

Ratemaking, Vehicle for Hire

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2021 General Rate Application



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Ratemaking



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Agenda

- **Ratemaking**
 - Done on a breakeven basis based on Accepted Actuarial Practice
 - 2021/22 breakeven rate indication is -3.8%
 - MPI's Capital Management Plan applied after determination of breakeven rate
 - Maximum capital release of 5.0%
 - **2021/22 total overall rate decrease of -8.8%**

Basic Rates

- The Basic ratemaking methodology is proven and stable over time.
- Required rates are determined on a breakeven basis i.e. no profit provision, and based on Accepted Actuarial Practice
- A capital build or capital release provision is included thereafter if applicable based on MPI's Capital Management Plan

Basic Rates

- MPI continues to operate in a fiscally prudent manner to keep rate asks to a minimum. Compared to the 2020 GRA:
 - Claims costs per vehicle unit excluding product changes decreased by 0.8%
 - Total expenses per vehicle unit increased by 1.3%
- Updated 2021/22 breakeven rate indication = -3.8%
 - Variance from initially filed indication of -5.5% mainly due to decrease in the new money yield from 2.58% to 1.94%
- Maximum capital release of 5.0%
- **2021/22 total overall rate decrease of -8.8%**



Breakeven Rate Indication

- The table to the right compares the undiscounted costs per vehicle for the components making up the overall required rate.

Components	2020 Undiscounted AAP Rates, \$	2021 Undiscounted AAP Rates, \$	\$ Change/ Impact on AAP Rates	% Change	\$ Change as % of 2020 AAP Required Rate
Claims	783.68	751.21	(32.46)	-4.1%	-3.5%
Claims Expense	124.43	131.79	7.36	5.9%	0.8%
Road Safety/Loss Prevention	11.11	11.37	0.27	2.4%	0.0%
Operating Expense	61.83	61.95	0.13	0.2%	0.0%
Regulatory Appeal	4.41	4.32	(0.09)	-2.0%	0.0%
Commission	40.40	39.90	(0.50)	-1.2%	-0.1%
Premium Tax	31.85	31.01	(0.84)	-2.6%	-0.1%
Reinsurance	12.05	11.69	(0.36)	-3.0%	0.0%
Fleet Rebates	14.31	14.77	0.45	3.2%	0.0%
Anti-Theft Discount	1.72	1.33	(0.39)	-22.6%	0.0%
Driver Premium	(59.74)	(56.73)	3.00	-5.0%	0.3%
Service Fees	(24.25)	(25.70)	(1.45)	6.0%	-0.2%
Total Undiscounted	1,001.80	976.91	(24.88)	-2.5%	-2.7%
Impact of Discounting	(73.50)	(59.34)	14.17	-19.3%	1.5%
Required Rate	928.29	917.58	(10.71)	-1.2%	-1.2%
Natural Upgrade (Difference in forecasted upgrade plus upgrade for one additional year)					-2.6%

AAP/Breakeven Rate Indication

-3.8%



Drivers behind 2021/22 Overall Rate Change

2021/22 Basic Rate Indication

Required Rate*	-1.2%
Vehicle Upgrade	-2.6%
AAP/Breakeven Required Rate Change	-3.8%
Capital Release	-5.0%
Overall Required Rate Change	-8.8%

*Required rate decreased by 1.2% from 2020 GRA:

- Claims Costs (incl. Claims Exp.) excl. product changes = +0.2%
- Claims Costs (incl. Claims Exp.) impact of product changes = -2.9%
- Decrease in Interest Rates = +1.5%
- All Other Expenses = -0.2%
- Service Fee and Driver Premium Revenues = +0.2%

8.8% Vehicle Premium Rate Decrease

- 96.6% of overall vehicles will have a rate decrease or no rate change
 - Almost 100% of private passenger vehicles will have a rate decrease

Major Class	Current Average Rate	Indicated Average Rate	Indicated Rate Change
Private Passenger	1,184	1,073	-9.4%
Commercial	828	811	-2.1%
Public	2,141	2,063	-3.7%
Motorcycles	847	887	4.7%
Trailers	77	68	-11.3%
Off-Road Vehicles	7	7	0.0%
Overall	905	826	-8.8%



Rate Change - Motorcycle Major Class

- Rate change disproportionately affected by changes in the new money yield (NMY) used for ratemaking.
 - Significant proportion of loss costs are for long-tail PIPP benefits

- Other drivers of the rate increase
 - Ratemaking methodology changes – separate loss development for serious losses and determination of indicated pure premiums – rate change +4.2%
 - Increase in forecasted overall claims costs and low upgrade factor

- Major class minimally affected by product changes

	Private Passenger	Motorcycles
PIPP % of total loss costs	30.6%	92.6%
Required rate change @ NMY of 2.50%	-10.7%	3.2%
Required rate change @ NMY of 1.94%	-9.3%	6.9%
Variance from the change in NMY	1.4%	3.7%



Taxicab VFH and Passenger VFH

- Both Taxicab VFH and Passenger VFH have low number of units
 - Minimum credibility applied to the actual experience
- Similar ratemaking methodology applied to both insurance uses
- Loss experience for Taxicab VFH is more mature
 - Rollover from the Taxi Livery Passenger Vehicle insurance use
 - Rates are reflective of potential loss costs with minor year-over-year adjustments
- Only two years of loss experience for Passenger VFH
 - Both years have significantly high loss ratios – many potential reasons
 - Adjustment to rates within the consistent ratemaking methodology applied to all insurance uses

Summary of Key Themes

- Proven process
- Resulting in -3.8% breakeven indication based on AAP
- Maximum capital release of 5.0%



Vehicle for Hire (VFH)



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Vehicle For Hire (VFH)

- On March 1, 2018 MPI introduced a new Vehicle for Hire (VFH) insurance model that provides insurance coverage for the various subcategories of vehicle for hire (Taxis, Limousines, Accessible vehicles and Private Passenger vehicles)
- MPI is presently in the process of conducting a review of the current VFH insurance model to determine how the framework and/or pricing structure can be enhanced to better meet the needs of both rideshare drivers and rideshare companies
- Conducting a review at this time is appropriate since the current VFH program has been operational for two full insurance years, other Canadian jurisdictions have since introduced ridesharing, and Project NOVA is currently underway which will assist in ensuring that any VFH model development is supported by future system capabilities
- MPI is in the process of engaging stakeholder groups to provide feedback to assist in the development of a new vehicle for hire model. Input is sought to:
 - Obtain stakeholder feedback on the current time band model
 - Obtain stakeholder perspective on potential insurance solutions