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Oct. 26, 2016

Public Utilities Board of Manitoba
400-330 portage Avenue
Winnipeg, MB R3C 0C4

RE: MANITOBA PUBLIC INSURANCE
2017-18 GENERAL RATE APPLICATION

INTRODUCTION

Good afternoon Board members, MPI staff, MPI legal counsel and other presenters. Before proceeding, I'd first like to thank the board for accommodating me at this later date and giving me this opportunity to speak to MPI's rate application. I'll try to keep my presentation brief.

Today I intend to question MPI's rational for motorcycles rates and the last minute proposal to increase average rates by 7% and motorcycle rates from a negative 1.7% to an increase of 2.4%, a change of more than 4%. In addition, I would like to suggest alternatives to the current rate setting methodology, so as to incorporate fairness in premium methodology and cost allocation.

MOTORCYCLING BACKGROUND

For those of you who are new to these hearings, I'd like to tell you a little bit about myself. I've been involved with the Coalition of Manitoba Motorcycle Groups (CMMG) for over 20 years, currently serving as a director and past-president. I'm also a director and past vice-chair of the Motorcyclists Confederation of Canada (MCC). In order to avoid any possible contradiction with CMMG's solicitor, Mr. Raymond Oakes, today I'm speaking on my own behalf and the views expressed are my own and not necessarily those of the CMMG or the MCC.

I'm a retired municipal planner, and a single parent with middle-aged children. I've been a motorcyclist most of my life. I'll be 70 years old in a few months and have been riding motorcycles more than 50 years. Like many of my era, our first rides were in our teens on motorcycles borrowed from our friends. I was "invincible" then, didn't require training or a motorcycle licence and never really thought much about insurance at the time. Forty-seven years ago, in 1969, I bought my first motorcycle and started riding on a regular basis. Motorcycling is how I spend much of my spare time. My girlfriend and I usually ride between 15,000 to 30,000 kms. a year on vacations, on weekends with friends and with

adult children. It's also how I often travel to visit my grandchildren. My oldest daughter also rides, but finds it difficult to insure on a full time basis, and still manage mortgage payments, child care and other household expenses. My oldest son sold his, no longer being able to justify the expense for the few times he is able to ride.

EFFECTS OF HIGH PREMIUMS

Although significant, past premium decreases have not yet offset the previous decade of double digit, compounded premium increases. This year's surprise increase has done nothing to improve this situation. For pensioners, as well as others on moderate incomes, motorcycle premiums have become an extreme financial burden, especially when coupled with rising fuel costs and other living expenses. A motorcycle insurance premium can be double of that for a home of ten times the value.

As a motorcyclist I was pleased with the premium reductions of the past years and was looking forward to another reduction this year as well. Initially, I was quite disappointed with the June announcement of the 2017-18 GRA. Given past positive claims experience for motorcycles, I was expecting a rate reduction for the motorcycle class in the 5 to 7 percent range, but was somewhat pleased to note that unlike other vehicle classes with increases, motorcycles were still receiving an overall 1.7% premium decrease. After several years of premium reductions for motorcycles, one might be willing to accept a modest decrease. This initial acceptance was short lived, however, as you can appreciate my shock of reading last month's Free Press article that "Manitoba Public Insurance rates could go up by seven per cent next year — the highest jump in decades".

This proposed increase was a surprise to everyone as it was not part of the GRA, but an apparent afterthought intended as a hedge against future hits blamed on climate change and more hail, resulting in expensive body and window claims. In this respect, the Free Press article quotes CEO Dan Guimond as stating that there was a 68 per cent increase in comprehensive (non-collision) claims costs". Mr. Guimond goes on to mention a negative financial climate with equity returns of 6 million below forecasted amounts.

As motorcycle basic insurance does not include comprehensive coverage, such claims should not affect motorcycles, and I understand, that in this respect motorcyclists would not be it as hard as other vehicle classes. Still, according to MPI Exhibit 19 the average motorcycle premium will now increase by 2.4% from 769 to \$788. If one assumes that the proposed GRA average of \$744, as shown on Table 1 is correct, then motorcyclists will experience an average \$44 or 5.9% increase over that initially proposed by the GRA.

(Note: there is some discrepancy regarding the current motorcycle rate. Table 1 of the GRA lists Current average motorcycle rate at \$757 with a proposed

Experience Rate reduction of -1.7% for a proposed average of \$744. 2017 GRA – MPI Exhibit #19 Pg.3 depicts a current motorcycle rate of \$769 and a proposed average rate of \$788, a 2.4% indicated rate change. Perhaps this relates to Indicated Rate vs, Experience Rate.)

It is my opinion that the revised rate increases do not reflect the positive trend in motorcycle claims ratios, which for the past 5 years have been at 64.1%% compared to 76.52% for passenger vehicles. [CMMG (MPI) 2-4] Giving the 2006 anomaly the same weight as each of the past five years is unfair. If I recall my rudimentary University statistics course correctly, anomalies were often discarded or given less weight when doing long range projections. According to information request CMMG (MPI) 2.2, if 2006 were deleted and a 9 year period used, motorcycles would have an Indicated rate decrease of 7.45% instead of 2.1%. I expect that this would result in an Experience rate reduction in the neighbourhood of 6.5 to 7%.

As for the issue of interest and investment income, I find it quite astonishing that income projections could change so radically from the June GRA to September of this year. Interest rates have been stable for some time now, and personally, with my own modest investment portfolio, I found the past year to be the more productive than previous years.

Aside from disagreeing with MPI's RSR needs, I found that MPI's past financial projections reasonably accurate. Has the standard changed or has there been external influence on financial and investment policies? I won't delve further into this as I'm sure our solicitor Mr. Raymond Oakes has fully examined this issue.

At first, the new average rate of \$788 may not appear expensive, but it must be recognized that this premium is only for a 5-month seasonally adjusted rate that equates to an annual rate of about \$1,891. It must also be noted that this premium does not include comprehensive coverage, which brings the equivalent annual rate into the \$2,000 range. As well, this average also includes great number of lower rated scooters and mopeds. Half of all motorcyclists will pay more. Current premiums remain prohibitive for many, and as the following example typifies, the motorcycle rate is still very high when contrasted with rates for passenger vehicles and light trucks:

In Winnipeg, (*using 2016 rates*) the minimum fully discounted pleasure premium (*2 mil liability and 200 deductible, excluding registration fees*), for a 2015 GMC 4X4 double cab pickup truck valued at \$30,000 is about \$970 or roughly \$81 per month. By contrast, the premium for a 2014 Harley Davidson touring motorcycle valued at \$25,000 (*2 mil liability and 200 deductible, including comprehensive, but excluding registration fees*), is \$954 per year or about \$191 a month, for the 5 month season. With a 2.4% increase on basic this will result in a premium of about \$973. This extrapolates to an equivalent annual motorcycle premium of

more than \$2,300, about 2 ½ times the truck rate. Sport bike rates can be much higher yet, \$2,500 to \$3,000 for the riding season.

| VEHICLE | 2016 fully discounted pleasure premium | Equivalent Annual Rate | Per Month Cost |
|--------------------------------------|--|------------------------|----------------------------|
| 2015 GMC 4X4 double cab pickup truck | \$970 (includes comprehensive) | \$970 | \$81 |
| 2014 Harley Davidson touring | \$954 (not including comprehensive) | \$2,300 | \$191 (for 5 month season) |

Even though motorcycle numbers have been increasing over the past few years, there are many former motorcyclists who have quit riding, not because they've lost their love for the sport, but solely for the fact that they have modest incomes and can no longer justify paying up to \$2000 or more for 5 months of riding. When a husband and wife both ride, the cost can be very prohibitive, even for more affluent families. Many have resorted to using the temporary 5-day permits for special events or vacations. This concerns me as it exposes more motorcyclists to accidents during peak periods, with the resulting claims, but without the total annual premium contribution to the total motorcycle "pool".

ESCALATING PREMIUMS AND PIPP

The reason for past escalating motorcycle premiums goes back to 1993 with the introduction of "no fault" insurance and corresponding Personal Injury Protection Plan (PIPP). Past rulings that there should be no "cross subsidization" between vehicle classifications, meant that premiums for each classification must reflect claims costs for that classification, regardless of fault. This resulted in many years of double digit, compounded increases.

Over the past few years Motorcyclists have benefited from more recent improvements in rate setting methodology. I refer specifically to the implementation of "loss transfer" and the allocation of losses for PIPP and collision claims, as well as losses related to wildlife and "hit and run" collisions. Although a considerable improvement, I believe that the current methodology for allocating losses is still discriminatory and inequitable. The following paragraphs will highlight some of these inequalities.

PIPP PREMIUMS ARE NOT APPLIED EQUITABLY

Contrary to what some may believe, motorcycles are not involved in a greater percentage of accidents than automobiles. In fact, past statistics have shown that there are a greater percentage of motorcyclists with full merits than automobile owners.

Motorcycles have been placed in a separate rating classification, not because motorcyclists have more accidents, but due to severity of their injuries, which result in greater personal injury (PIPP) costs. According to CMMG (MPI) 2-5 Attachment, PIPP losses as a percent of total losses for the past 5 years for motorcycles is 83.47%. By contrast, these losses range from 20.7% for passenger vehicles to 35.9% for commercial vehicles. These figures relate closely to the percentage of premiums allocated to PIPP losses for each class. On the surface, this would seem fair, except that many groups do not pay for PIPP.

Although PIPP coverage is paid by most vehicle owners, some vehicle classes do not pay and are still being subsidized by premiums paid by other major classes. Also not paying are those persons with drivers licences, who do not own vehicles, but who contribute to accident costs. As well, there are others who receive PIPP benefits who neither own a vehicle nor have a drivers licence.

It was either in 2011 or 2012 that MPI stats revealed that 12,954 vehicles, or 1.5% of registered vehicles, did not pay for PIPP coverage. This nearly equalled the 13,163 motorcycles which were subject to PIPP premiums at the time. This excluded group includes inter-provincial trucks and exempt vehicles such as Government of Canada vehicles, and fire department vehicles. Although it's true that interprovincial truck drivers etc. may be eligible to obtain Workman's Compensation if injured, it is usually the occupants and passengers of smaller vehicles who sustain injuries. If however, a large semi causes an accident, this vehicle would not be contributing to the PIPP costs of the other vehicle involved. In addition, off road vehicles, dirt bikes, snowmobiles and bicycles do not contribute to PIPP; however, if the riders are involved in a collision with an automobile in motion, they receive PIPP benefits, even if at fault. I believe the same applies to pedestrians as well.

One-Third of PIPP Claims from Non-Vehicle Owners

The following data is somewhat dated, but I'm sure the proportions are still relevant. According to MPI there were 11,784 PIPP claims in 2011. One-third of all PIPP claims were from non-vehicle owners. Of these, drivers without a registered vehicle accounted for 3,192 or 27% of these claims. In addition un-licensed, non-vehicle owners account for 693 claims or another 6% of total vehicle claims.

Since much of PIPP involves bodily injury, personal care and rehabilitation, it is somewhat analogous to our health care system, which is free and shouldered by all Manitoba taxpayers. Since all Manitobans can receive PIPP benefits and since 1/3 of all PIPP claims are for non-contributors, why then should motorcyclists pay substantially more for this coverage when other vehicle owners, ATV owners, snowmobile owners and licensed non vehicle owners pay nothing?

NEW METHODOLOGY FOR ASSIGNING PIPP COSTS

It's time to re-think the methodology for assigning PIPP costs to premiums and the following paragraphs suggest a number of different ways to insert fairness into the allocation of these costs. These are not necessarily mutually inclusive.

Flat Rate for PIPP - The fairest way might be to establish a flat rate for PIPP premiums and spread them equally across all vehicle groups, with increases based on experience and driving record, not severity of injuries. Penalties should be attached to the drivers licence and not the vehicle.

A flat rate will not create undue hardships on other vehicle owners. If off-road vehicles, motorcycles and trailers are excluded, there are 841,003 other insured vehicles, outnumbering motorcycles by a ratio of about 54:1. In simple terms, an average \$5 premium increase for other vehicles would generate over 4 million dollars, with a resulting premium decrease of about \$270 for each motorcycle.

Another example: using 2017/17 PIPP per driver unit of \$186 [*CMMG (MPI) 2-6*] and adding admin and overhead costs, a flat PIPP rate for all classes should be in the range of \$200. This would bring the average basic motorcycle rate down to about \$330, excluding comprehensive. If the 13,000 or so non-contributing units are included, the effects on passenger vehicles might be negligible.

Allocate a Greater Share of PIPP to Larger Vehicles - Motorcyclists are vulnerable road users and more likely to sustain more serious bodily injuries in accidents, but are less likely to inflict serious injury on pedestrians, cyclists or the occupants of automobiles and trucks. Conversely, larger vehicles have the potential to inflict serious injury to pedestrians, riders and occupants of smaller vehicles, but I don't believe this is factored into the premium structure of those vehicles. Perhaps premium methodology should be revised so these vehicles bear a greater share of the PIPP costs.

Transfer PIPP Premiums to Driver's Licence - It is the driver who causes accidents and not the vehicle; therefore, considering that 27% or nearly 1/3 of PIPP claims are from licensed drivers who do not own a vehicle, it would be a much more equitable system if PIPP premiums were transferred, all or in part, to the drivers licence, rather than placed solely on the vehicle. At present, there is a small insurance portion associated with the drivers licence; however this driver premium is not proportioned among the various coverages. Apparently these premiums are used as a direct offset to the costs of Basic insurance for Highway Traffic Act vehicles, so it is not known if any of it is assigned to offset PIPP costs

HOW TO CREATE ADDITIONAL FAIRNESS IN PREMIUMS

Transfer Penalties to Driver's licence - When someone avoids paying penalty premiums, good drivers bear the costs. The current bonus/malice system of merits and demerits is currently applied in an inequitable manner. Added costs for loss of merits or an increase in demerits is now applied both to the drivers licence and to all vehicles owned by the driver; however, those who don't own vehicles, but drive a vehicle owned by another family member or employer, only pay on the drivers licence.

This system also encourages "high risk drivers" to transfer ownership to other family members so as not to pay higher vehicle premiums and therefore, not contribute fairly into the public insurance system.

I'm sure if MPI examines its data, it will discover that vehicle ownership increases with the increase in merits and lower premiums and conversely, as drivers go down the scale with increased demerits and potentially higher premiums, the level of vehicle ownership decreases. There is a need to change the methodology for assigning penalties so that bad drivers continue to pay their fair share?

Multi-vehicle Discounts for Motorcycles - It is my understanding that the premiums for each classification of vehicles is based on the risks and accident history of that vehicle classification independent of other classifications.

Like most motorcyclists, I suffer from MPI "double" and "triple dipping". I also own other passenger vehicles and pay PIPP on all, but only drive one at a time.

Unlike other insurers, MPI provides no discount for a 2nd vehicle, the assumption being that both could be driven at the same time, with risk of accident. It is my observation, however, that when the motorcycle is being ridden, in most cases, the other vehicle remains unused, thereby reducing its risk. More likely however, when the other vehicle is driven, the motorcycle remains parked. Motorcyclists as a rule, do not share their ride.

According to the table attached to the 2015 GRA [CMMG(MPI) 1-18], the per unit claims cost for passenger vehicles owned by non motorcycle owners is 68% higher than for those passenger vehicles where the registered owner also has a registered motorcycle. (\$397 vs. \$236) It would appear that when a motorcycle is also registered, the risk goes down on the owner's passenger vehicle. Although more detailed actuarial investigation may be required, these stats appear to support a multi-vehicle discount where one of the vehicles is a motorcycle.

All the above scenarios, or combinations thereof, would, require proper actuarial analysis and actual premiums would have to include many other factors such

driving record, and the proportion of PIPP and penalty costs assigned to drivers' licence premiums and so on.

PUBLIC POLICY

I can certainly appreciate that some of my suggestions may not fall within the board's mandate and that it may be a matter of public policy, to be implemented by government through amendments to the Public Insurance Act or by giving policy direction to MPI.

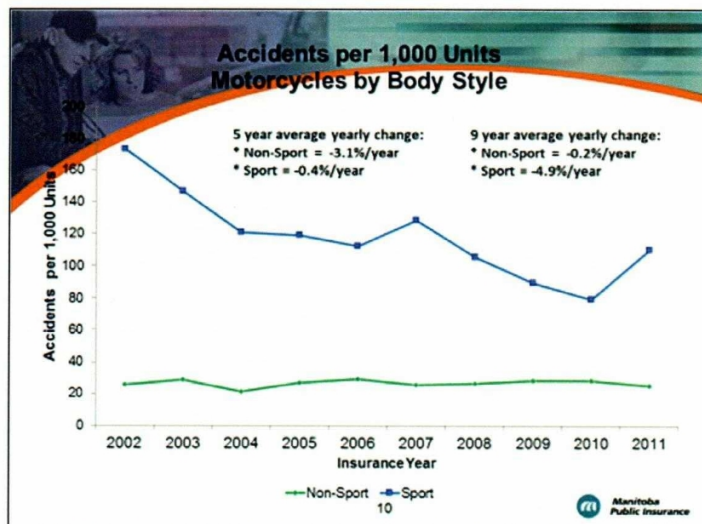
I will, however, request that this board recommend that MPI, and/or the Government of Manitoba, study this issue and advise as to how a PIPP flat rate or an assignment of PIPP to the Drivers Licence would affect average premiums for all classes, and as well, how premiums would be affected should excluded vehicles classes, such as interprovincial trucking were required to pay PIPP. As well, what would the impact be if PIPP and "penalty" costs were applied solely to the drivers licence.

SAFETY INITIATIVES

As a CMMG member, I'd like to thank MPI personnel for their support and participation in our annual Motorcycle Safety Awareness Rally and for attending our general meetings as guest speakers. Although not always agreeing, CMMG enjoys a collaborative relationship with MPI.

Safety initiatives not only reduce accident claims: they save lives and reduce injuries. CMMG directors are of the opinion that driver and motorcycle training is the best safety initiative and that the graduated licencing program and corresponding mandatory motorcycle training course have been the major contributing factors in reducing motorcycle accidents and resulting claims. Motorcyclists now know how to ride a motorcycle before entering public highways. Although there is no direct proof of this relationship, one only has to

examine the chart included with CMMG (MPI) 2-8 depicting Accidents per 1000 Units by Body Style. Although a generalization, many younger, new riders gravitate to sport bikes and as the chart indicates, there is a strong correlation between the inception of mandatory training and the downward trend in sport bike accidents.



MPI has been a supporter of motorcycle training and followed CMMG's recommendation to encourage riders to take the longer Gearing Up Course, costing \$430, by providing a financial incentive. Motorcyclists now receive a \$200 for completing this course.

Many older and long term riders have not taken any formal motorcycle classroom or skills training. Our ridership is ageing and there are many riders in their 60s, 70s and even 80s who still ride on a regular basis. I know from personal experience that balance, perception and reaction time diminishes with age.

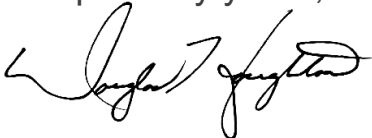
There is an Experienced Rider Course available at a cost of \$279, but I believe the added cost, in addition to insurance premiums, has resulted in minimal uptake. As well, long term riders don't believe they could benefit from training. I am of the opinion that some form of financial incentive, such as rate reduction over several years, would increase participation. To date MPI has not supported this initiative.

On the positive side, CMMG has been involved with the 2016 Safety Program and pamphlet, and consulted on various safety initiatives. We are also a member of MPI's External Stakeholder Committee on Loss Prevention and providing input into proposed amendments to the Highway Traffic Act and Vehicle Inspection Standards .

SUMMARY

That concludes my presentation. Thank you for giving me this opportunity to speak and for your attention to this matter.

Respectfully yours,

A handwritten signature in black ink, appearing to read 'Douglas Houghton', written in a cursive style.

Douglas Houghton