The Capital Maintenance Provision Proposal by Manitoba Public Insurance October 26, 2018

Consumers' Association of Canada (Manitoba)
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Overview

- Relying on a naïve forecast of interest rates, MPI, in its 2019 GRA to the Public Utilities Board (PUB), has applied for a 2.2% overall increase in Basic vehicle premiums comprised of
    - A 1.1% decrease based on Accepted Actuarial Practice in Canada (including a 1.2% decrease in the required rate change due to the investment income earned on the Rate Stabilization Reserve (RSR)) and
    - A 3.3% increase for the newly introduced CMP.
- The CMP is calculated based on a projected Minimum Capital Test ratio for fiscal year end 2019/20 that remains unchanged from the projected MCT ratio at fiscal year-end 2018/19. The MCT ratio forecasted for the fiscal year end 2018/19 includes the applied for rate change of -1.1%.
- We would argue that going through the DCAT analysis yearly, determining the true capital need of the Corporation based on adverse scenario analysis, determining the RSR range based on the adverse scenario results and holding capital within the RSR range is prudent fiscal management and that the CMP is not necessary.

The CMP was never approved by the PUB nor was consensus reached on it by the stakeholders

- In response to CAC (MPI) 1-72 the Corporation states "After hearing from PUB advisers and representatives from SGI and the CAC, the Corporation agreed that it was appropriate to include a Capital Maintenance Provision in the 2019 GRA."
- A full review of the transcript of the technical conference held March 2nd gives no indication that the consensus was reached by the stakeholders

The CMP has not been vetted by the public

- The introduction of the CMP into the 2019 GRA is a significant change in the requested rate change calculations and theoretical approach to capital by the Corporation.
- The public deserves to have its voice heard on this significant change.
- We would argue that the concept is not overly complex and that a lay person would be very clear on it if explained in non-technical language.

The CMP does not align with Accepted Actuarial Practice in Canada

- The Actuarial Standards of Practice are silent on the addition of a capital load onto a rate indication
- In response to CAC (MPI) 1-78 the Corporation states that it "is not aware of the existence of any industry, gray and peer-reviewed literature regarding the need for and the methodology to establish a Capital Maintenance Provision (CMP) for non-profit, monopoly, public auto insurers, and therefore did not review any. "

The use of an MCT target to set a CMP level is arbitrary and not board approved

- MPI is not regulated by OSFI, therefore there is no set MCT level that MPI is required to be above, nor a way to determine one
- The board has shown support for the determination of the RSR range based on the DCAT analysis

The CMP does not align with the Board approved methodology for calculating the amount of capital the Corporation requires nor is it consistent with work to date.

- A great deal of work has been done on the use of the DCAT to set the RSR range
- The Board has shown support for this approach

The introduction and basis for a CMP in the 2019 GRA is incomplete.

- In response to CAC (MPI) 1-74 the Corporation states that “The Corporation is currently developing a Capital Management Plan to, among other things, address this question. However, for the current GRA, the 2018/19 MCT ratio is within the calculated lower and upper RSR target. As a result, the Corporation did not request either a rebate or surcharge.”

The introduction of a CMP in the 2019 GRA would introduce intergenerational inequity

- The introduction of a CMP would increase the rates for the policyholders in the 2019/20 rating year to the benefit of those policyholders in place in future years
- Given the yearly application process in place it is unnecessary to ask for the extra premium

Recommendations

- The PUB order that the CMP be removed from the 2019 GRA.
- The DCAT methodology should be used to set the RSR range.
- The PUB approve a decrease in rates based on the 50/50 interest rate forecast and Accepted Actuarial Practice in Canada, that would include the investment income on the RSR.