

MANITOBA PUBLIC INSURANCE
2021 GENERAL RATE APPLICATION
Round 2 Information Requests
Confidential Questions - Public Responses
September 15, 2020

Public Utilities Board



**MANITOBA
PUBLIC INSURANCE**

PUB (MPI) CI 2-8 - Confidential

Part and Chapter:	CAC (MPI) CI 1-7 PUB (MPI) 1-51	Page No.:	
PUB Approved Issue No:	9. Cost of operations and cost containment measures		
Topic:	Physical Damage Re-engineering		
Sub Topic:			

Preamble to IR:**Question:**

- a) Please provide the detail of the Project Net Ongoing Costs/ benefits for the 2020 and 2021 GRAs to support the indicated changes in Project Net Ongoing Benefits in the 2020 business case.
- b) Please provide the supporting calculation for the foregone savings (Year 8 – 17) in the updated NPV analysis related to Part saving and Direct Repair (DR) program internal efficiencies reflected in PUB (MPI) 1-51.

Rationale for Question:

To understand changes in the NPV for the PDR.

RESPONSE:

- a) PUB (MPI) 1-51 Appendix 1, Changes in NPV 2021 GRA vs. 2020 GRA presents the net changes by benefit/cost category. The detailed 2020 to 2021 GRA comparison for each benefit cost category is provided in Appendix 1 - Confidential to the document.
- b) See Appendix 1 - Confidential.

Benefits Savings Category	Year 8 2017/2018	Year 9 2018/2019	Year 10 2019/2020	Year 11 2020/2021	Year 12 2021/2022	Year 13 2022/2023	Year 14 2023/2024	Year 15 2024/2025	Year 16 2025/2026	Year 17 2026/2027
GRA 2020 Internal Efficiencies	\$1,774,290	\$1,082,285	\$1,478,651	\$1,924,121	\$1,984,724	\$2,046,842	\$2,110,513	\$2,175,776	\$2,242,670	\$2,311,237
GRA 2021 Internal Efficiencies	\$1,774,290	\$1,082,285	\$1,305,296	\$1,119,683	\$1,169,683	\$1,208,925	\$1,249,148	\$1,290,377	\$1,332,636	\$1,375,952
Change	\$0	\$0	(\$173,355)	(\$804,438)	(\$815,041)	(\$837,917)	(\$861,365)	(\$885,399)	(\$910,034)	(\$935,285)

Note 1: 2017/18 includes a \$1,000,000 one-time software saving

Note 2: The slight lower than planned savings in 2019/20 is due to lower than anticipated DR estimate volumes. This is a result of management's decision not to increase Earned Approval Limits by \$250 per tier as originally planned.

Note 3: The 2020/21 and 2021/22 revised planned savings are also a function of keeping Earned Approval Limits at 2018/19 levels.

GRA 2020 Claims Audit Recoveries	Year 8 2017/2018	Year 9 2018/2019	Year 10 2019/2020	Year 11 2020/2021	Year 12 2021/2022	Year 13 2022/2023	Year 14 2023/2024	Year 15 2024/2025	Year 16 2025/2026	Year 17 2026/2027
GRA 2020 Claims Audit Recoveries	\$518,712	\$454,604	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000	\$500,000
GRA 2021 Claims Audit Recoveries	\$518,712	\$454,604	\$536,317	\$450,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000	\$400,000
Change	\$0	\$0	\$36,317	(\$50,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)	(\$100,000)

Claims audit recoveries expected to decline in 2020/21 with the implementation of Parts Autonomy process

Total Change Internal Efficiencies/Claims Audit Recoveries (per PUB 1-51 Appendix 1)	\$0	\$0	(\$137,038)	(\$854,438)	(\$915,041)	(\$937,917)	(\$961,365)	(\$985,399)	(\$1,010,034)	(\$1,035,285)
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GRA 2020 Parts Savings	Year 8 2017/2018	Year 9 2018/2019	Year 10 2019/2020	Year 11 2020/2021	Year 12 2021/2022	Year 13 2022/2023	Year 14 2023/2024	Year 15 2024/2025	Year 16 2025/2026	Year 17 2026/2027
GRA 2020 Parts Savings	\$600,000	\$520,000	\$973,000	\$1,267,000	\$1,650,000	\$1,691,250	\$1,733,531	\$1,776,870	\$1,821,291	\$1,866,824
GRA 2021 Parts Savings	(Note 1)	(Note 1)	(Note 2)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)	(Note 3)
Change	\$360,000	\$307,000	\$323,446*	0	0	0	0	0	0	0
Change	(\$240,000)	(\$213,000)	(\$649,554)	(\$1,267,000)	(\$1,650,000)	(\$1,691,250)	(\$1,733,531)	(\$1,776,870)	(\$1,821,291)	(\$1,866,824)

Note 1: The reduction in actual parts savings for 2017/18 and 2018/19 is the result of an analysis of and revisions to the assumptions built-in to the reporting of Diamond Standard Part usage and savings calculations. The previous reporting approach was capturing any part with the "DS" in the suffix regardless if it applied to this initiative.

Note 2: The lower than anticipated savings for 2019/20 is due to two factors. The revised Diamond Standard parts reporting methodology mentioned above and secondly the decision not to implement the Car Parts Pro as a separate undertaking but rather to incorporate within the new Parts Autonomy process.

Note 3: Diamond Standard parts and the CarPart Pro software will continue to be available under the new Parts Autonomy frame work. However, because shops will be able to choose part types freely, MPI will not be able to accurately project savings based on part type, i.e. Diamond Standard aftermarket parts or recycled parts sourced through CarPart Pro. Instead, we will focus on realized parts savings (RPS), which is the difference between the OEM cost of a given part and the value of the alternate part actually used on the claim. With the significant transition to a Parts Autonomy model, the immediate target is maintaining the average savings per part that we saw over the last 2 calendar years across all alternate parts, approximately 19 % RPS. Applying this to all parts used during this time yields roughly \$30M annually in actual savings from OEM. It includes the actual savings from DS realized during the last 2 years (~\$300k). Given that CPP has not been implemented, there are no associated savings to account for. Going forward, we will maintain these savings overall, but with Parts Autonomy they may not come only from these specific part types.

* Actuals to February 29, 2020 \$298,565

	Year 8 2017/2018	Year 9 2018/2019	Year 10 2019/2020	Year 11 2020/2021	Year 12 2021/2022	Year 13 2022/2023	Year 14 2023/2024	Year 15 2024/2025	Year 16 2025/2026	Year 17 2026/2027
GRA 2020 Predictive Analytics	\$83,000	\$323,000	\$250,000	\$256,250	\$262,656	\$269,223	\$275,953	\$282,852	\$289,923	\$297,171
GRA 2021 Predictive Analytics	\$83,000	\$323,000	\$168,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Change	\$0	\$0	(\$82,000)	(\$256,250)	(\$262,656)	(\$269,223)	(\$275,953)	(\$282,852)	(\$289,923)	(\$297,171)

Source is Special Investigations Unit (SIU) – The number of strong leads and the corresponding number of claims with financial recoveries generated by Predictive Analytics in 2019/20 declined from 2018/19. A business decision was made to cease the program for physical damage total losses.

	Year 8 2017/2018	Year 9 2018/2019	Year 10 2019/2020	Year 11 2020/2021	Year 12 2021/2022	Year 13 2022/2023	Year 14 2023/2024	Year 15 2024/2025	Year 16 2025/2026	Year 17 2026/2027
GRA 2020 Loss of Use	\$0	\$0	\$43,753	\$89,694	\$91,936	\$94,235	\$96,591	\$99,005	\$101,481	\$104,018
GRA 2021 Loss of Use	\$0	\$0	\$43,753	\$89,694	\$91,936	\$93,775	\$95,650	\$97,563	\$99,514	\$101,505
Change	\$0	\$0	\$0	\$0	\$0	(\$460)	(\$940)	(\$1,442)	(\$1,966)	(\$2,513)

Loss of Use staffing reductions - 1.5 FTE saving due to automation of certain claim process efforts was realized in 2019/20. A full year benefit realization will occur in 2020/21 and onward.

Net Reduction in Benefits Savings	(\$240,000)	(\$213,000)	(\$868,592)	(\$2,377,688)	(\$2,827,697)	(\$2,898,850)	(\$2,971,790)	(\$3,046,563)	(\$3,123,215)	(\$3,201,793)
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Operating cost improvements

	Year 8 2017/2018	Year 9 2018/2019	Year 10 2019/2020	Year 11 2020/2021	Year 12 2021/2022	Year 13 2022/2023	Year 14 2023/2024	Year 15 2024/2025	Year 16 2025/2026	Year 17 2026/2027
GRA 2020 Direct Repair Operating Costs	\$714,284	\$687,815	\$616,697	\$616,697	\$632,114	\$647,917	\$664,115	\$680,718	\$697,736	\$715,179
GRA 2021 Direct Repair Operating Costs	\$714,284	\$687,815	\$604,643	\$616,697	\$632,114	\$647,917	\$664,115	\$680,718	\$697,736	\$715,179
Net Cost Reduction/Increase in Savings	\$0	\$0	\$12,054	\$0	\$0	\$0	\$0	\$0	\$0	\$0
GRA 2020 Direct Repair Premiums		\$3,665,674	\$1,600,000							
GRA 2021 Direct Repair Premiums		\$3,665,674	\$1,350,516							
Net Cost Reduction/Increase in Savings	\$0	\$0	\$249,484	\$0	\$0	\$0	\$0	\$0	\$0	\$0

Direct Repair Premiums were lower than forecasted and ceased in 2019/20.

Net Reduction in savings from ongoing costs/benefits (per PUB 1-51 Appendix 1)	(\$240,000)	(\$213,000)	(\$607,054)	(\$2,377,688)	(\$2,827,697)	(\$2,898,850)	(\$2,971,790)	(\$3,046,563)	(\$3,123,215)	(\$3,201,793)
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PUB (MPI) CI 2-10 - Confidential

Part and Chapter:	MPI (CMMG) CI 1-3 Confidential CAC (MPI) 1-52 Part VII – Risk Management Framework	Page No.:	
PUB Approved Issue No:	Requested vehicle rate and any changes to other fees and discounts		
Topic:	Risk Assessment and Risk Management		
Sub Topic:			

Preamble to IR:

MPI indicated that a reasonable consideration would be to apply interest rates at points on the yield curve that correspond to the duration of the liabilities for discounting purposes. Such an approach would provide a more appropriate discount rate for policy cash flows. The Motorcycle Class has a very large composition of Personal Injury Protection Plan claims that have a very long tail and, as a result, are more impacted by long-term interest rates. As of today, the yield curve is significantly flat and so there would be no substantial benefit in using that approach in the near term.

Question:

- a) Please estimate the average duration of the motorcycle Major Use classification claims reserves.
- b) Please estimate the yield for each asset class supporting the Basic claims portfolio, reflecting this average duration. Please calculate an indicated overall yield.
- c) Please calculate the indicated rate change for the Motorcycle major use classification reflecting this indicated yield.

- d) Please include indicated rate changes for other major use classifications, taking into consideration known differences in claims duration by major use classification.

Rationale for Question:

To understand the significance of the difference in claims duration on the AAP rate indications by Major Use classification.

RESPONSE:

- a) Using an overall investment yield of 1.93% (see *PUB (MPI) 2-11(b)*), the estimated average duration of the claims for the Motorcycle major class for rating year 2021/22 is 8.89 years.
- b) The Basic Claims portfolio used to determine the overall investment return for ratemaking includes government and corporate bonds. The weighted average yield of the bonds in the Basic Claims portfolio with a duration within 0.5 years of the duration of the claims for the Motorcycle major class (8.89 years) is 1.96%. This yield is only marginally different from the overall investment yield of 1.93%, and would change the duration of the claims for the Motorcycle major class from 8.89 to 8.86. Given the marginal change, MPI did not recast the bonds in the Basic Claims portfolio.
- c) Assuming an overall investment yield of 1.96%, the required rate change for the Motorcycle major class will decrease by 0.2% from 10.2% per *PUB (MPI) 2-11, Figure 10*, to 10.0%.
- d) Based on the responses from part (b) and part (c) above, recalculating the rate changes for other major use classification will not result in material differences to their indicated rates because the current yield curve is flat (i.e. motorcycles are the most extreme case and experienced a rate change of only 0.2%). However, MPI recognizes that the yield curve typically slopes upward (based on historical experience) and that it is more equitable for all classes (including motorcycles) to select a discount rate that recognizes the duration of policy cash flows. MPI

intends to propose this change in the 2022 GRA (subject to approval by the MPI Board of Directors if so required).