

2020 General Rate Application Reply Remarks

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Agenda

1. *The Reserves Regulation*
2. CAC Recommendations
3. IBAM Recommendations
4. CMMG Recommendations



1. The Reserves Regulation



The Reserves Regulation

1. Does PUB have Jurisdiction to Decide Validity of Regulation?
2. Is the Regulation Valid?
3. Is the Regulation Binding?



The Reserves Regulation

Is the Regulation Valid?

- Consistent with general and specific (targeted) grants of authority
 - *The Manitoba Public Insurance Corporation Act*
 - See: preamble of s. 33(1), 33(1)(a) and 33(1)(o)



The Reserves Regulation

Is the Regulation Valid?

- Preamble of s. 33(1)

“Subject to subsection (1.1), for the purpose of carrying out the provisions of this Act according to their intent, the Lieutenant Governor in Council may make such regulations as are ancillary thereto and not inconsistent therewith; and every regulation shall be deemed to be part of this Act and has the force of law...” [emphasis added]



The Reserves Regulation

Is the Regulation Valid?

- S. 33(1)(o)

“respecting any matter considered necessary or deemed advisable by the Lieutenant Governor in Council for the effective carrying out of the intent and purpose of this Act and the regulations and any insurance plan established under this Act.”



The Reserves Regulation

Is the Regulation Binding?

- Does not require PUB to approve particular rate or a particular rate in a particular way
- PUB cannot direct MPI to hold an amount in its RSR that is less than 100% MCT
- PUB cannot require MPI to use a method to establish the minimum RSR target other than MCT
- Not “just and reasonable” to approve rates that, by design, do not allow MPI to satisfy its legal obligations
- Creates practical problem for MPI if not followed by PUB



2. CAC Recommendations



CAC Recommendations

1. Forecasting
2. Service Delivery
3. Information Technology
4. Benchmarking
5. Shadow Portfolios
6. Extension Market Conduct
7. Capital Management Plan
8. 100% MCT Capital Target
9. The Stand Alone Principle



CAC Recommendations – Forecasting

CAC recommends 2019/20 Expenditure Forecast not be relied upon

- Projected 2019/20 Year End RSR levels are a current best estimate recognizing the seasonal deterioration in claims experience
- Rejecting the 2019/20 year-end RSR forecast level would increase the potential for RSR Rebuild under the CMP



CAC Recommendations – Service Delivery

CAC suggests consumer engagement should re-open the issue of monthly credit card payment

- There is no evidence on the record of any customer complaints
- Monthly credit card payments were eliminated after a careful consideration of business case and customer implications
- The *Automobile Insurance Plan Regulation (49/2019)* was amended to reflect the elimination of monthly credit card payments



CAC Recommendations – Information Technology

CAC recommends quarterly reporting on Project Nova

- MPI has provided unprecedented disclosure in this GRA
- MPI welcomes suggestions from the PUB to exchange information
- Governance vendor reporting could be made available



CAC Recommendations – Benchmarking

CAC recommends MPI report on IT Benchmarking within 6 months

- MPI will have a new IT benchmarking vendor in place by fiscal year end
- MPI is pursuing operational benchmarking effort with Crown Insurers
- Reporting will be available for the 2021 GRA
 - Earlier access will depend on the timing of the work being completed



CAC Recommendations – Shadow Portfolios

CAC recommends MPI revise the Shadow Portfolios to reflect a real liability benchmark

- MPI Board of Directors determines the Corporation's risk tolerance



CAC Recommendations – Extension Market Conduct

CAC argues for the PUB to intervene in the Extension marketplace

- PUB cannot direct MPI and broker staff to notify customers about extension options
- Brokers and MPI ‘sell only what they sell’



CAC Recommendations – Capital Management Plan

CAC recommends PUB determine Extension Capital targets for Basic rate approval purposes

- CAC provides no evidence or explanation of how the PUB might go about this
- The Reserves Regulation determines Extension Capital target at 200% MCT
- The Capital Management Plan, as established by the MPI Board of Directors, determines what happens with Extension's capital
- MPI's Capital Management Plan:
 - Transparently manages excess Extension reserves
 - Has formalized past practices



CAC Recommendations– Capital Management Plan

CAC recommends the PUB find that competition in the Extension marketplace is a myth

- CAC points only to Market Share, Profit Targets, and Point of Sale Transactions to support this conclusion
- CAC invites to PUB to use its imagination, in place of rigorous and thorough analysis
- PUB needs “Insight” into Extension (not Oversight)
 - PUB should exercise caution in making findings related to the *Competition Act*, and defer to the authority of the Competition Bureau and its *Abuse of Dominance Enforcement Guidelines*



CAC Recommendations– 100% MCT Capital Target

CAC argues that 100% MCT Capital Target is inappropriate

- 100% MCT is the minimum of industry best practice, with “Capital Required” based on MPI’s own circumstance

CAC advocates setting MPI’s capital target on the strength of its shareholder, the Government of Manitoba, arguing there is no risk of insolvency

- Reserves Regulation expressly rejects that premise

Regulators also apply the Stand Alone Principle

- The ‘flipside’ not proffered by the CAC



The Stand Alone Principle

Alberta Energy and Utilities Board findings:

it is important to distinguish between the following two applications of the stand-alone principle:

- 1) The application of the stand-alone principle to allocate total utility costs to regulated activities and non-regulated activities.*
- 2) The application of the stand-alone principle to allocate the costs of integrated regulated utility activities into business functions.*

This first application of the stand-alone principle is designed to remove the effects of diversification by utilities into non-regulated activities. Using the stand-alone principle in this case, a utility is regulated as if the provision of the regulated service were the only activity in which the company is engaged. This application of the principle ensures that the revenue requirement of regulated utility operations is not influenced up or down by the operations of a parent or “sister” company. Thus, the cost (or revenue requirement) of providing utility service reflects only the expenses, capital costs, risks and required returns associated with the provision of the regulated service.

(GENCO AND DISCO 2000 POOL PRICE DEFERRAL ACCOUNTS PROCEEDING - EUB Decision 2001-92, p.25)



The Stand Alone Principle

Alberta Utilities Commission findings

217. The stand-alone principle has been applied by the Commission to treat a regulated utility as a distinct entity for the purposes of determining the costs to be borne by ratepayers for the service of the regulated utility. As noted by the Alberta Court of Appeal in ATCO Electric Ltd. v Alberta (Energy and Utilities Board), “The purpose of the stand-alone principle is to notionally isolate and categorize – for accounting and rate-making purposes – the costs incurred in the operation of a discrete business function of a utility.”³⁰² The principle has been applied to allocate costs between regulated and non-regulated activities of an integrated utility, with the theory being that regulated utility customers should only pay for the costs of the regulated service. It has also been applied to allocate costs incurred by an integrated utility amongst its various business functions, so that just and reasonable rates can be set for each business function. In the context of a GCOC proceeding, the stand-alone principle has been applied to determine an ROE and deemed equity structure for each regulated utility as if it were a stand-alone entity.

(2018 Generic Cost of Capital AUC Decision 22570-D01-2018, p. 47)



The Stand Alone Principle

Alberta Utilities Commission findings

*222. While the Commission has generally maintained its practice of determining a deemed equity ratio for each utility that, when combined with the approved ROE, will achieve target credit ratings in the A-range when assessed on a stand-alone basis, it has tempered this approach when it has determined, based on the evidence before it, that ignoring the utility's owner (or investor) would be inconsistent with other considerations, such as the Commission's obligation to ensure rates are just and reasonable. **Put another way, while the Commission continues to apply the stand-alone principle, this is just one tool to assist it in determining a fair return and approving just and reasonable rates, as detailed in the fair return section above.***

(2018 Generic Cost of Capital AUC Decision 22570-D01-2018, p.48)



3. IBAM Recommendations



IBAM Recommendations

For what purpose did IBAM question the credentials and experience of MPI's executive?

- Current executive has adequate knowledge of MPI's history and its relationship with IBAM
- Current executive is bringing the best of private insurance practices to the competitive broker industry



IBAM Recommendations– Online Service Delivery

5 of the 7 IBAM Recommendations apply to future online service delivery

No decisions have been made on Project Nova systems to support online service delivery

- No decision yet on retaining the P&C or the DVA vendors

Service delivery is the purview of MPI Management

- IBAM infers, but has provided no evidence, that customers will be harmed by direct sales
- Commitments past MPI Executive are of no moment



IBAM Recommendations - Fair Compensation

IBAM recommends the PUB order Brokers to be compensated fairly

- The existing MPI/IBAM Service Provider Accord does not expire until Feb 28, 2021
- MPI will engage with Brokers to establish the terms of the commercial relationship



4. CMMG Recommendations



CMMG Recommendations

1. 0% rate Increase in Overall Rates for Motorcycle Major Class

- Rates must be based on evidence and be consistent with Accepted Actuarial Practice, and PUB approved methodology

2. Backing Claims Liabilities with Equities (as also recommended by CAC)

- MPI is conducting an assessment of IFRS 17 rule changes
- MPI's Board of Directors may explore the merits of backing claims liabilities with equities, once the impact of IFRS 17 rule changes are fully understood

