

MPI 2020 GRA: CAC Manitoba Recommendations

Forecasting

- **2019/20 expenditure forecast:** the revision to collision claims forecasts for the second half of the 2019/20 year to take into account unusually favourable experience in the “non-winter” months appears atypical and should not be relied upon in any determination of the projected level of the basic Rate Stabilization Reserve for the 2019/20 year end.
- **2019/20 revenue forecast:** the investment income from the RSR should be taken into account in the determination of the rate indication in accordance with Accepted Actuarial Practice (AAP).

Prudent and necessary costs

- **Personal Injury Protection Plan (PIPP) claims:** MPI should be directed to report back at the 2021 GRA on whether its new claims management strategy is working.
- **MPI agreements with service providers:** MPI should report back during the 2021 General Rate Application on industry best practice in ensuring compliance with the *Competition Act*, value for money and quality service availability including viable alternatives to agreements with service provider associations, which may include the Irish Messenger Model, rate cards and requests for proposals.
- **Service delivery model and broker compensation:**
 - The PUB should find that:
 - As reflected in agreements, operating standards and practices, the relationship between MPI and brokers has served to create barriers to entering the marketplace and to relationships; and
 - The current broker compensation model does not appear well adapted to fundamental changes in the marketplace, including evolving customer expectations and technological advances and rapidly changing insurance operational dynamic.
 - MPI should be directed to report back on the prudence and reasonableness of existing compensation packages especially in light of evolving consumer needs, and technological disruption and the need to preserve and enhance service in rural and remote communities.

- MPI should be directed to report back on alternate agreement model which might deliver better value for captive rate payers, ensure compliance with the *Competition Act* and reduce barriers to entry for competitive services.
- MPI should be directed to conduct engagement with Manitoba consumers about MPI's future service delivery model and to report back in the 2020 GRA. Engagement should be both quantitative and qualitative as both types provide complementary but different insights. Engagement should be conducted on issues relating to, but not limited to:
 - The option of credit card payments (monthly, quarterly, other);
 - The option of online transactions;
 - The option of phone transactions;
 - The role of brokers;
 - The role of MPI; and
 - Service delivery options in urban versus rural and remote areas.
- MPI should be directed to file an update relating to future service delivery in the 2021 GRA or at a Technical Conference, which is grounded in engagement with consumers and stakeholders and reflects commitment to:
 - maintaining and enhancing options for consumers in northern, rural and remote communities;
 - enabling all Manitobans to access on line MPI services; and
 - ensuring all customers who wish to access MPI services through a “bricks and mortar” option, where available, have the choice between MPI and broker options.
- The PUB should direct that it be mandatory for MPI and broker staff to notify consumers of competitive options to Extension and SRE.
- **Information technology:**
 - A survey of MPI employees should be conducted regarding the implementation of the NOVA project and results should be filed in the 2021 General Rate Application.
 - Given Project NOVA's risky business case and lessons learned from Physical Damage Re-Engineering, MPI should be directed to report on Project NOVA's risk status, budget and business case to the PUB quarterly.

- MPI should be directed to confirm in the 2021 GRA whether the Government of Manitoba will pay for the Driver and Vehicle Administration portion of Project NOVA.
- **Benchmarking:**
 - Given ongoing benchmarking challenges with respect to MPI's Information Technology FTEs, outsourced expenditures, IT maintenance and that MPI has discontinued the services of Gartner, MPI should be directed to report back to the PUB within six months on its future plans for benchmarking.
- **Investments:**
 - The PUB should find that MPI's current shadow portfolios will not achieve the objective of the PUB in Order 159/18 to assess whether MPI has “foregone an opportunity to hedge against long term risks by rejecting Real Return Bonds and reducing real assets in its new portfolio.”
 - MPI should be directed to revise its shadow portfolio to compare the risk and return to MPI's current portfolios against a real liability benchmark. MPI should be directed to file its proposed revised shadow portfolios with the PUB by February 1, 2020. Interveners of record should be provided an opportunity to file comments on MPI's revised shadow portfolios.
 - Consideration should be given to matching longer lived liabilities with growth assets.
- **Road Safety:**
 - The PUB should give consideration to holding a Technical Conference on road safety every two years, to feed into the General Rate Application process.
 - In order to demonstrate road safety portfolio optimization, MPI should be directed to engage with the Road Safety Provincial Committee to prepare a provincial road safety budget, which lists Manitoba road safety initiatives, the lead (and other) players, and associated budgets. This provincial road safety budget should be filed in the 2021 GRA.
 - MPI should be directed to engage with Manitoba First Nation political organizations and First Nations toward developing a First Nation road safety strategy and to report back in the 2022 GRA on the progress of such strategy.
 - MPI should be directed to engage with Manitoba consumers (in addition to stakeholders) as part of its road safety program development.

Overall health of the corporation

- **Reserves Regulation:**

- The PUB should determine that the *Reserves Regulation* is invalid for purposes of the MPI 2020 GRA.
- In the alternative, if the PUB determines that the *Reserves Regulation* is valid for purposes of the MPI 2020 GRA, the PUB should determine that it is not binding on it for purposes of rate approval.

- **Capital Management Plan:**

- The PUB should find that the Capital Management Plan, as currently framed, is not grounded in accepted regulatory practice, is not based on risk analysis and is based upon the myth of competition in the Extension line of business.
- In the event that the *Reserves Regulation* is determined to be invalid, or is valid but not binding on the PUB for rate approval purposes, the Capital Management Plan should be revised to reflect:
 - That the 100% MCT target is inappropriate for MPI's RSR as it represents a significant cost to ratepayers without being linked to MPI risk or experience;
 - The collaborative process over past years as it relates to a risk and experience-driven level for the Rate Stabilization Reserve, including the 1-in-40 DCAT scenarios;
 - The benefits of a range with a minimum and a maximum threshold, which is more likely to encourage rate stability, versus a target, which is more likely to encourage rate volatility;
 - The social wastefulness of excessive reserves; and
 - That excess reserves should be reflected as rebates to consumers (as opposed to reducing the rate indication) and that reserve deficiencies should be reflected as surcharges to consumers (as opposed to increasing the rate indication).
- The PUB should find that there are significant doubts that the proposed 200% MCT for Extension reflects the prudent risks of Extension.
- Accepted regulatory principles with respect to the intimate relationship between Basic and Extension can help inform appropriate evidence-based transfers from the unregulated line of business to the regulated monopoly, including:
 - Basic, a legislated regulated utility monopoly, provides benefits to Extension, a

non-regulated utility through the intimate relationship between the two lines of business.

- Given the benefits provided to Extension from Basic, the PUB should determine that it can examine the appropriate capital level for Extension for purposes of Basic rate approval;
- The value of the benefits afforded by Basic to Extension should flow back to Basic ratepayers. This can be accomplished by establishing an appropriate capital level for Extension and any revenues in excess of the target capital level should be transferred back to reduce the revenue requirement, i.e. the rates for Basic customers.
- MPI should be directed to provide reporting on Extension: a) market share b) profit target result c) monitoring of advice regarding competitive options by brokers and MPI staff
- In the event that the *Reserves Regulation* is found to be valid and binding on the PUB, the PUB should find that the Capital Management Plan, as it is currently proposed, does not comply with the mandatory language of the *Reserves Regulation*.
- MPI should be directed to conduct engagement with consumers and stakeholders regarding the definition of “rate shock”, including the difference between overall rates and individual consumers' bills, and propose a definition for consideration at the 2021 GRA.
- **Net Capital Maintenance Provision:**
 - MPI should not include a Net Capital Maintenance Provision in its rate applications going forward.

Allocation of costs to customer classes

- **Driver Safety Rating:**
 - MPI should be directed to conduct the following next steps with respect to Driver Safety Rating:
 - Pricing examination, including the financial impact on premium revenue and the cost of modifying the system;
 - Complete a review of best practices in other jurisdictions; and

- Conduct further engagement with consumers with respect to models that are priced, including relating to how to structure and implement any new model.
- Decision-making considerations with respect to Driver Safety Rating should include:
 - Consumer views;
 - Premiums that accurately reflect the risk that drivers of a vehicle pose;
 - Encouraging safe driving; and
 - Cost efficiency to the corporation.

Consumer engagement

- Whenever MPI engages with consumers, it should be directed to employ best practices including:
 - Consumers should be engaged at various stages of the process, including when there is more than one option on the table and when an option is selected but implementation/roll-out remains to be determined. Consumer engagement results should be documented and reported on, including an explanation of why feedback may not have been relied upon;
 - While e-panels perform a useful function, there is a risk that when consumers are asked questions relating to the same issue more than once, they may begin to buy-in and may not offer the same feedback as a consumer who has never been engaged on the issue. While retaining the e-panels as a useful tool, MPI should also engage different consumers; and
 - Before any new products or programs for consumer use are launched, product testing should be conducted with average consumers (including with consumers of varying levels of technological knowledge for online products) in order to receive feedback and make changes before launching.

Just and reasonable rate in accordance with statutory objectives

- In the event that the *Reserves Regulation* is found to be invalid or not binding on the PUB, the PUB should order a **rate decrease of -0.6%**, recognizing there is insufficient evidence to further modify the rate request given:
 - The legal uncertainty surrounding the *Reserves Regulation*;

- The absence of DCAT analysis for the test year assuming a 1-in-40 risk tolerance, which makes setting a target range for the RSR based on past practice challenging;
 - The absence of a Capital Management Plan which contemplates transfers from Extension to Basic grounded in accepted regulatory practice; and
 - The revision to collision claims forecasts for the second half of the 2019/20 year to take into account unusually favourable experience in the “non-winter” months.
- In the event that the *Reserves Regulation* is found to be valid and binding on the PUB, the PUB should find that the Capital Management Plan, as it is currently proposed, is not consistent with the *Reserves Regulation* as it contemplates the RSR level being below 100% MCT.