

2017 General Rate Application

Presentation of :

**Dan Guimond, President & Chief Executive Officer
and**

**Heather Reichert, Vice President, Finance & Chief Financial
Officer**



**Manitoba
Public Insurance**

Introduction

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PRESIDENT AND CHIEF EXECUTIVE OFFICER



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Agenda

1 – Context for the Requested Order (Dan Guimond)

- Brief history and context for this Application
- Corporate priorities, and the changing landscape of auto insurance
- PUB-MPI relationship, and factors for success

2 - Rates and Requested Order (Dan Guimond)

- Requested Order

3 - Basic Insurance – Overview of Financial Status (Heather Reichert)

- Financial status of Basic insurance
- The RSR and excess equity
- Interest Rate Forecasting Risk, and what to do about it

4 - Moving Forward (Heather Reichert)

- Value to Manitobans
- MPI's value management process
- Benchmarking
- Program Initiatives





Introduction

- Break-even ratemaking, based on best estimates, is well established and fundamental to the public auto insurance model
- A number of significant matters have already been addressed through a collaborative approach with the PUB and interveners
- The proposed rate increase, including the component to address interest rate forecasting risk is essential to predictable and stable rates
- Corporate Priorities include ensuring rate stability and preparing the Corporation for the 'new normal' in auto insurance
- MPI has positioned itself for success with diligent efforts at cost containment, value management, benchmarking, PDR, and loss prevention



Context for the Requested Order

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A Brief History

Basic Ratemaking:

- PUB sets rates for Universal Compulsory Automobile Insurance (Basic)
- MPI has other lines of business in the competitive marketplace
 - Extension, SRE
- Basic Rates are set to breakeven on forecasted net income
 - Rates are set as the average of two future test years to account for the staggered renewals
 - Rate Stabilization Reserve (RSR) exists to absorb variances around breakeven
- 1988 Autopac Review Commission (Kopstein Report) is foundational to this ratemaking approach



A Brief History

The Current Regulatory Focus:

- Finalizing the Rate Stabilization Reserve
 - Lower Total Equity Target – DCAT based 1 in 40 year scenario
 - Upper Total Equity Target – ‘notionally’ approved 100% Minimum Capital Test (MCT)
 - Strategy on the Use of Competitive Excess Equity in the Basic Insurance Line of Business
- Collaborative effort between PUB and MPI on:
 - Dynamic Capital Adequacy Test (DCAT)
 - Ratemaking
 - Continued spirit of collaboration on the Interest Rate Forecast Risk

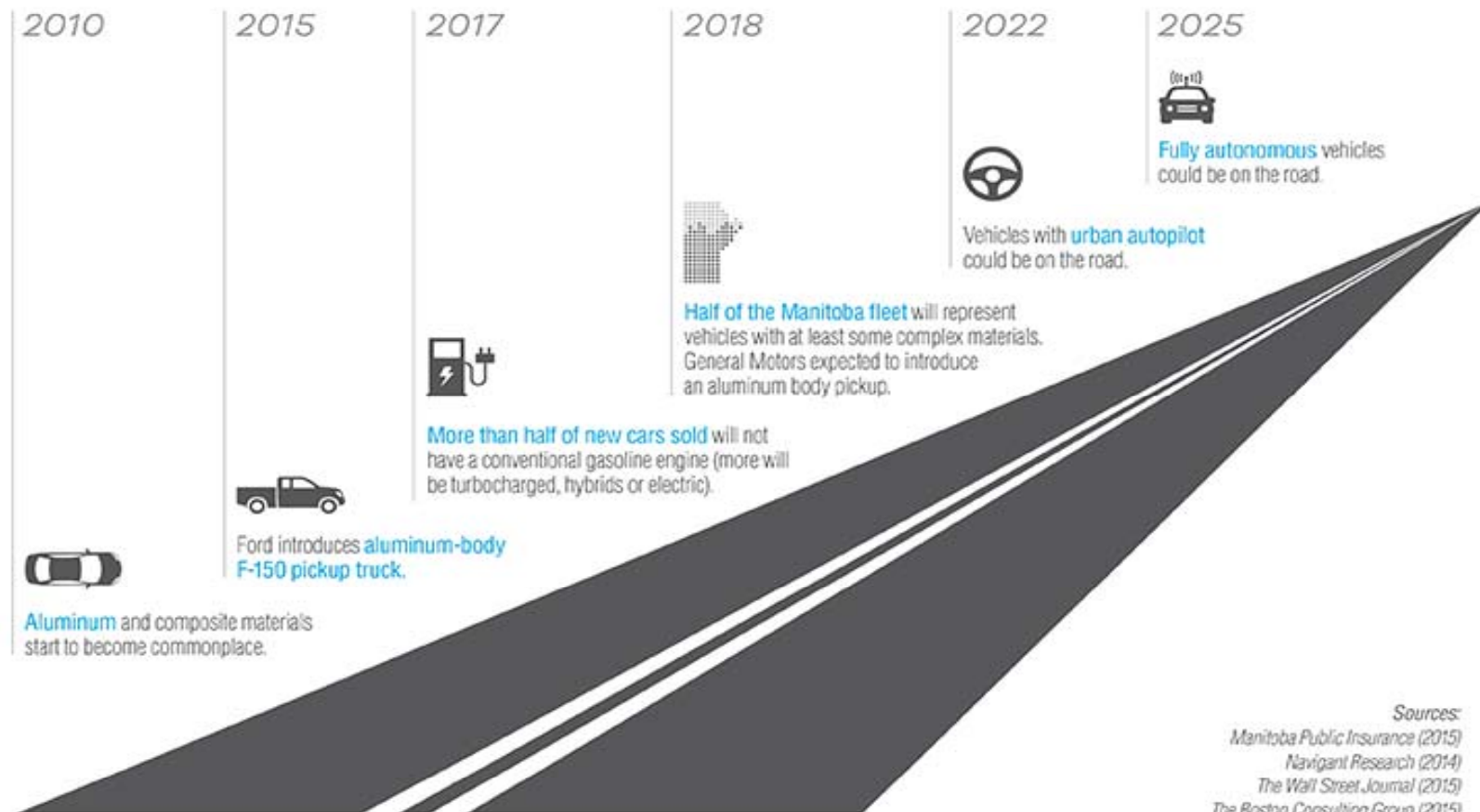


Corporate Priorities

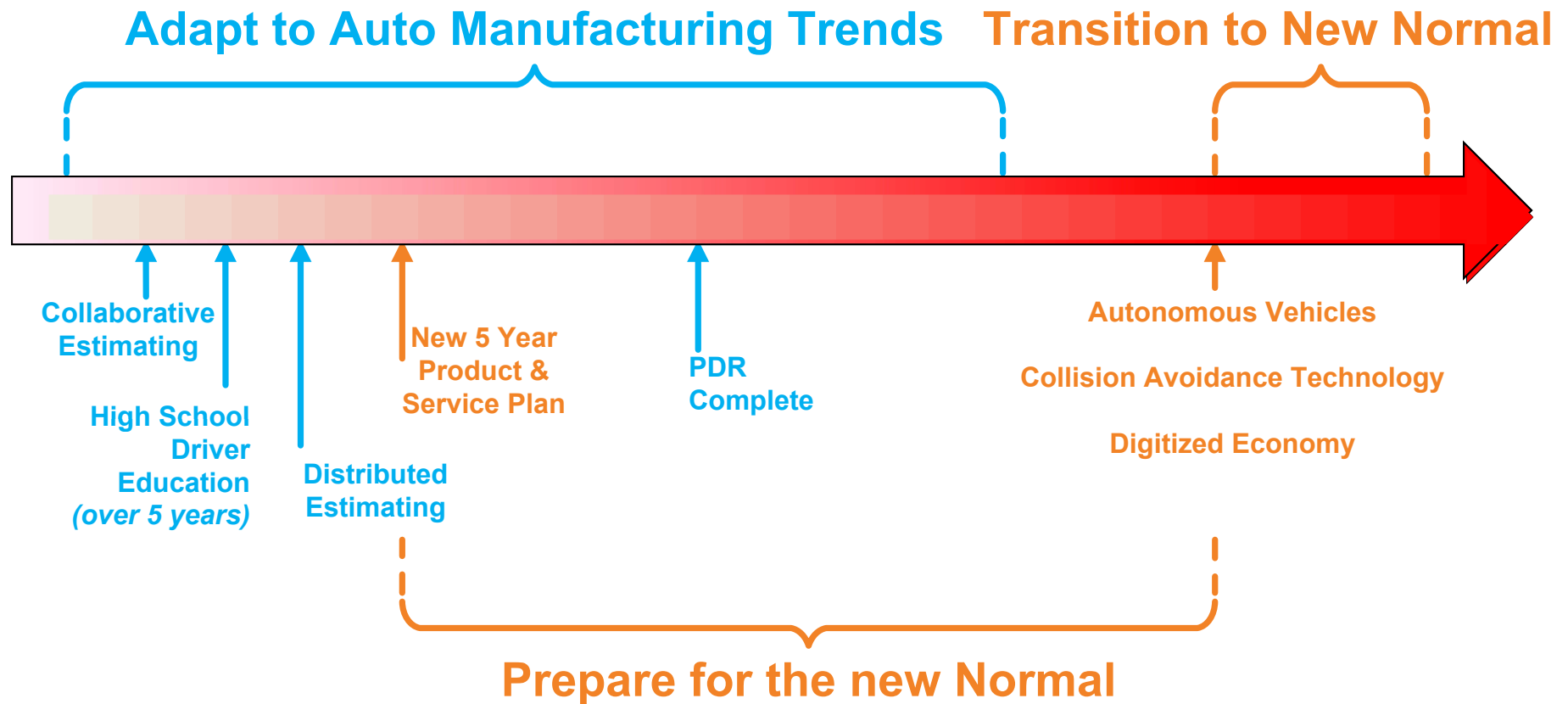
- PUB and MPI working together towards financial viability & stability of Basic insurance for all Manitobans
 - Manitobans want auto insurance rates that are predictable and stable
 - This in turn ensures the long term success of public auto insurance in Manitoba
- Address physical damage claims cost
 - Work with Manitoba repair trades to manage cost growth
 - Offer customer service delivery options at lower operational costs
- Prepare the organization for the digital economy; adapt to meet new operating realities

Changes in the Automotive Industry

PREPARING FOR INDUSTRY CHANGE



Positioning MPI for the New Normal





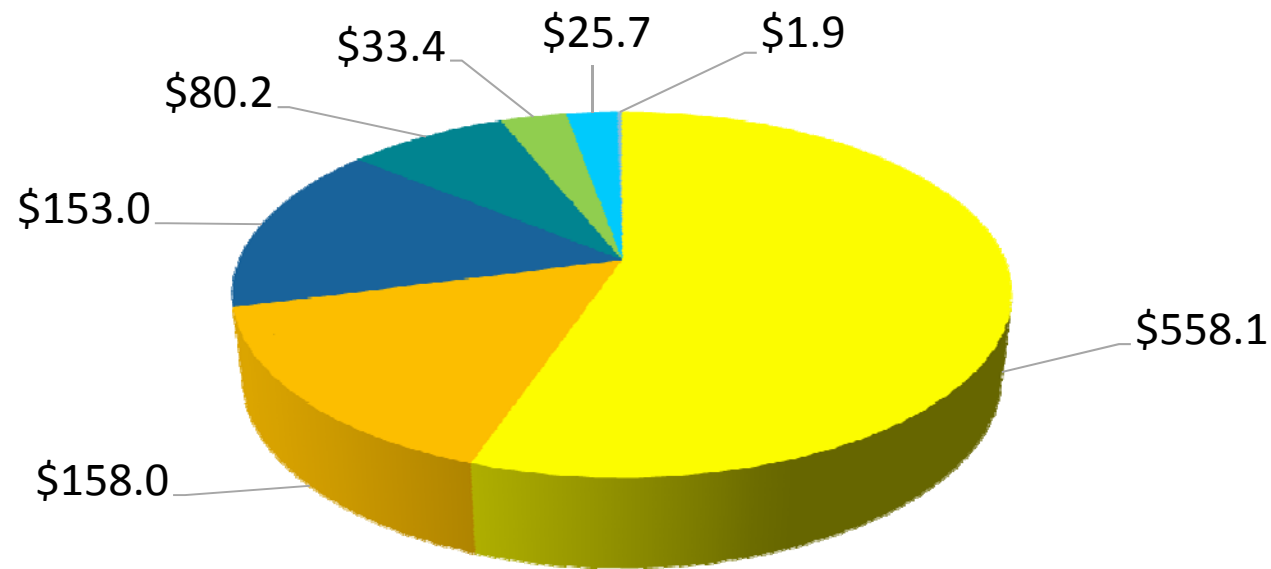
Automotive Industry Impacts

Physical Damage Re-engineering to address:

- The continuing penetration of complex (costly) technologies and materials in vehicles
 - Driver Assistance Technologies, lane departure
 - Complex materials, aluminum, Ultra high strength steel
- OEMs continue to implement Accredited Repair Programs
- The Manitoba auto-body repair industry still needs to make significant investments in training and equipment for a wide range of new standards

Value to Manitobans

Direct annual contribution of over \$1 Billion to MB:



(\$ Millions)

- property damage claims
- salaries and benefits
- bodily injury claims
- commissions to independent brokers
- provincial premium tax
- paid to Manitoba Health
- municipal grants



Common Ground

We have common objectives:

Rates

- Offer among the lowest compulsory auto insurance rates in Canada
- Provide Basic ratepayers with rate predictability and stability
- Ensure the sustainability and financial soundness of Basic
- Provide the ratepayers value for their money

Achieved through Collaboration

- Collaborative efforts on DCAT, ratemaking and interest rates
- Have a clearly defined public rate setting process
- Set rates that are just and reasonable



Rates and Requested Order

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Requested Order

An overall Basic insurance rate increase effective March 1, 2017, consisting of:

- 2% per the 2017 GRA

plus

- IRFRF

Implemented as a combined rate increase, will result in a change to:

- A minimum (lower) RSR total equity target based on a 1-in-40 probability DCAT scenario currently \$181 million

- An upper range RSR total equity target based on a 100% MCT currently \$404 million

No RSR re-building fee



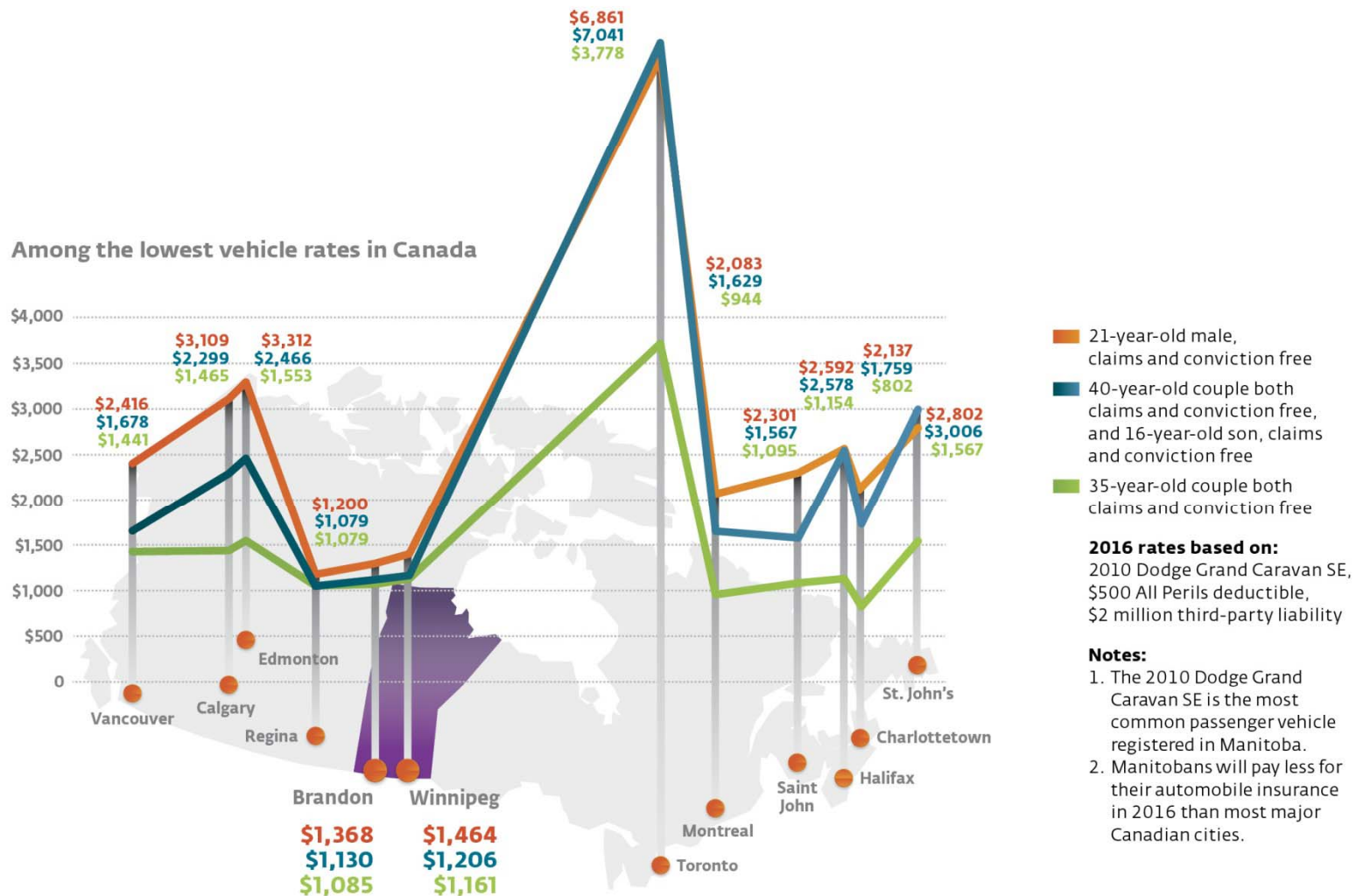


Journey to the Requested Order

- MPI proposed a 2% rate increase, **plus** an Interest Rate Forecast Risk Factor (IRFRF) to take effect March 1, 2017
- MPI proposed that the IRFRF be developed through a collaborative process
- Technical Conference explored the issue of a 'best estimate' interest rate forecast
 - The Corporation can accept Dr. Cleary's view that a 50/50 interest rate forecast is a best estimate
 - Prepared a rate indication on the basis of that best estimate
- The requested order is contingent on the adoption of a best estimate 50/50 interest rate forecast



Manitoba Enjoys Stable & Affordable Rates





Factors for Success

- Continued collaborative relationship with the PUB to meet the needs of the Basic Auto Insurance
- Forecasting - concurrence on key economic assumptions and environmental drivers
 - Getting to the ‘best estimate’ on interest rates
- Finalize the RSR target methodologies, key to rate stability and the long term viability of Basic
- Finalize the definition of the RSR
- Develop a common approach to loss prevention and road safety that fits with our collective mandates.



Basic Insurance Overview of Financial Status

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Financial Status of Basic

In the last year:

- 0% rate increase
- \$75.5 Million transfer of excess equity from competitive lines
 - Brought RSR to Minimum threshold, based on 2015 DCAT

For this year need to:

- Manage the risk caused by interest rate forecasts
- Finalize the methodology for the RSR upper and lower targets

More details to come on the financial state of Basic



Rate Stabilization Reserve

- MPI transferred non-Basic retained earnings to the Basic RSR
 - 2014/15 - \$75.5 million
 - 2015/16 - \$72.7 million
- The Basic RSR is currently at \$231 million - above the minimum indicated in the revised 2015 DCAT report
- Limited ability to transfer further equity to subsidize Basic
- MPI has filed a strategy in regards to the transfer of excess retained earnings from competitive lines to Basic



Strategy on the use of Excess Equity

- Clarifies the RSR Definition – how it is used, past and present
“The Purpose of the RSR is to protect motorists from rate increases that would otherwise have been necessary due to ***unexpected variances from forecasted results and*** due to events and losses arising from non-recurring events and factors”
- Transfers will only be considered to prevent an RSR rebuilding fee when the following conditions exist:
 - a) A minimum (lower) RSR total equity target based on a 1-in-40 probability DCAT scenario
 - b) An upper range RSR total equity target based on a 100% MCT value.
 - c) Basic rates are set to breakeven
- Basic must hold its own (no cross subsidization)



Strategy on the use of Excess Equity - Cont'd

- MPI Board of Directors has sole discretion to approve transfers, both the amount and timing
 - Must consider the current financial forecasts at the time of the transfer
- MPI Executive & Board of Directors must be able to meet their financial responsibilities and ensure an appropriate capital reserve exists to meet its statutory obligations



Interest Rate Forecast Risk

- Interest Rate Forecasts:
 - MPI complied with the Board Order to file GRA on basis of Standard Interest Rate Forecast
 - MPI does not view Standard Interest Rate Forecast as a ‘best estimate’
 - Interest rate forecasting risk results in significant exposure
- MPI needs a solution to the interest rate forecast problem
- RSR is not equipped to handle systematic forecast errors
 - The current Standard Forecast is not a ‘best estimate’
 - Without a ‘best estimate’ for interest rates, Basic Rates can’t be considered break-even



Interest Rate Forecast Risk Cont'd

- RSR cannot substitute for 'break-even rates'
- MPI proposes 50/50 forecast: split the difference between what the Banks say, and where we are today
 - MPI can accept this as a 'best estimate'

Moving Forward

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Corporate Operational Metrics

\$3.2 B

In invested assets



\$1.1 B

In annual premiums



\$2.9 M

In claims costs daily



1.1 M

Contact centre calls



1201

Claims daily



15

Claim/Service
Centre locations



1,110,969

Policies in force



895,942

Licensed drivers



296

Broker locations



1882

Employees across
Manitoba



266

Accredited collision
repair shops



(as at February 2016)





A Continuing Culture of Cost Containment

Innovation and Cost Containment Committee (ICCC)

- Consists of senior leaders from across the Corporation
- Investigates ways to improve work processes to contain and reduce costs
- New ideas are vetted with subject matter experts, reviewed by Management, and receive due diligence to ensure they will be effective

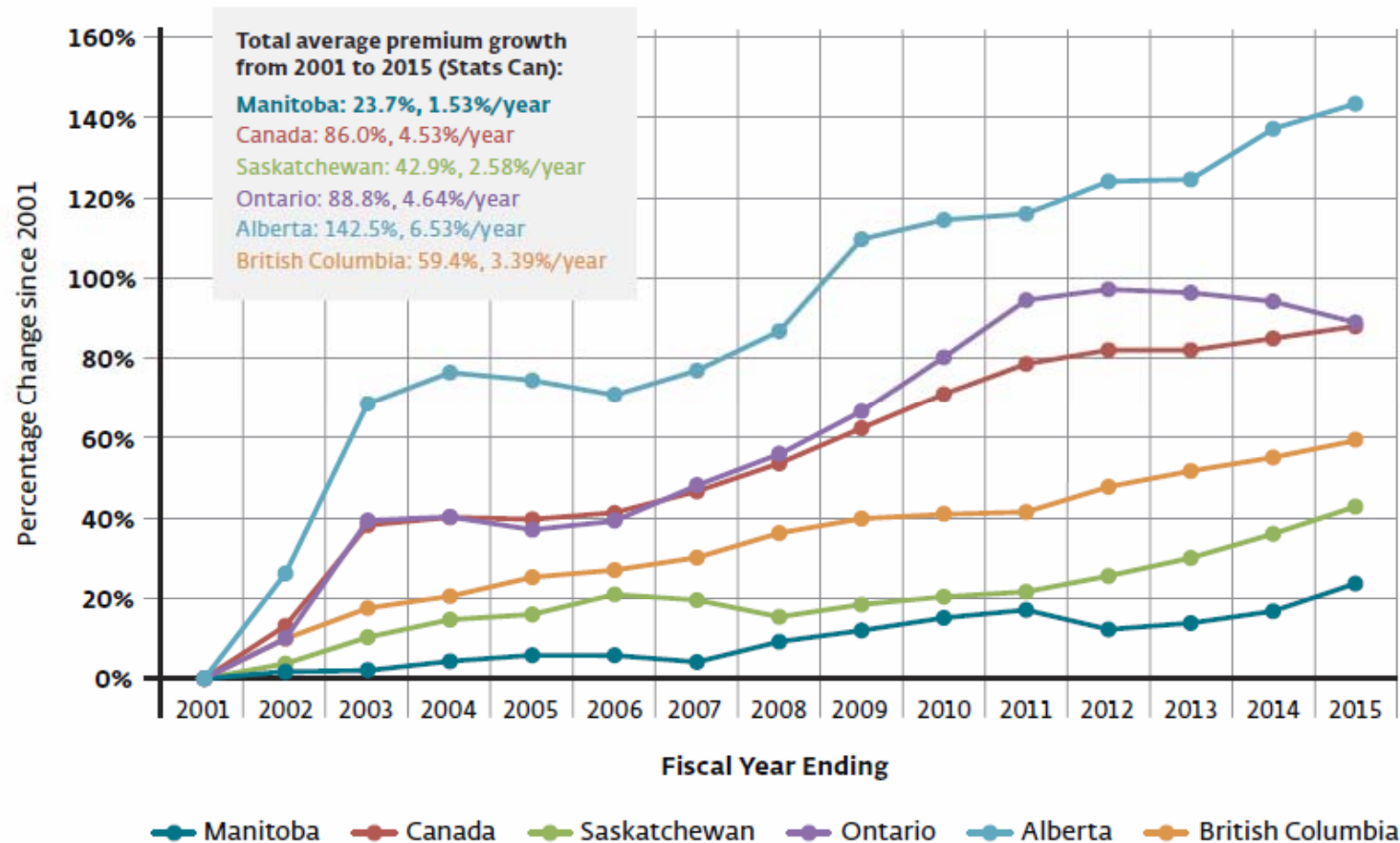
Recent Corporate Results – Budget Reduced by:

- \$9.9 million for 2017/18, 2018/19
- \$8.5 million in 2015/16

ICCC continues to work to find ways to contain and reduce costs

Manitoba Enjoys Stable & Affordable Rates

Passenger Vehicle Average Premium Growth (Statistics Canada) 2001 to present

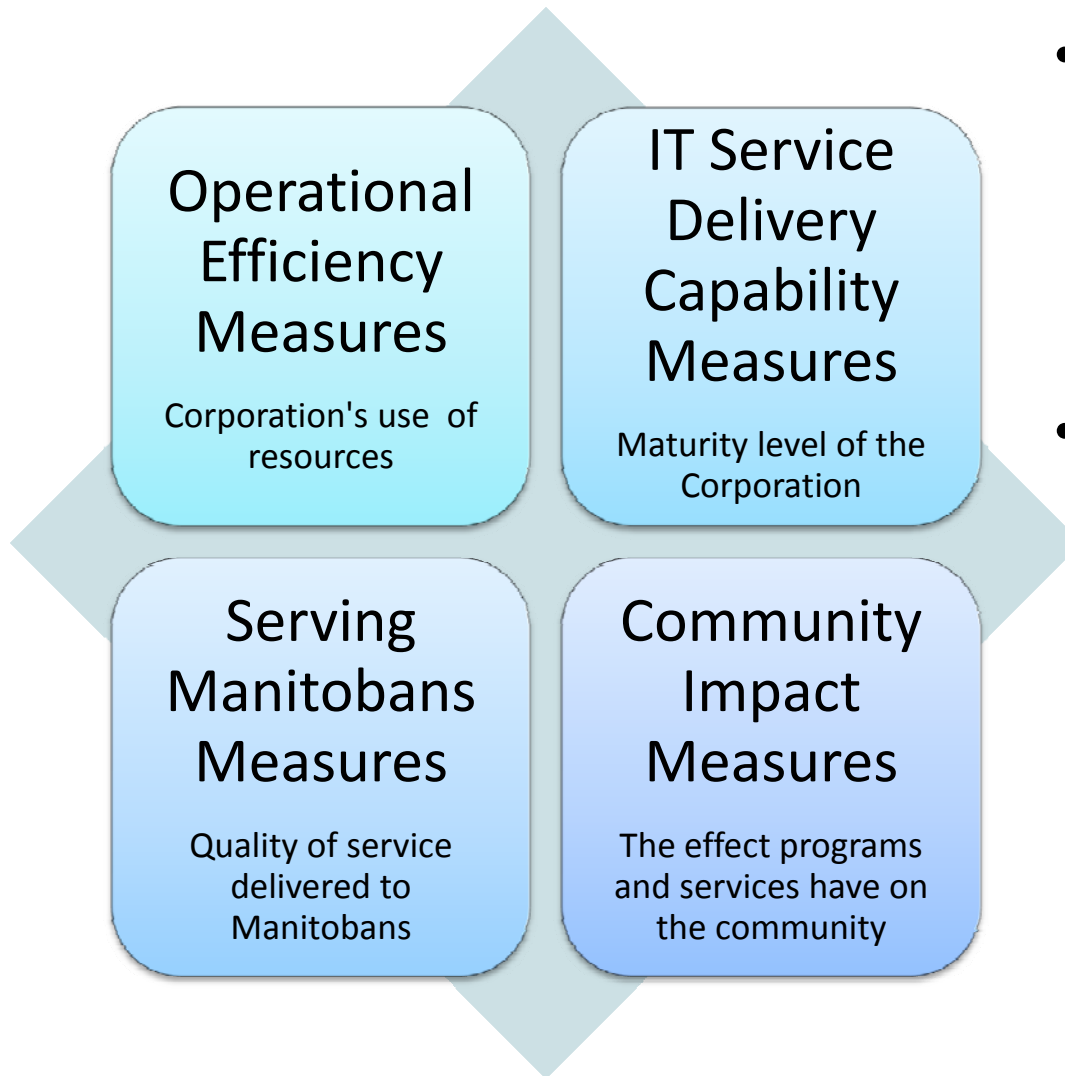




Value Management

- Process to define costs and benefits of new projects and initiatives across the Corporation.
- Use of iterative business case development for review/approval by management
- Once a project is implemented the Value Management process measures realized benefits against original project objectives

Benchmarking



- Goal to identify standards to apply in measuring and improving corporate performance
- Benchmarking results confirm the Corporation's business model, and cost containment efforts, have been successful in supporting the Value Equation



Benchmarking Results And Trends

- Key Benchmarking metrics are improving over time,
- MPI outperforms benchmark groups, sometimes by a wide margin
- E.g. Measures of Corporate Performance and FTE Efficiency

	MPI	CDN Benchmark
Gross expense per policy in force	\$286	\$490
FTEs per 100,000 Reported Claims	548	1281



Program Initiatives

Physical Damage Re-engineering

- Gartner prepared a Program Evaluation
 - MPI's active approach to adopt a more flexible operational model that will become the new operational 'normal'
 - Program Budget remains on track, with an NPV of \$18M
 - 14 of 20 projects in process or completed
 - Benefits being realized from PDR in 2016
- MPI is addressing Overall Program Management, Cost and Benefits Controls, and Vendor Management
- Gartner will be seated as a witness in this hearing



Program Initiatives

Loss Prevention Strategy and Framework

- Suite of programming from several angles, where elements work together, over time
- Recommendations from IBM for enhanced analysis and evaluation of program effectiveness are being acted on.
- MPI has made significant progress on developing the loss prevention program.

Basic Loss Prevention Overall Program Budget

- 2017/18 - \$13.2 Million
- 2018/19 - \$14.1 Million
- Funding not 'capped', programs with a net benefit are targeted



Loss Prevention Priorities – 2016/17

Behavior Change Priorities

- Distracted Driving
- Speed
- Impaired Driving
- Cyclist Safety
- Pedestrian Safety
- Motorcycle Safety
- Following too Closely
- Seatbelts and Occupant Restraints





New Road Safety Initiatives - 2016/17

Cyclist Safety Programming

Partnering with Bike Winnipeg to launch two pilot programs

- *Cycling Education in Schools*
 - Long term strategic approach to produce safe cyclists and reduce future collisions involving cyclists
 - Cycling education will form part of the physical education curriculum
- *Continuing Bike Together Winnipeg*
 - Provides bicycles, helmets and training to children in areas of Winnipeg with low helmet use among children
- *Currently working on a renewal of Cycling Awareness Campaign*
 - Anticipated launch in the spring of 2017
 - In collaboration with Bike Winnipeg



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Road Safety Initiatives - 2016/17

High School Driver Education (HSDE)

- 12,000 new teen drivers receive classroom and in-vehicle instruction annually
- Proof of concept stage for in car telematics, driving simulators for increased 'in-vehicle' learning, and online learning technologies
- Stronger parent /guardian and student engagement



Adult driver education in Winnipeg and northern communities where HSDE access may be limited



Conclusion

- MPI has positioned itself for success with diligent efforts at cost containment, value management, benchmarking, PDR, and Loss Prevention
- The top Corporate priority is ensuring predictable and stable rates for Manitobans.
- It is essential that:
 - i. Rates are set on a break-even basis, using best estimates
 - ii. The Rate Stabilization Reserve has appropriate upper and lower targets, to ultimately protect Manitobans
- The proposed rate increase, including the component to address interest rate forecasting risk is essential for rate stability and long term health of Basic.

Thank You



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