PUB (MPI) Pre-Ask 4

Part and Chapter:	**Rebate Application**	**Page No.:**	**Page 22 of 27, Figure 13 Average Dollar Rebate by Major Class**
PUB Approved Issue No:			
Topic:	**Rebate Proposal**		
Sub Topic:			

Preamble to IR:

Question:

a) Was any analysis performed on the variability between territories and/or insurance use classes with regard to the amount of the expected claims incurred savings?

b) In order to be consistent with the spirit of the capital release process in the CMP, how would the rebate proposal need to be changed?

c) Has the Corporation considered the potential advantages and disadvantages of designing the rebate based on the greater of the 2019/20 earned premium and the March 15, 2020 in force premium for each customer versus the current proposal?

Rationale for Question:

RESPONSE:

a) No, MPI simply determined the overall reduction in claims during the period March 16, 2020 to April 15, 2020. Because MPI has a large number of different rating combinations, the statistical credibility of analyzing in detail the impact on every rating combination would be low. In cases where there was an obvious lack of exposure for a given classification during the subject period (i.e. motorcycles and off-road vehicles), MPI excluded the classification from the rebate.

b) MPI believes that the proposed rebate aligns with the spirit of the capital release provisions of the Capital Management Plan (CMP) and that this Special Rate Application does not need to be changed to comply with the CMP. In both the normal course and rebate scenarios, excess capital flows back to ratepayers. Given the extraordinary circumstances brought about by the COVID-19 pandemic, MPI seeks to expedite this release of capital. If MPI allowed excess profits to flow into the Rate Stabilization Reserve (RSR), the excess capital in the RSR would eventually be returned to customers through the CMP, not as a 'rebate', but rather as a capital release, in the next policy year. A capital release has the same impact as applying a one-time and equal percentage rate decrease to all Basic rates. For example, a 3% capital release would require MPI to calculate the Basic rate indications for all vehicles (in accordance with accepted actuarial practice), then decrease them by the 3% capital release.

   Since Basic rates are calculated on a break-even basis, the CMP assumes, on average, that all vehicles equally contribute to building capital and should therefore benefit equally from its release. Therefore, a rebate providing equal percentage reductions to all Basic rates mirrors the result under the capital release process. However, in this proposed special rebate, it is clear that some vehicle types did not contribute equally to building capital, as assumed in the CMP. MPI addresses this reality by limiting the rebate to customers with policies in-force and earning premium at the start of the subject period.

c) MPI has not considered this option. The requirements that the policies be in-force and earning premium as of March 15, 2020 and the exclusion of non-earning (seasonal) vehicles from the rebate calculation were imposed to improve the fairness of rebate (i.e. give rebates to customers actually contributed to the reduction in claims due to the COVID-19 pandemic). Because MPI calculates the Extension rebate using earned premiums from the previous fiscal year; and because the previous fiscal year is not relevant to the claims savings realized in the period March 16 to May 15, 2020, MPI believes that calculating the rebate by taking the greater of the 2019/20 earned premium and the March 15, 2020 in force premium for each customer does not result in a more fair calculation. In fact, in that scenario, MPI would be rebating dollars to customers who did not contribute to the claims savings as a result of the COVID-19 pandemic.