CLOSING SUBMISSIONS OF

THE COALITION OF MANITOBA MOTORCYCLE GROUPS

2024 General Rate Application

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On behalf of the Coalition of Manitoba Motorcycle Groups, I thank the Public Utilities Board for an opportunity to provide closing submissions in the 2024 General Rate Application.

Ratemaking & Driver Safety Rating Discounts

The Corporation has been put in the unenviable position of complying with the orders and directives of the Public Utilities Board arising form last year's application, while also being bound by a Government Directive issued in April of this year. The combination of these factors has led to an unusual circumstance where the rate indication calls for a rate decrease, but the Corporation is seeking no rate change.

Despite the obligations of the Corporation to comply with Directives of Government, as we are all aware, the Public Utilities Board is not similarly obliged. This Board is directed by the legislative framework which requires it to establish rates for automobile insurance that are just and reasonable, and on that basis this Board has historically directed the Corporation to file applications on the basis of Accepted Actuarial Practice.[1] CMMG supports the continued use of Accepted Actuarial Practice in rate making and recommends the approval of a rate indication requiring an overall required rate change of -1.5% as calculated in MPI Exhibit 50 Figure RMO – 1.

Along with the rate indication, this Board directed the Corporation to implement adjustments to the discount rates in the Driver Safety Rating Model. Specifically, this Board directed the Corporation to adjust all discounts by one fourth of the way to the actuarially indicated rate rounded down to the nearest whole number.[2]

During testimony, the Corporation confirmed that the discount rate being sought for DSR level +18, is 48%. The Corporation acknowledged that a DSR discount of 46% would align with the directive from the Board to adjust discounts by one fourth.[3] By way of undertaking the Corporation confirmed that where the more accurate discount of 46% was used for DSR level +18, it would adjust the "impact from DSR Changes" in Figure RMO – 1 from 5% to 4%.[4] The filed Application demonstrates that while we are making progress towards more actuarially indicated discounts, many positive DSR levels continue to experience rates that are over 10% higher than their indicated rates.[5] As discussed throughout the hearing process, the

[1] Order 162/16 Directive 10.22
[2] Order 4/23 Directive 12.15
[3] Transcript October 12, 2023 Pg 828 Line 7 – 829 Line 13
[4] See MPI Exhibit #78 Response to Undertaking 11, and MPI Exhibit 50 column [f] Impact From DSR Changes
[5] Part VII Ratemaking RC Appendix 6 DSR Actuarial Review Figure RC App 6-3

Corporation has proposed a base rate increase to accommodate for the lost revenue from DSR level shifts. CMMG supports moving the DSR levels towards actuarially indicated rates as quickly as possible. In previous applications we have seen a methodology that uses a negative rate indication and assigns that negative indication to the DSR levels most in need of change. CMMG recommends the methodology be employed in this years application in tandem with a base rate increase.

Recommendations:

- **That the applied for DSR discounts be approved by the Board with the following adjustments:**
    - **that the base rate increase be limited to addressing the Impact from DSR shifts of 4%; and**
    - **that the negative rate indication of 1.5% be assigned as follows:**
        - **1% of that rate decrease assigned to DSR level +18 to allow a 48% discount (instead of a 46% discount)**
        - **The remaining .5% rate decrease be assigned to DSR levels +12 through +17.**

Benchmarking

MPI completes a benchmarking exercise for motorcycle rate comparisons. While other jurisdictions offer different options and have different models, MPI agreed that the purpose of the benchmarking exercise is to provide comparisons with our peers in other public jurisdictions, to examine if our pricing is somewhat comparative and competitive.[6]

The Benchmarking exercise completed by the Corporation demonstrates that Winnipeg has the highest or second highest rates when compared with our peers in public jurisdictions[7]. Further, Winnipeg and Brandon in rating territories 1 and 2, representing 96% of Manitoba's motorcycle registrations, have motorcycle rates which are the highest when compared with our peers in public jurisdictions.[8] Upon examination of the benchmarking exercise completed for motorcycle rates it became clear that MPI's assertion that the Corporation provides the lowest motorcycle rates when compared to our peers at ICBC and SGI is simply false. The benchmarking exercise demonstrates we still have work to do for motorcycle premiums in Manitoba to become more comparable to premiums in other public jurisdictions.

[6] Transcript October 10, 2023 Pg 298 Line 22 – 299 Line 12
[7] Transcript October 10, 2023 Pg 305 lines 16 – 20
[8] Transcript Oct 10 Pg 305 line 22- 306 lines 3

Basic Insurance Model

The Basic Insurance Model has been a contentious issue for the CMMG for several years. The Corporation has acknowledged year after year that the primary driver model is a more actuarially sounds model.[9] This Board has raised concerns in previous hearings regarding the current registered owner model, and specifically questioned the Corporation's resistance to the primary driver model.[10] CMMG is concerned that despite these previous findings of the Board and specific direction that the Corporation move forward with the primary driver model, that we continue to see delays.

The Corporation shared a timeline for implementation of a transition to a new model, which included various rounds of customer consultation. It is apparent to CMMG that the Corporation's commitment to this process is insincere. The schedule suggests that customer engagement will commence in June of 2023 and conclude by September of 2023. When asked during the Information Request process for a copy of the engagement survey, the Corporation indicated it could not provide a copy as a result of the labour interruption which started on August 28th, two months after the customer engagement was scheduled to commence.[11] The Corporation did provide a copy of a draft survey on September 12, 2023, but confirmed the survey was still in draft, and not finalized. The information provided suggests there are various factors impacting finalization of the survey, ranging from the labour interruption, to the possibility of stakeholder engagement and final approval at appropriate levels.[12]

The Corporation is not committed to a transition. While MPI has indicated that it is not expected that the slow rollout of the customer engagement survey will delay other stages of the timeline, the lack of commitment to their own schedule leaves CMMG with serious doubts about the progress that will be advanced over the next year.

A major blockade which has now been identified by the Corporation, is its position that it is unable to obtain driver data sufficient to create a pricing analysis of a primary driver model or variations of same. The Corporation has asserted it does not have the jurisdiction to obtain the necessary information from customers and suggested that voluntary data collection would be insufficient to provide reliable data.[13]

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[9] Order 134/21 Pg 91
[10] Order 134/21 Pg 93
[11] Transcript October 11, 2023 Pg 468 Line 8 to Pg 470 Line 23
[12] Transcript October 11, 2023 Pg 473 Line 8 to Pg 474 Line 24
[13] Transcript October 11, 2023 Pg 350 Line 25 to 351 Line 14

Despite this, the Corporation provided various alternative options for the collection of data, all of which were voluntary in nature.

In closing submissions the Corporation acknowledges that it "may be able to leverage" the authority held is Subsection 6(2) of the *Manitoba Public Insurance Corporation Act* to obtain the necessary data.[14] Logistical challenges of this data collection method are then outlined including time to complete the transaction, or the concern that customers may not have the necessary information immediately available to them. Further questions are then raised in their submissions regarding what consequences may arise from the information obtained, but then the Corporation goes on to answer its own question, noting that the collected data is for the purpose of conducting analysis only.

The Corporation has authority to obtain data from insureds within the current legislative framework. The continued delays and excuses for why data cannot be collected, is simply an attempt to avoid proceeding with the transition as directed by this Board. From the Corporation's view, customers don't want this change and therefore it does not want to proceed.

MPI continues to set up roadblocks in this process and is not committed to proceeding with a transition in good faith. The Corporation has failed to comply with one of the first stages in its execution plan and CMMG expects to see continued deviation from the schedule provided.

Historically the focus of the pricing examination of the rating system has been on the vehicle discounts levels. This year CMMG reviewed the licencing surcharges calculated in the actuarial review. It was acknowledged that the licensing surcharges currently applied to negative DSR levels, were calculated on a policy basis rather than through an actuarial calculation.[15] The Corporation accepted that the actuarial calculation of surcharges is unreliable as a result of the basic insurance model. The calculation cannot accommodate for the fact that an individual may be driving a vehicle that is registered to someone else.[16]. While CMMG is not advocating for any change to the surcharges, the requirement that surcharge rates be designed based on policy rather than actuarial calculation is indicative of a deeper issue. The registered owner model is inadequate, and no matter how many adjustments or modifications are made, it will continue to be inadequate.

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[14] MPI Exhibit 119 Pg 76

[15] Transcript October 13, 2023 Pg 911 Line 11 - 17

[16] Transcript October 13, 2023 Pg 912 Line 14 – Pg 913 Line 8

Recommendations:

- **That the Corporation be directed to immediately commence data collection sufficient to proceed with a pricing analysis of the basic insurance model**
- **That the Corporation file an update in the 2025 GRA regarding data collection, and preliminary results of same.**

Capital Management Plan

In this year's Application the Corporation brought forward a revised plan for the management of capital reserves. CMMG acknowledges that capital reserve levels have now been set pursuant to recent changes to the *Manitoba Public Insurance Act*. CMMG is concerned with what it sees as the erosion of the jurisdiction of this Board regarding the basic portfolio. There are ongoing concerns with the issue of the Driver and Vehicle Administration (DVA), which has historically been supported by the extension fund. The Corporation has repeatedly confirmed its ability to draw funds from the extension line of business. Coupled with evidence that the DVA program currently has no plan or arrangement to ensure adequate funding, we can expect to see further transfers made to DVA, appropriating a benefit due to basic customers.

CMMG is also concerned that the legislated changes coupled with the Capital Management Plan proposed, do not create an automatic requirement that the Corporation must file a rebate application in the event that the legislated capital levels are reached. This essentially requires rate payers to trust that the Corporation will bring forward an application at the appropriate time. In this hearing we have seen how this trust has already been eroded. Despite indicated capital levels at the time of the rate update suggesting that the Corporation's MCT level will reach 135% at fiscal year end, the Corporation has indicated it will not be proceeding with a rebate application.[17] This is justified in part based on reasoning that any rebate should be based on audited financial results.[18] It was acknowledged during examination that the Corporation applied for special rebate applications during the COVID 19 pandemic, but that process resulted in the MCT dropping below the 100% threshold.[19] Notably, though the special rebate applications involved some actual results as well as future forecasts based on how long the Corporation anticipated reduced collision frequency to continue.[20] It was a result is this attempt to forecast the length and continued implications that caused the dip below the MCT target.

Where no application for rebate is brought at this time, ratepayers would be forced to wait until next year's application, resulting in money not being returned for at least another year. This delay is not reasonable. While the Corporation has outlined concerns that rebating now may bring the MCT level to below the required 100% MCT, it was confirmed during examination that there is no legislated requirement that the

[17] Transcript October 16, 2023 Pg 961 Line 6-11
[18] Transcript October 16, 2023 Pg 962 Line 12-16
[19] Transcript October 18, 2023 Pg 1500 Line 6 - 11
[20] 2021 Special Rebate Application Pg 5 Line 11-12

rebate be in an amount sufficient to bring the MCT to exactly 100%.[21] It is possible to provide a rebate that returns funds to customers quickly, while also ensuring that the MCT 100% threshold is not breached.

Recommendations:

- **That the Corporation be directed to bring a rebate application to bring the MCT level down to 110% MCT**
- **That the Capital Management Program proposed by the Corporation not be approved by PUB**

[21] Transcript October 18, 2023 Pg 1508 Line 3 - 16

Investments

The Corporation has had a 'change of heart' on various investment strategies over the last several years.

The Corporation had historically excluded Real Return Bonds from the basic portfolio, but is now taking steps to introduce this asset class to hedge the inherent inflation risks in the liability that have become so apparent in recent years.

Similarly, the Corporation has historically avoided the use of financial leverage to acquire certain assets. In this year's application however, MPI has proposed a novel bond overlay strategy. The first step in this strategy requires financial leverage to finance the purchase of real return bonds, with a second step which offsets the borrowing. Together this strategy has MPI's ultimate desired economic effect – to hedge inflation risk but avoid reducing its Provincial Bond exposure. The Addenda representatives suggested this process creates a net neural position, where here is no "substantial net leverage to the portfolio"[22], and asserted that as a result "this is not a levered strategy"[23]. Mr. Bunston clarified on cross examination, that this strategy uses long and short leverage, the result of which is a net leverage that is close to zero[24]. More simply stated, MPI has used complicated financial engineering to achieve its stated objective, at least as it relates to mitigating inflation risk and better match its portfolio to its liabilities.

CMMG suggests to the Board today, that by definition, this is a levered strategy. What we have seen is the Corporation shifting their position on real return bonds, and leverage, 180 degrees. And while generally a change in perspective due to the presentation of contrary evidence is commendable, CMMG suggests to this Board, that the use of hindsight is not a good investment strategy. Manitobans incur a cost for MPI's poor investment decisions. We continue to see this lack of foresight in the Corporation's position on equities.

Over the last several years we have seen the Corporation take a staunch position against the inclusion of equities in the basic claims portfolio. The Corporation has provided various reasons for this position including, that it does not align with the policy statement for the basic portfolio, that equities as an asset class are too volatile, and that the capital adequacy requirements to include equities would require a major

[22] Transcript October 23, 2023 Pg 1577 Line 12 – 15
[23] Transcript October 23, 2023 Pg 1577 Line 16
[24] Transcript October 24, 2023 Pg 1937 Line 11- 20

increase in funding.[25] The arguments used by the Corporation to reject equities are, in some cases, similar or identical to those arguments used in the past to justify excluding real return bonds and leverage.

In recent years, we have examined the efficient frontiers of various asset mixes provided in the Asset Liability Management Study. Last year and this year, the Corporation confirmed that an optimal asset mix, or in other words, an asset mix that falls on the efficient frontier, can include a small amount of equities, with little to no impact on the risk of the portfolio[26].

Both last year and this year, the Corporation has provided a Minimum Capital Test calculation which suggests that the inclusion of other asset classes including equities, would require significantly higher capital in the reserve fund. This has also been cited as a factor of the Corporation's decision not to include equities in the basic portfolio. Yet the MCT calculation has been acknowledged by the Corporation to provide capital charges for some asset classes that are 'outsized'[27], to lack detail sufficient to recognize the varying risks of different asset classes, and to lack consideration of correlations across asset classes.[28] These factors suggest that the MCT calculation produces an artificially inflated capital requirement where a more diversified portfolio is considered.

The evidence before the Board demonstrates that the Corporation's stated concerns lack foundation as they relate to the constraint that prohibits the inclusion of equities in the basic portfolio. Manitobans continue to miss out on lower premiums that could be obtained by the inclusion of a small amount of equities in the basic portfolio. A more diversified portfolio can address the concerns raised by the Corporation while concurrently drawing the benefits of 'modest incremental returns' in line with the stated objective of the basic claims portfolio.

Recommendations:

1. **A finding that the Corporation's decision to exclude equities from the basic claims portfolio is not supported by evidence presented.**
2. **That the PUB make a finding that the inclusions of equities in the basic claims portfolio is not in conflict with the stated objective of the portfolio.**

[25] COM Appendix 3 Pg 6
[26] Transcript October 24, 2023 Pg 1929, Line 8 – 14,
[27] CAC MPI 1-86 Pg 5 response to (b)
[28] CAC MPI 1-87 Pg 3 response to (a) and (b)