

**MANITOBA PUBLIC AUTO INSURER PLANS MINOR RATE INCREASE FOR 2020: SEEKS TO STRENGTHEN CAPITAL RESERVE**

On 20 June 2019, the Manitoba Public Insurance (MPI) applied to the Public Utilities Board (PUB) for a 0.1% rate increase for the compulsory Basic insurance program, effective 1 March 2020.<sup>1</sup> The PUB approved a 1.8% general rate increase for the Basic program for 2019. The focus of the 2020 rate request is a plan to increase the capital reserve minimum capital test (MCT) ratio from about 52% to 100% within four years.

This paper will review the request and provide some comparisons to the Basic compulsory auto insurance program operated by ICBC. The no-fault insurance scheme in Manitoba could have been the model for a new public plan for B.C., but the NDP government opted for a hybrid tort liability scheme.

**Manitoba's Auto Insurance System**

The compulsory Basic insurance program is a monopoly no-fault scheme, where the accident benefits provide medical and rehabilitation services with an unlimited financial limit, income loss, home care and death benefits. Injured individuals cannot sue the at-fault party for general damages (pain and suffering). Claims for property damage have a \$500 deductible.

MPI offers additional Extension (similar to ICBC's Optional) coverage to increase the liability coverage, lower the property deductible and provide other benefits. A third type of coverage is provided for fleet plans and other specialized products. The MPI competes with private insurers for Extension sales.

The liability coverage in B.C. is based on the tort system where the injured party can sue the at-fault party for monetary losses and general damages (pain and suffering). Effective 1 April 2019, the NDP government has modified the tort model to cap the pain and suffering award at \$5,500 for minor injuries to reduce claims costs by approximately \$1.0 billion annually. The financial limits for the no-fault injury benefits have been significantly increased to eliminate the need to sue for financial losses. A new resolution process will hear claim disputes with a monetary limit of \$50,000.

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<sup>1</sup> The 2020 general rate application can be obtained from the Manitoba Public Insurance upon application. Neither the MPI nor the regulator can post the application to their websites during the election campaign.

## **MPI's Financial Results**

The MPI Basic program is designed to be not-for-profit, while the Extension program generates healthy net income results. In 2017/18, the Basic program achieved a net operating income of \$34.4 million, while the net income increased to \$78.8 million in 2018/19,<sup>2</sup> (excluding one-time asset sales the Basic program recorded a total comprehensive loss of \$21.1 million). In comparison, ICBC's not-for-profit Basic program suffered a net operating loss of \$1.10 billion in 2017/18, and is forecasting a \$0.84 billion for 2018/19.<sup>3</sup>

The MPI Extension program recorded an operating income of \$44.9 million in 2017/18, which increased to \$56.7 million for 2018/19. The Optional program for ICBC recorded an operating loss of \$225 million for 2017/18, and is forecasting a loss of \$342 million for 2018/19.<sup>4</sup>

The primary difference between the public model of compulsory Basic auto insurance in Manitoba and British Columbia is that the former is no-fault, while the latter is a tort model, where the injured party can sue for general damages (pain and suffering).<sup>5</sup> Saskatchewan and Quebec also provide compulsory public third-party liability insurance utilizing the no-fault model.<sup>6</sup>

## **No Politics Detected in the Low Rate Request**

The Progressive Conservative government has called an election for the 10<sup>th</sup> of September, but there is no indication that the near zero rate increase request for the compulsory auto insurance was motivated by political opportunism.<sup>7</sup>

This contrasts to ICBC's 2016/17 Basic rate increase of 4.9%, which the BCUC was ordered to approve by the government, despite a forecasted rate increase requirement of 15.5% to maintain the Basic capital reserve. The lower rate ordered by the government depended on a major infusion of Optional program funding to maintain the Basic capital

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<sup>2</sup> The MPI fiscal year is 1 March to 28 February, but this is changing to a 1 April to 31 March year to match the government's fiscal year. Recently the fiscal years of the Saskatchewan Government Insurance and ICBC were changed to match the governments' fiscal years. See 2020 rate application Part VIII AR Appendix 1 (Pdf 2452).

<sup>3</sup> The 2017/18 is from ICBC's annual report and the 2018/19 forecast is from ICBC's 2019 rate request IR 1, RM 1.1-3, Attachment A (pdf 757); [https://www.bcuc.com/Documents/Proceedings/2019/DOC\\_53549\\_B-2-ICBC-Responses-to-BCUC-Intervener-IR1.pdf](https://www.bcuc.com/Documents/Proceedings/2019/DOC_53549_B-2-ICBC-Responses-to-BCUC-Intervener-IR1.pdf)

<sup>4</sup> The 2017/18 is from ICBC's annual report and the 2018/19 is derived from ICBC's February 2019 service plan combined forecast less the Basic forecast from ICBC's 2019 Basic rate request (see footnote 2).

<sup>5</sup> The NDP government has changed the third-party ICBC model to a hybrid tort, similar to Alberta, with a financial cap on minor injury pain and suffering claims.

<sup>6</sup> Saskatchewan provides the policyholder with a choice of tort or no-fault, but the vast majority chose the no-fault plan.

<sup>7</sup> The election call has resulted in a form of information black-out. The MPI annual report and the 2020 rate application are not posted on the MPI or PUB websites.

reserve levels.<sup>8</sup> The rate increase was effective on 1 November 2016 and encompassed the May 2017 provincial election.

### Rate Increases for the Last Five Years

The rate increases for Basic auto insurance for the western provinces and Ontario are shown below. Clearly the no-fault programs in Saskatchewan and Manitoba have had much lower annual rate increases than the other three jurisdictions. The zero increase for ICBC in 2018 was due to a change in the policy year from November to October to April to March, thus the increase of 1 November 2018 was superseded by the requested increase of 6.3% for 1 April 2019.

	B.C.	Alberta	Saskatchewan	Manitoba	Ontario
2015	5.5	5.7	0.0	3.4	-1.0
2016	4.9	6.5	0.0	0.0	-1.4
2017	6.4	5.7	0.0	3.7	3.0
2018	0	6.9	0.0	2.6	9.0
2019	6.3	5.0	0.0	1.8	unknown

Source: ICBC response to BCOAPO information requests 1.1 and 2.1 (pdf 628 and 632)

[https://www.bcuc.com/Documents/Proceedings/2019/DOC\\_53549\\_B-2-ICBC-Responses-to-BCUC-Intervener-IR1.pdf](https://www.bcuc.com/Documents/Proceedings/2019/DOC_53549_B-2-ICBC-Responses-to-BCUC-Intervener-IR1.pdf); Alberta Rate Review Board <https://airb.alberta.ca/ratechanges/>; the 2019 increase of 5% was the maximum allowed by the provincial government for the period until July 2019. The increases for ICBC were much lower than the actuarially required increases.

### Average Premiums

The public no-fault systems in Manitoba and Saskatchewan offer generous injury coverage benefits will still providing the combined Basic and Optional coverage for the lowest average premiums.

The MPI provided a graphic representation (see Appendix) comparing three policyholder scenarios for major centres across Canada. In this comparison the combined premium for ICBC ranged from 58% to 131% higher than the combined premium for MPI.

### The Capital Reserve

Private auto insurers are required to maintain a capital (equity) reserve to protect policyholders from rate increases that can otherwise arise from unanticipated adverse financial events. The capital reserve acts as a shock absorber and is intended to ensure adequate capitalization. The federal insurance regulator has established targets for

<sup>8</sup> See

[http://www.bcpolicyperspectives.com/media/attachments/view/doc/bcuc\\_icbc\\_2016\\_final\\_20\\_dec\\_2016/pdf/bcuc\\_icbc\\_2016\\_final\\_20\\_dec\\_2016.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/bcuc_icbc_2016_final_20_dec_2016/pdf/bcuc_icbc_2016_final_20_dec_2016.pdf)

private insurers based on a risk-weighted ratio called the minimum capital test (MCT). Provincial insurers in Saskatchewan and B.C. adopted a 100% MCT minimum target for the monopoly Basic insurance, and about 250% as the target for the competitive Optional program.

The MPI has had an ongoing issue with the Manitoba PUB about both the need for adopting the MCT approach and the appropriate MCT ratio. The PUB has not agreed to a 100% ratio, saying that such a target is too high (and that the MPI should transfer Extension capital to subsidize the Basic Program). By the end of the 2018/19 fiscal year the Basic MCT was 51.5%, while the Extension MCT ratio was 317%.<sup>9</sup>

By regulation in April 2019, the Manitoba government ordered that the Basic MCT ratio would be 100%, while the Extension ratio was to be set at 200%. The 2020 rate request includes a capital management plan to achieve the 100% MCT ratio over four years through continuing transfers from the profitable Extension program.

During the last four years ICBC's capital reserves for both the Basic and the Optional programs dropped precipitously as the government deliberately depleted the capital reserve to keep the increase in Basic rates lower than what was actuarially required. For year-end 2018/19 ICBC forecasts that combined Basic and Optional liabilities will exceed assets, leaving the corporation insolvent.<sup>10</sup>

## Summary

The MPI Basic and Extension programs are on a sound financial footing with a plan to rebalance the capital reserves to achieve the capitalization targets mandated by the government. Other than the cabinet regulation establishing the MCT ratios for each program there has been little government interference in the PUB's oversight and rate-setting for the compulsory Basic insurance program.

This is in stark contrast with the situation in B.C., where the Liberal government issued highly directive orders to the BCUC respecting ICBC's capital levels and limits on the annual rate increases. The NDP has retained the rate increase limitation and has suspended the capital reserve minimum as it reforms the tort-based coverage model to cap pain and suffering awards and improves the no-fault accident benefits. It expects that these changes will eliminate the annual operating losses. But the government has not announced a plan to rebuild the Basic and Optional capital reserves.

The NDP could have selected either of the no-fault schemes in operation in Saskatchewan and Manitoba when it planned the major changes to ICBC's tort-based insurance model. Instead it chose to proceed with a hybrid tort system where minor

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<sup>9</sup> General rate application Basic Part V(i) (Pdf 693) and Extension Part V(i) (Pdf 711).

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[http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional\\_paper\\_no\\_66\\_26\\_feb\\_2019/pdf/occasional\\_paper\\_no\\_66\\_26\\_feb\\_2019.pdf](http://www.bcpolicyperspectives.com/media/attachments/view/doc/occasional_paper_no_66_26_feb_2019/pdf/occasional_paper_no_66_26_feb_2019.pdf) p. 1.

injury claimants will have the pain and suffering award capped, but more seriously injured can continue to sue for unlimited pain and suffering payments.

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The writer is a retired senior BC government public servant whose paper describing the BC government’s manipulation of the finances of BC Hydro from 2008 to 2014 was published by *BC Studies* in November 2016. *BC Studies* published his paper on the 40-year financial history of ICBC in 2013. He is an intervener in the BC Utilities Commission’s current reviews of both ICBC’s and BC Hydro’s rate requests.

## APPENDIX

Figure BMK- 4 Canada Rates Map  
Among the Lowest Vehicle Rates in Canada in 2019



