_\_\_\_
  
- 10. What is the approximate cost to you on an annual basis to ensure your vehicle or vehicles?  
 Record verbatim \$ \_\_\_\_\_
  
- 11. On a scale of 1 to 7, where “1” means MPI is doing a terrible job overall and “7” means MPI is doing an excellent job serving Manitobans, how would you rate MPI?  
  

Terrible	Excellent
Job	Job
<b>1</b> .....	<b>7</b>
<b>2</b> .....	<b>6</b>
<b>3</b> .....	<b>5</b>
<b>4</b> .....	<b>4</b>
  
- 12. Could you please tell me when you were born?  
 Record verbatim \_\_\_\_\_

<b>Wednesday, September 16</b>	<ul style="list-style-type: none"> <li>Female</li> <li>Mix of age, education and income</li> </ul>
<b>6 PM</b>	

Wednesday, September 16

8 PM

- Male
- Mix of age, education and income

## RECRUIT DETAILS:

*Your characteristics are just what we require for the discussion group. The session will take approximately an hour and a half for which you will receive \$75. Are you still interested in participating?*

YES \_\_\_ (CONTINUE)

NO \_\_\_ (THANK & TERMINATE)

I just need to get a little more information for statistical purposes.

a) Gender: (DO NOT ASK – WATCH QUOTAS): Female: \_\_\_ Male\_\_\_

b) What is your occupation? \_\_\_\_\_

c) What is your marital status? \_\_\_Married \_\_\_Divorced \_\_\_Separated \_\_\_Common Law \_\_\_Single

d) Do you have access to the Internet at home or work? \_\_\_\_\_Yes \_\_\_\_\_No

(ASK IF INFO NOT PROVIDED ON DATA SHEET)

d)What category does your household income fall into (that is the income of all persons in your home)?

\_\_\_ Under \$20,000 \_\_\_ \$20-30,000 \_\_\_ \$30 to \$60,000 \_\_\_ \$60,000 to \$80,000 \_\_\_ \$80-\$100

e) What is the highest level of education you have obtained? \_\_\_\_\_

I have some information for you to take down. Do you have a pen handy?

- The discussion session will take place on the evening of **Wednesday, September 16** at 6:00/8:00 pm
- You must be there by 5:45 p.m/7:45 PM. and it is very important that you be on time.
- The sessions will be held at the Probe Research offices at Suite 850 – 125 Garry Street. This is the Ceridian Building on the corner of York and Garry.
- A receptionist will be at the main building doors on Garry St. to greet you and direct you to the offices of Probe Research.
- There is street level parking available near the building.
- The session will take approximately 90 minutes for which you will receive \$75.
- You may not bring any children or someone else to the session.
- Refreshments will be provided.
- Once again that is the offices of Probe Research Inc. at 5:45/7:45 p.m. on **Wednesday, September 16**

If you require further information between now and **Wednesday, September 16** or are unable to attend the discussion group please call \_\_\_\_\_ at Probe Research Inc. at 204 \_\_\_\_\_.

We look forward to seeing you there. Good-bye.

# Appendix II

## Moderator's Guide

## CAC MPI RSR Focus Groups — Moderator's Guide —

*Location: Probe Office – 850, 125 Garry Street  
Moderator – Lloyd Fridfinnson, Cell 204 291-0295*

<b>Wednesday, September 16 6 PM</b>	<b>Female</b> Mix of age, education and income
<b>Wednesday, September 16 8 PM</b>	<b>Male</b> Mix of age, education and income

### ***Module I — Getting Focused***

*Module Synopsis: This module establishes the objectives of the discussion session and presents the ground rules that will govern the meeting. A critical component of this module is the assurance of participant anonymity and confidentiality guarantees. Areas of discussion in this module are included in compliance with the good practices guidelines of the Marketing Research and Intelligence Association*

- Moderator introduces himself.
- Explain mirror and video. Colleagues observing. Explain purpose of video recorder.
- Need for full and frank input and that all expressed views are equally valid and important — “there are no right or wrong answers”. Discussions should be fun and relaxed.
- Remind participants of the need to participate fully.
- Phones off.
- “Let’s go around the room and introduce ourselves.”
- “I would like you to tell me your first name and tell me what you like best about your vehicle or vehicles.”

***Total time for module — 10 minutes***

## **Module II — MPI Comprehension**

*Module Synopsis: This module will gauge participant comprehension of MPI's performance as an organization as well as the nature of its financial operations.*

### **Top-of-Mind**

- We're going to be spending time this evening talking about various aspects of Manitoba Public Insurance. If someone were moving to Manitoba, and you had to explain MPI, what would you tell them? Is there anything else?
- (At easel) What is the best thing that you could say about the MPI?
- (At easel) What is the worst thing that you could say about the MPI?
- How would we describe the ownership of MPI?

### **Operations & Administration**

- (At easel) I'd like to talk a little more about how MPI actually functions. I have made two columns on this paper one side is MPI revenue and the other side is MPI expenses. Where does MPI get its revenue? What expenses does MPI have?
- What are the most important sources of revenue to MPI?
- What are MPIs most significant expenses?
- Does anyone here have an idea as to operating budget of MPI? Where did you learn that information?

### **Impacts Upon Costs**

- (At easel) You all pay premiums to insure your vehicles through MPI. What are some of the factors that might cause your premium costs to rise? Are there any others?
- (At easel) Are there factors that might cause your premium costs to be reduced? Are there any others?

**Total time for module — 20 minutes**

## **Module III — Risk Tolerance**

*Module Synopsis: This module will measure the willingness of participants to tolerate to risk within the context of MPI's role as they currently understand it.*

### **Risk Tolerance**

Manitoba Public Insurance Corporation is a Crown Corporation. It operates an automobile insurance division. The automobile insurance division provide basic universal compulsory automobile insurance as well as extension and special risk coverages.

For the basic universal compulsory automobile insurance line of business (basic insurance) separate financial statements are prepared and rates are reviewed and approved by the Public Utilities Board on an annual basis.

The discussion today relates to the “basic insurance” line of business only

Costs to insurance corporations, whether it be MPI or any other company, are sometimes subject to significant costs when there is a bad year. Costs are then typically passed on to those buying the insurance. A big single year increase in premiums is known as a “rate shock”. Actuaries and other financial experts attempt to predict how often bad years occur; ensuring rates are adequate to cover the costs of those bad years over time. Essentially they create a reserve fund to avoid a rate shock during a bad year or years. In other words, the trade off in avoiding a rate shock is that someone buying insurance in any given year is paying more than necessary to cover the insurance claim costs for an average year.

Some people support this arrangement. Others argue that the amount paid each year to avoid a rate shock is too high and that people are willing to assume some risk of a single year increase in order to minimize accumulated overpayment for a series of average years. Keep in mind, when all is said and done the person paying the premium will be paying very close to the same amount for their insurance. The difference is that the willingness to accept occasional rate shock means lower premiums and the money stays in your pocket until the bad year comes along.

- My question to you is this: What is an acceptable percentage increase in a single year MPI premium as a consequence of a financially bad year for the insurance company? For instance, would you be willing to see a 10% increase in your automobile insurance following a bad year if it meant that your average premiums were 1% or 2% lower than they currently are for typical years? Why do you say that?
- I have put up a sheet of paper on the wall with a line going from 0% to 50%. I'd like each of you to come up and write your name along this line indicating what kind of a premium rate increase you would be willing to tolerate before you would consider it an unacceptable rate shock that you should be protected against.
- Why did you put your name where you did?

Let's look at this a slightly differently way. Insurance experts sometimes refer to making sure that there is sufficient reserve funds for an event that might occur once every 10 or 20 years or even 100 and 200 years. Paying insurance premiums to make sure there are sufficient funds to cover a 100 or 200 year event are higher than they would be to merely ensure that you are financially protected from a 10 or 20 year event.

- I'm going to draw another line on this same piece of paper. This time we're going to use years as a measure, with 0 years meaning you pay the absolute lowest premium you can with no buffer against significant adverse events. At the far end of the scale we have 200 years which means that you're paying significantly higher MPI insurance rates in order to have a sufficient pool of money to protect you from a 1 in 200 year event. Would you once again please come up write your name somewhere along this line.
- Why did you put your name where you did?

***Total time for module — 20 minutes***

***— Break to talk to observers —***



## Module IV — Test of Current RSR

*Module Synopsis: This module will examine existing levels of awareness of the Rate Stabilization Reserve. This module will also test reaction to possibly information that is generally not well known to the public concerning the RSR.*

### RSR Awareness

- Prior to coming here tonight, were you aware that there is pool of money that MPI has designated for the purposes of addressing the bad insurance years that we just talked about? Were the rest of you also aware of this?
- How did you hear about that?
- Do you know much money has been set side? Did anybody else know about this figure?
- Can you tell me the name MPI uses to refer to this pool of money?

For those of you who don't know, this money is referred to as the Rate Stabilization Reserve. It is currently at approximately \$213,000,000. Total earned revenues for MPI are around \$820,000,000.

- How do you feel about this figure?
- Does this seem too high or too low or perhaps just about right?

### RSR Usage

- Are you aware of any occasions where the Rate Stabilization Reserve has been used by MPI? What was that for?
- Obviously, we have talked about the rate stabilization reserve being used to offset financially bad years. Do you think it would be appropriate to use this fund to cover any other purposes? Which ones? Why do you say that?

### RSR Maintenance

One option that MPI has with respect to managing the Rate Stabilization Reserve is that it can hold the reserve at a certain level regardless of fluctuations every year. So if there is a year that is a little bit bad, the following year's premiums could be raised a couple percentages without dipping into the RSR.

- How do you feel about the practice of maintaining the RSR for the truly bad years, and passing along the cost of years that are just a little bad directly to the consumer? Why do you say that?

### RSR in Practice

- (At easel) As we have been talking about "bad years" and "adverse events" what kinds of circumstances or situations had you been thinking about?
- (At easel) Earlier in the evening we talked about revenue sources for MPI. I just want to review what the figures are for the most current year:
  - MPI has revenues of about \$804 million from policies from people were such as yourselves.

- MPI also has over \$2 billion dollars in investments which generate approximately \$188 million in income last year.
- Last year MPI's profit was \$2.4 million on the basic insurance.
- MPI rates for 2015/16 increased about 3.5%
- MPI has had significant year-end losses in two of the past 14 years.
- At this point I want to briefly recap what we have discussed so far tonight.
  - First, we talked about the trade-offs between higher premiums and protection from percent increase in premiums due to a bad year, and our tolerance for a rate shock in any given year.
  - We also talked about planning for 1 in 10 or 1 and 100 year adverse events and what we think is reasonable.
  - We also discussed the Rate Stabilization Reserve that MPI has to address rate shock and adverse events.
- (At easel) (*Some of these will have arisen during previous discussion of costs to the corporation*) I would like to just briefly discuss some of the things that are financial threats to the Rate Stabilization Reserve. These include:
  - A series of bad accidents, such as what might happen during an especially bad winter.
  - A bad storm or flood.
  - Fluctuations in the investment market, that cause a decrease in MPI investment income.
  - Changes in interest rates that hurt the profits (net income) of MPI. (they affect both costs and revenues)
- Which of these four categories (accidents, weather, investment income, interest rate changes) do you think presents the biggest threat to the MPI Rate Stabilization Reserve?
- Why is that?
- The purpose of the RSR is to protect motorists from rate increases made necessary by unexpected events and losses arising from non-recurring events or factors. Among the largest risk factors identified by MPI this year are downturns in investment income, changes in interest rates and higher claims losses than expected. Does knowing that downturns in investment income and changes in interest rates are significant risk factors have any effect on your opinions with respect to risk tolerance? How so? And why is that?
- I'm going to give you a red pen I'd like you to come up to the same sheet of paper we used earlier and I would like you to write your name down on the two lines once again. This time you're going to tell me how you feel in light of the information I have provided to you about the primary purpose of the Rate Stabilization Reserve. If you have not changed your opinion at all please just circle your name appearing in blue ink with your red pen. If your opinion has changed, I want you to write your name wherever you like in red pen.
- Those of you who remain the same, what is your reasoning?
- Those of you who have written your name in a different place, why have you done so?

**Total time for module — 35 minutes**

**— Break to talk to observers —**

## **Module V — Related Issues**

*Module Synopsis: This module will examine additional issues related to it Rate Stabilization Reserve.*

### **RSR Fund Status**

- Currently, the Rate Stabilization Reserve does not sit in a separate special fund, it is treated like any other money MPI has. How do you feel about this?
- Is there a better arrangement? What would that be?

### **RSR Future Use**

- In the past, the Rate Stabilization Reserve has been used to fund special programs such as the installation of immobilizers in vehicles which are at a higher risk of theft. How do you feel about this type of use for the Rate Stabilization Reserve? Why is that?
- (At ease!) What kinds of other uses would be appropriate for the Rate Stabilization Reserve?
- In the past, there has been discussion of using the Rate Stabilization Reserve to support needs not related to insurance, such as funding universities. What do you think of this idea?

### **RSR Within a Monopoly**

Some people have pointed out that MPI is not like other insurance companies. By way of explanation, if a private insurance company does not have a sufficient reserve fund when a very bad year or years occur, they would be put out of business. MPI, on the other hand, is owned by Manitobans as a public monopoly which is ultimately backed by the provincial treasury.

- This being the case two broad arguments are made:
  - One is that MPI is user funded and should never have to turn to the provincial purse. Therefore premiums should be high enough to maintain a reserve fund comparable to that of the private sector, which is usually prepared for a 1 in 100 year event.
  - The other argument is that it is not a reasonable for MPI to hold money that belongs to the public when it is ultimately backed by the government and that a lower threshold is appropriate.
- Which of these two views is closest to your own? Why is that?

## **Special Cases**

We've been talking in very general terms. Of course, people with poor driving records or who own makes and models of vehicles that are high risk can often see their individual insurance rates rise considerably. This is because of high rates of theft for its certain types of cars or higher injury costs associated with accidents involving certain types of vehicles like motorcycles.

- For these special cases, should we apply the same standard in determining what constitutes a rate shock? By this I mean, is it okay for these higher risk policyholders to occasionally see significant rate increases, while rest of us have comparatively modest increases? Why do you say that?

**Total time for module — 20 minutes**

**— Break to talk to observers —**

**Thank, Debrief and Dismiss Participants**