

Order No. 61/18

MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION):

**INTERIM PROCEDURAL ORDER RESPECTING PRELIMINARY ISSUES LIST
FOR 2019 GENERAL RATE APPLICATION FOR
COMPULSORY 2019/2020 DRIVER AND
VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS**

May 7, 2018

**BEFORE: Robert Gabor, Q.C., Chair
Irene A. Hamilton, Member
Michael Watson, Member
Robert Vandewater, B.A., FCSI, CPA (Hon), CA (Hon), KStJ., C.D., Member
Carol Hainsworth, Member**

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1. SUMMARY

By this Order, the Public Utilities Board of Manitoba (Board) establishes, on an interim basis, the Preliminary Issues List for the anticipated General Rate Application (GRA) of Manitoba Public Insurance Corporation (MPI or Corporation) for the review and approval of base rates and premiums for compulsory driver and vehicle insurance to take effect March 1, 2019.

2. PROCEDURAL HISTORY

By letter to MPI dated April 11, 2018, copied to interested parties and prospective interveners, the Board advised that it is seeking to streamline its procedure for the anticipated 2019 GRA. As part of the process, the Board would be advancing the consideration of the scope of issues to be considered at the 2019 GRA hearing to earlier in the GRA hearing process.

Included with the letter of April 11, 2018 was a preliminary Issues List for the 2019 GRA. The Board invited MPI and the interested parties and prospective interveners to provide their comments on the scope of the issues, following which this Interim Order would issue. In addition, the Minimum Filing Requirements (MFRs) for the 2019 GRA would be provided to MPI following the issuance of this Order.

The Board further advised MPI and the interested parties and prospective interveners that following this Interim Order, a final Issues List would be approved by the Board in its Procedural Order, which will follow the Pre-Hearing Conference.

The Board received comments on the Preliminary Issues List from MPI, and from one of the Interveners of record, Consumers' Association of Canada (Manitoba) Inc. (CAC).

3. PRELIMINARY ISSUES LIST

The Preliminary Issues List as determined by the Board and circulated to MPI and the Interveners of record on April 11, 2018, set out the following issues as those to be considered in the 2019 GRA.

First, the following issues would be considered to be in scope of the 2019 GRA in the normal course:

1. Requested vehicle rate and any changes to other fees and discounts;
2. Rate indication based on accepted actuarial practice in Canada;
3. Compliance with Board Orders 130/17, 11/18 and 29/18;
4. Financial forecast:
 - a. financial forecast accuracy (2017/18 forecast versus actual results);
 - b. changes in projected financial results;
5. Cost allocation methodology changes;
6. Update of DCAT, target capital analysis and the target Basic total equity threshold levels based upon methodology approved in Board Order 130/17;
7. Performance of the investment portfolio and the composition of the portfolio;
8. Cost of operations and cost containment measures;
9. Claims forecasting (including PIPP);

10. Operational benchmarking, including with comparison to other provinces;
11. Run-off of prior year claims during 2017/18;
12. Long tail experience from other jurisdictions;
13. Results of the Service Fees review; and
14. Other issues that may arise (depending upon the nature and scope of the issue) based on a review of the application.

In addition, the Board determined that the following issues would require more detailed consideration in the 2019 GRA:

15. Driver Safety Rating (“DSR”) with further assessment on having “*driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale, and vehicle premium discounts that are fully supported by actuarial indications based on principal driver performance evaluation*” [Board Order 29/18].
16. Final rates for service for Vehicles for Hire (VFH) for the 2017/2018 and 2018/2019 insurance years and the directives from Board Order 11/18.
17. Current IT Strategic Plan and IT Expenses and Projects, including the Physical Damage Re-engineering Project, Distributed Estimating Technology Modernization and other initiatives planned for or ongoing in the rating years.
18. Capital Maintenance Provision with further assessment of developing a pricing approach which accounts for the natural growth of Basic’s risk profile and protects against the natural depletion of Basic Total Equity.

19. Asset Liability Management Study, including review of all aspects of the Study recommendations and implementation thereof, the evaluation of risk and return, alternative portfolio compositions, proposed portfolio segregation and recommended composition of the investment portfolio(s), forecast investment performance and changes to the Investment Policy Statement.

Lastly, the Board determined that certain issues would be deferred from the 2019 to future applications, or would be the subject of a technical conference or another process:

1. Road Safety;
2. Interest Rate Forecast (any changes and updates based on Board approved methodology not deferred);
3. Target Capital Methodology (any changes and updates based on Board approved methodology not deferred);
4. Integrated Cost Allocation Methodology (other than changes referred to in item 5 above).

4. MPI COMMENTS

MPI advised that it was supportive of the Board's initiative to streamline procedures to improve the focus and efficiency of the hearing process. MPI also agreed that "Core Issues" need to be considered each year.

MPI stated that Core Issues should be the basis for the MFRs which should be consistent from one year to the next. However, MPI was also of the view that there should be "Additional Issues" which should be the basis for "Additional Filing Requirements" (AFRs) which would vary from year to year depending on which issues the Board wishes to examine in greater detail in any given GRA.

MPI provided a revised Preliminary Issues List which largely tracked the issues set out in the Preliminary Issues List distributed by the Board, but which reorganized the listing to identify what it considered to be Core Issues as the basis for MFRs and Additional Issues as the basis for AFRs.

MPI also provided a Proposed Minimum and Additional Filing Requirements table classifying various requirements based upon the identified Core or Additional Issue. The filing requirements set out in the table again largely tracked the MFRs from previous GRAs though reorganized based upon classification as either a Core or an Additional Issue.

5. CAC COMMENTS

CAC also provided a revised version of the Preliminary Issues List distributed by the Board.

CAC suggested the addition of some further items, including a Corporate Strategic Plan, Risk Assessment which had been addressed in previous GRAs, and Accounting practice changes which are expected to be implemented as a result of changing requirements under International Financial Reporting Standards (IFRS). In addition, CAC suggested a more detailed description of some issues, relating primarily to the Asset Liability Management Study which had been filed with the Board by the Corporation pursuant to the Board Order 130/17.

It was also CAC's position that a detailed review of Road Safety and Loss Prevention not be deferred.

As well, CAC suggested changes to the MFRs corresponding to their submissions on the Preliminary Issues List.

6. BOARD FINDINGS

The Board appreciates the submissions made by MPI and CAC and is of the view that identifying and emphasizing those issues which will require more detailed consideration in the upcoming GRA will improve the efficiency of the public hearing and the Information Request process.

The Board accepts CAC's suggested inclusion of a Corporate Strategic Plan and Risk Assessment as issues to be considered in the normal course in the upcoming GRA.

While the Board accepts that some additional detail could be provided to the issues identified as performance and composition of the investment portfolio and the consideration of IT issues, not all of the suggested changes have been adopted.

In addition, the Board appreciates the importance of Road Safety and Loss Prevention to the public and ratepayers. This underlies the Board's direction in Board Order 130/17, that a detailed and comprehensive review by way of a Technical Conference take place in early 2019. As a result, while costs and budgeting of Road Safety programming will be considered in the 2019 GRA, the substantive issues identified in Board Order 130/17 will be deferred to the upcoming Technical Conference.

Lastly, the Board finds that issues relating to the anticipated changes to accounting practices under IFRS would be more effectively reviewed at a Technical Conference prior to the implementation of such changes. Accordingly, the terms of such a Technical Conference will be the subject matter of future Board consideration and Order.

The Board has taken into account the comments of MPI and CAC, and has approved the Preliminary Issues List as set out below.

7. IT IS THEREFORE ORDERED THAT:

1. The following issues will be considered within the scope of the 2019 GRA in the normal course:

1. Requested vehicle rate and any changes to other fees and discounts;
2. Rate indication based on accepted actuarial practice in Canada;
3. Compliance with Board Orders 130/17, 11/18 and 29/18;
4. Financial forecast:
 - a. financial forecast accuracy (2017/18 forecast versus actual results);
 - b. changes in projected financial results; and
 - c. update of the Interest Rate Forecast based upon methodology approved in Board Order 130/17;
5. Corporate Strategic Plan
6. Changes, if any, to integrated cost allocation methodology;
7. Update of DCAT, target capital analysis and the target Basic total equity threshold levels based upon methodology approved in Board Order 130/17;
8. Performance of the investment portfolio and the composition of i) the portfolio, ii) benchmark portfolio(s) on a market value basis (e.g. asset mix);

9. Cost of operations and cost containment measures;
10. Claims forecasting (including PIPP);
11. Operational benchmarking, including with comparison to other provinces;
12. Run-off of prior year claims during 2017/18;
13. Long tail experience from other jurisdictions;
14. Risk Assessment and Risk Management;
15. Results of the Service Fees review and
16. Other issues that may arise (depending upon the nature and scope of the issue) based on a review of the application.

2. The following issues will require more detailed consideration at the 2019 GRA:

17. Driver Safety Rating (“DSR”) with further assessment on having “*driver premiums more statistically consistent with the average claims cost per driver for each level on the demerit side of the DSR scale, and vehicle premium discounts that are fully supported by actuarial indications based on principal driver performance evaluation*” [Board Order 29/18].
18. Final rates for service for Vehicles for Hire (VFH) for the 2017/2018 and 2018/2019 insurance years and the directives from Board Order 11/18.
19. Current IT Strategic Plan and IT Expenses and Projects, including the Physical Damage Re-engineering Project, Distributed Estimating Technology Modernization, the Value Management Process and other initiatives planned for or ongoing in the rating years.

20. Capital Maintenance Provision with further assessment of developing a pricing approach which accounts for the natural growth of Basic's risk profile and protects against the natural depletion of Basic Total Equity.
 21. Asset Liability Management Study, including review of all aspects of the Study recommendations and implementation thereof, the basis for and evaluation of risk and return, alternative portfolio compositions, proposed portfolio segregation and recommended composition of the investment portfolio(s), forecast investment performance and changes to the Investment Policy Statement.
3. The following issues will be deferred from the 2019 to future applications, or will be the subject of a technical conference or another process:
22. Road Safety (other than costs and budget of Road Safety programs);
 23. Interest Rate Forecast (other than update referred to in item 4c above);
 24. Target Capital Methodology (other than update referred to in item 7 above); and
 25. Integrated Cost Allocation Methodology (other than changes referred to in item 6 above).
4. A final Issues List will be approved by the Board in the Procedural Order following the Pre-Hearing conference for the 2019 GRA.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure. The Board's Rules may be viewed on the Board's website at www.pub.gov.mb.ca.

THE PUBLIC UTILITIES BOARD

"Robert Gabor, Q.C."
Chair

"Rachel McMillin"
Assistant Associate Secretary

Certified a true copy of Order 61/18
issued by the Public Utilities Board



Assistant Associate Secretary