

Order No. 60/22

**MANITOBA PUBLIC INSURANCE CORPORATION (MPI OR THE CORPORATION):
INTERIM PROCEDURAL ORDER RESPECTING PRELIMINARY ISSUES LIST
FOR 2023 GENERAL RATE APPLICATION FOR COMPULSORY 2023/2024 DRIVER
AND VEHICLE INSURANCE PREMIUMS AND OTHER MATTERS**

June 2, 2022

**BEFORE: Irene A. Hamilton, Q.C., Panel Chair
Robert Gabor, Q.C., Chair
Susan Nemec, FCPA, FCA, Member
Michael Watson, Member**

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1.0 SUMMARY

By this Order, the Public Utilities Board of Manitoba (Board) establishes, on an interim basis, the Preliminary Issues List for the anticipated General Rate Application (GRA) of Manitoba Public Insurance Corporation (MPI or Corporation) for the review and approval of base rates and premiums for compulsory driver and vehicle insurance to take effect April 1, 2023 (2023 GRA or Application).

2.0 PROCEDURAL HISTORY

By correspondence from Board counsel to MPI and prospective interveners dated April 29, 2022, the Board advised that it would be advancing the determination of the scope of issues to be considered at the 2023 GRA hearing on a preliminary basis. Included with the correspondence of April 29, 2022 was a Preliminary Issues List for the 2023 GRA. The Board invited MPI and the prospective interveners to provide their comments on the scope of the issues by May 9, 2022, following which this Interim Order would issue. In addition, the Minimum Filing Requirements (MFRs) for the 2023 GRA would be provided to MPI following the issuance of this Order.

Following this Interim Order, a final Issues List will be approved by the Board in its Procedural Order, which will follow the Pre-Hearing Conference (PHC).

On May 9, 2022, the Board received written comments on the Preliminary Issues List from MPI and three prospective interveners, Consumers' Association of Canada (Manitoba) Inc. (CAC), Coalition of Manitoba Motorcycle Groups (CMMG) and Unicity Taxi Inc. and Duffy's Taxi Inc. (Taxi Coalition or TC).

3.0 PRELIMINARY ISSUES LIST

The Preliminary Issues List, as determined by the Board and circulated to MPI and the interveners of record on April 29, 2022, set out the following issues as those to be considered in the 2023 GRA.

First, the following issues would be considered within the scope of the 2023 GRA in the normal course:

1. Requested vehicle rate and any changes to other fees and discounts;
2. Ratemaking:
 - a. Rate indication based on accepted actuarial practice in Canada;
 - b. Ratemaking methodology;
 - c. Alternative rate indication by use and territory (large loss loading);
 - d. Alternative rate indication on an overall basis and by major class (duration);
3. Compliance with Board Orders 134/21 and 21/22, and any outstanding directives from past orders;
4. Financial forecast:
 - a. Financial forecast accuracy (2021/22 forecast versus actual results);
 - b. Interest rate forecast;
 - c. Changes in projected financial results;
 - d. Impact of IFRS 17;
5. Changes to integrated cost allocation methodology;
 - a. Impact of IFRS 17 on methodology;

6. Annual Business Plan;
7. Capital management plan;
 - a. Transfers of Extension excess capital;
8. Performance of the investment portfolio and the composition of i) the portfolio, ii) benchmark portfolio(s) on a market value basis (e.g. asset mix);
9. Cost of operations and cost containment measures;
10. Claims forecasting, including but not limited to PIPP and changes or enhancements to claims forecasting design;
11. Vehicles for Hire (VFH);
12. Driver Safety Rating (DSR), including but not limited to MPI's progress towards changes to the DSR model, vehicle discounts, and driver premiums;
13. Operational benchmarking;
14. Run-off of prior year claims during 2021/22;
15. Risk Assessment and Risk Management; and
16. Other issues that may arise (depending upon the nature and scope of the issue) based on a review of the application.

The following issues would require more detailed consideration at the 2023 GRA:

17. Operational and financial impact of COVID-19 on MPI financial results, ratemaking approach and CMP for the 2023/24 and 2024/25 rating years and beyond;

18. Current IT Strategic Plan and IT Expenses and Projects, including Project Nova and other initiatives planned for or ongoing in the rating years;

- a. Project Nova re-baseline, budget, and financing options, including debt financing;

19. Asset Liability Management study (in accordance with 11.19 and 11.20 of 134/21); and

20. Road Safety.

Finally, the following issues would be deferred from the 2023 GRA to future applications, or would be the subject of a technical conference or another process:

21. Long tail experience from other jurisdictions, in particular, Québec and Saskatchewan.

4.0 MPI COMMENTS

MPI made the following suggestions regarding the Preliminary Issues List:

- With respect to Financial Forecast Issue 4(d), IFRS 17, MPI suggested adding IFRS 9 on the basis that it will change MPI's methodology for the valuation of MUSH bonds.
- Regarding Issue 17, Operational and Financial Impact of COVID-19, MPI commented that each of the subjects included within that topic are sufficiently complex to merit detailed consideration. MPI therefore suggested that, within the impact of COVID-19, each of financial results, ratemaking approach, and the Capital Management Plan (CMP) should be separated as discrete issues.

5.0 CAC COMMENTS

CAC commented that, although the CMP is included at Issues 7 and 17, Issue 17 combines consideration of the CMP with the operational and financial impacts of COVID-19. CAC recommended that the list not combine the CMP with consideration of the impacts of COVID-19, and that issues relating to the CMP require more detailed consideration.

CAC noted that the CMP has consistently been a prominent issue in GRAs since its approval in Order 176/19 and this will particularly be the case in the 2023 GRA, given that MPI will be filing a revised CMP.

CAC also recommended that Issue 12, the Driver Safety Rating (DSR) be moved to an issue requiring more detailed consideration in this GRA. The reasons for this, according to CAC, are because the DSR received significant attention in the 2022 GRA (including three directives in Order 134/21), and it is an important issue for multiple interveners.

With respect to Issue 8, Investment Portfolio, CAC recommended that it specify examination of investment income forecast, either within the issue or as a sub-issue, for purposes of clarity.

CAC Manitoba also recommended that within Issue 18, IT and Project Nova, a sub-issue be included for MPI to provide an update regarding the IT summit that was ordered by the Board in 134/21 to take place by April 30, 2022 (IT Summit). CAC submitted that, for purposes of efficiency and effectiveness, it would be helpful for all parties involved to be informed of the materials and updates that were provided at the IT Summit.

Lastly, CAC recommended that the Preliminary Issues List add a reference to the October rate update typically provided by MPI; specifically, the scope of the changes and the level of detail reflected in the October update. The stated rationale for this was that CAC initially understood that MPI would update the Application based on recent interest rates only. However, in the last GRA, the October update included additional updates, based on MPI's most recent financial results. CAC raised concerns about the level of detail provided for some of the expenses, and the parties' ability to meaningfully review them shortly before the hearing.

6.0 CMMG COMMENTS

CMMG limited its comments to Issue 12, the DSR. CMMG stated that the DSR model was of major importance for all parties in the 2022 GRA, and that CMMG anticipates focusing on this issue again. As changes to the DSR program are anticipated, CMMG proposed that Issue 12 be moved to an issue requiring detailed consideration.

7.0 TAXI COALITION COMMENTS

With respect to Issue 2, Ratemaking, TC suggested that a sub-issue be added to capture MPI's progress towards adopting Generalized Linear Models (GLMs) for ratemaking, and requested the sub-issue be "*Alternative rate indication based on GLM methodology, and progress towards adoption of GLMs for ratemaking.*"

On Issue 4(b), Interest Rate Forecast, TC commented that due to recent increases in interest rates and higher headline inflation in Canada, it may be reasonable to include it among the list of issues requiring detailed consideration.

8.0 BOARD FINDINGS

The Board has taken into account all of the parties' comments. The Board finds that it is appropriate to incorporate the following revisions to the Preliminary Issues List, for the following reasons:

- Issue 4(b), Interest Rate Forecast: given recent increases in interest rates and inflation, the Board agrees with TC that this issue should receive detailed consideration in the 2023 GRA.
- Issue 4(d), Impact of IFRS 17: the Board accepts MPI's recommendation to add IFRS 9 to this issue, given its impact on the valuation of MUSH bonds.

- The Board accepts CAC's recommendation that MPI's investment income forecast should be specifically set out in the Preliminary Issues List. However, the Board finds that rather than including it within Issue 8, Investment Portfolio, it is more appropriately included as a sub-issue to Issue 4, Financial Forecast.
- Issue 7, Capital Management Plan: given that MPI will be filing a revised CMP in this Application, the Board accepts CAC's recommendation that this issue be given detailed consideration in this GRA.
- Issue 17, Operational and Financial Impact of COVID-19: in order to ensure that each aspect of the impact of COVID-19 on MPI's operational and financial results is fully examined, the Board accepts MPI's recommendation to separate each aspect of COVID-19 impacts into discrete issues.
- Lastly, the Board accepts CAC's recommendation to add an update regarding the IT Summit to Issue 18, to improve the efficiency of the proceedings.

The Board has dismissed TC's request to add a sub-issue in Issue 2, Ratemaking, to address MPI's progress towards adopting GLMs. In Order 134/21, the Board had directed MPI to provide an alternative rate indication using a preliminary set of GLMs; however, in Order 21/22 the Board varied the directive to read as follows:

In the 2023 GRA, the Corporation shall submit a plan for the possible implementation of Generalized Linear Models, which plan, if implemented, would include the study of additional rating factors and interactions in order to address the question of territorial subsidies, among others.

The Board does not expect that an alternative rate indication based on GLMs will be filed in this GRA and therefore inclusion of an alternative rate indication is not required.

The Board has declined to give Issue 12, DSR, detailed consideration in the 2023 GRA. While the Board intends to examine the DSR in the GRA, many other issues will feature prominently in this GRA and will require significant review: the CMP, Interest Rate Forecast, COVID-19 impacts, IT and Project Nova, MPI's Asset Liability Management Study, and Road Safety. Taking this into consideration, the Board finds that it is more appropriate to postpone a detailed review of DSR to a future GRA, where adequate resources can be devoted to doing so.

With respect to CAC's recommendation that the Preliminary Issues List also include reference to the October rate update typically provided by MPI, the Board notes that in the last two GRAs, the content of the rate update has been canvassed in the PHC and confirmed by the Board in the Procedural Order following the PHC. The Board finds no reason to depart from that process, which will take place after prospective interveners have had an opportunity to review the Application, and which will allow MPI and prospective interveners to make submissions to the Board on the content of the rate update. Accordingly, the Board declines to add the October rate update as an issue in the GRA.

9.0 IT IS THEREFORE ORDERED THAT:

1. The following issues are considered within the scope of the 2023 GRA in the normal course:

1. Requested vehicle rate and any changes to other fees and discounts;
2. Ratemaking:
 - a. Rate indication based on accepted actuarial practice in Canada;
 - b. Ratemaking methodology;
 - c. Alternative rate indication by use and territory (large loss loading);
 - d. Alternative rate indication on an overall basis and by major class (duration);
3. Compliance with Board Orders 134/21 and 21/22, and any outstanding directives from past orders;
4. Financial forecast:
 - a. Financial forecast accuracy (2021/22 forecast versus actual results);
 - b. Changes in projected financial results;
 - c. Impact of IFRS 9 and 17;
 - d. Investment income forecast;
5. Changes to integrated cost allocation methodology;
 - a. Impact of IFRS 17 on methodology;
6. Annual Business Plan;
7. Performance of the investment portfolio and the composition of i) the portfolio, ii) benchmark portfolio(s) on a market value basis (e.g. asset mix);

8. Cost of operations and cost containment measures;
 9. Claims forecasting, including but not limited to PIPP and changes or enhancements to claims forecasting design;
 10. Vehicles for Hire (VFH);
 11. Driver Safety Rating (DSR), including but not limited to MPI's progress towards a plan for changes to the DSR model, vehicle discounts, and driver premiums;
 12. Operational benchmarking;
 13. Run-off of prior year claims during 2021/22;
 14. Risk Assessment and Risk Management; and
 15. Other issues that may arise (depending upon the nature and scope of the issue) based on a review of the application.
2. The following issues require more detailed consideration at the 2023 GRA:
16. Impact of COVID-19 on MPI financial results for the 2023/24 and 2024/25 rating years and beyond, including:
 - a. Operational and financial impacts of COVID-19;
 - b. Impact on ratemaking approach; and
 - c. Impact on Capital Management Plan;

17. Interest Rate Forecast;

18. Capital management plan;

d. Transfers of Extension excess capital;

19. Current IT Strategic Plan and IT Expenses and Projects, including Project Nova and other initiatives planned for or ongoing in the rating years;

a. Project Nova re-baseline, budget, and financing options, including debt financing;

b. IT Summit required by Order 134/21 Directive 16;

20. Asset Liability Management study (in accordance with 11.19 and 11.20 of 134/21); and

21. Road Safety.

3. The following issues are deferred from the 2023 GRA to future applications, or will be the subject of a technical conference or another process:

22. Long tail experience from other jurisdictions, in particular, Québec and Saskatchewan.

Board decisions may be appealed in accordance with the provisions of Section 58 of *The Public Utilities Board Act*, or reviewed in accordance with Section 36 of the Board's Rules of Practice and Procedure. The Board's Rules may be viewed on the Board's website at www.pubmanitoba.ca.

THE PUBLIC UTILITIES BOARD

"Irene Hamilton, Q.C."

Panel Chair

"Darren Christle, PhD, CCLP, P.Log., MCIT"

Secretary

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issued by the Public Utilities Board



Secretary