MANITOBA PUBLIC INSURANCE

2020 GENERAL RATE APPLICATION

CLOSING SUBMISSIONS

October 24, 2019

MANITOBA
PUBLIC INSURANCE

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1 Everything Flows from the Mission Statement

1. For the last three general rate applications, Manitoba Public Insurance (MPI) has said that it needs to focus on fiscal prudence and its core business. The core business is succinctly stated in the Mission Statement that was developed by staff and the Board of Directors – Exceptional coverage and service, affordable rates and safer roads through public auto insurance.

2. Whatever MPI's undertaking, whenever any program is being considered, or whenever a decision is required, it is done through the perspective of:

- How does this provide exceptional coverage?
- How does this provide exceptional service?
- How does this help achieve affordable rates? and
- How does this contribute to safer roads?

3. MPI is doing this and with the help of the Public Utilities Board (PUB), positive results are being achieved.

4. In many parts of Canada automobile insurance rates are increasing at double digit rates. In Manitoba, MPI is seeking a rate decrease.

5. Last year, MPI made the bold promise, to return to the PUB with no rate increase. These results are beginning to unfold. The results occur because MPI is directing its attention to what matters – all the components of the business that make up exceptional coverage, exceptional service, affordable rates and safer roads.

2 Exceptional Coverage, Service & Affordable Breakeven Rates

6. On October 4, 2019, MPI amended the rate requested to an overall decrease of -0.6%, or a reduction about $10 per policy. This rate decrease is the result of removing

the Net Capital Maintenance Provision from the rate request. Favorable financial performance year-to-date has allowed MPI to achieve overall stable financial health for the Basic Autopac ("Basic") line of business.

7. The key financial results achieved through the first two quarters of the 2019 fiscal year include:

- Basic's first quarter net income ended $4.7 million better than budget
- Basic's second quarter net income ended $39.7 million better than budget
- Second quarter year to date net income for Basic was therefore $44.4 million better than budget
- Basic's MCT ratio at August 31, 2019 is 97%

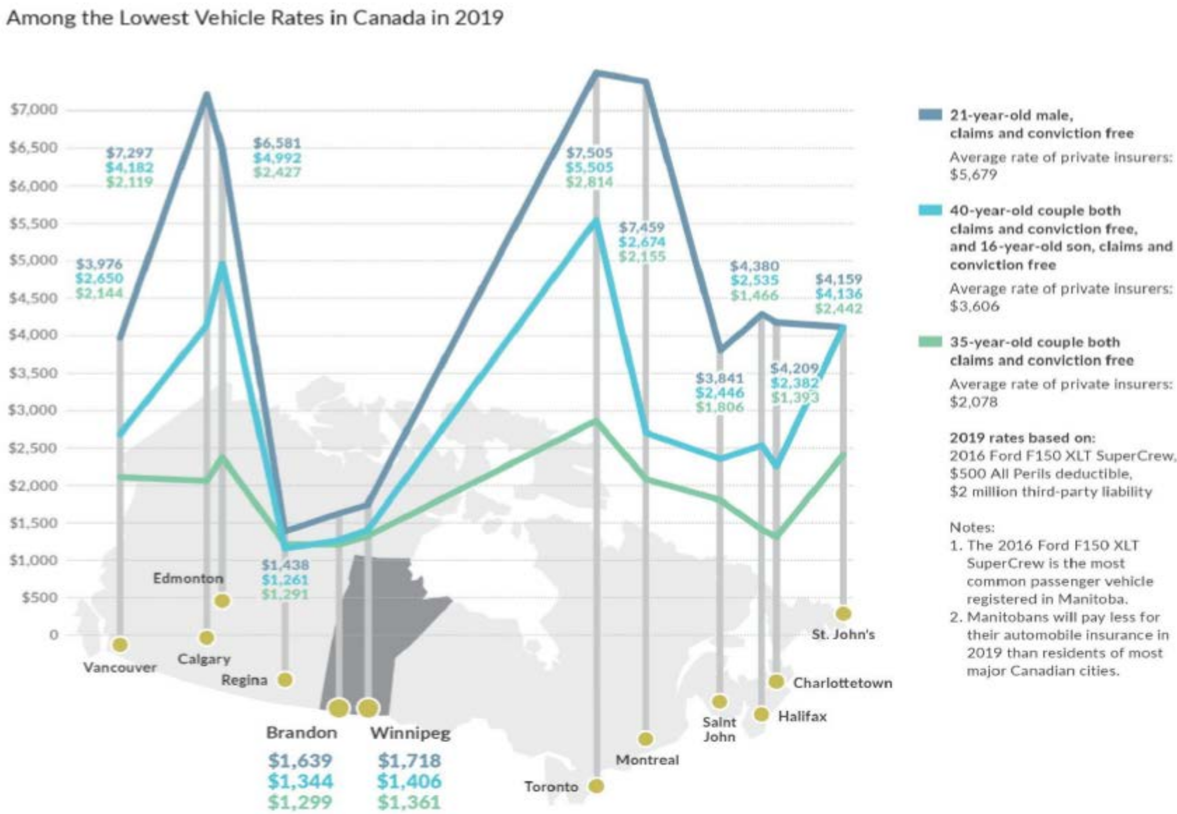
8. Careful management of claims and expenses, combined with limited hail, transfers of excess capital from Extension, and effective interest rate risk mitigation through Asset and Liability Management (ALM) have caused Basic to nearly achieve its capital target, and in short order.

9. Given this strong performance, with Basic's capital nearly at the 100% MCT target, MPI could not reasonably request a capital provision from customers.

10. MPI continues to be a leader among auto insurance providers in Canada. As a non-profit provider, the Basic compulsory program premiums reflect the forecasted cost of providing the insurance coverage, with no expectation of profit. This is breakeven ratemaking.

11. The Basic product provides comprehensive protection that is among the most affordable in Canada.

Figure 1 Comparison of Basic Policies to Other Jurisdictions



12. (Source: *GRA 2020, Part III, Comparison of Basic Policies to Other Jurisdictions*).

13. The Basic policy provides Manitobans with[1]:

- Guaranteed, level of protection, for collision and comprehensive perils
- Guaranteed availability; no one can be denied the ability to insure their vehicle, as long as they are eligible to register the vehicle for use on the roadway
- Guaranteed/non-discriminatory rating; not based on age, gender, or other personal factors but based solely on the vehicle risk (type of vehicle, use, territory), and the driver's record (Driver Safety Rating (DSR))
- Guaranteed access to injury benefits; all Manitoba residents are entitled to Personal Injury Protection Plan (PIPP) benefits under *Part II* of the *Manitoba*

[1] *GRA 2020, Part III, Basic Autopac Coverage, BAC.3*

Public Insurance Corporation Act, regardless of fault and whether they drive or register an automobile[2]

14. The Basic insurance product returns premium revenue to Manitobans in the form of claims benefits received by policyholders. One of the most straightforward and effective ways of comparing public auto insurance programs is to look at each premium dollar and how much was returned to the policyholder in the form of claims payments/benefits. This provides a lateral and accurate comparison while removing the impact of variables, such as different:

- levels of coverage;
- pricing and claiming practices;
- governance and ownership models; and
- Marketing and underwriting methods.

MPI's benchmarking shows that premium returned for each dollar earned has recently been upwards of 80 cents to the dollar, which indicates a reasonable level of administration cost of the Basic product.

Figure 2 Premiums Returned for Each Dollar Earned

No.	Metric	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
1	Premium returned for each dollar earned	0.98	0.93	0.77	0.95	0.80	0.87

Source: 2020 GRA, Part IV (i) – Benchmarking, BMK.4.3.2

15. With respect to motorcycle rates, MPI understands the Coalition of Manitoba Motorcycle Groups (CMMG) opposition to the rate request[3]. A significant portion of motorcycle claims costs are injury related, which do not vary greatly relative to the value of the motorcycle and can contribute to long-tail claims through the Personal Injury Protection Plan (PIPP)[4]. Although CMMG is claiming that "the rates sought by

[2] 2020 GRA, Part III, Basic Autopac Coverage, BAC.2
[3] Tx:133, line 4
[4] 2020 GRA, Part V (ii) – Ratemaking, Page 24, Line 8

MPI for the motorcycle class are considerably higher than those sought for private passenger"[5], it is the case that the premiums for motorcyclist are reflective of the risks associated with motorcycling in Manitoba.

16. It is also important not to lose sight of the fact that despite the rate request for motorcyclists, premiums still remain the lowest in Canada when compared to other jurisdictions.

Figure 3 Motorcycle Rate Comparison Chart for Driver Profile

No.	21 year old male claims and conviction free						
1	**Jurisdiction**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
2	**Winnipeg**	$1,380	$1,249	$1,093	$1,057	$1,118	$1,194
3	**Calgary**	$2,247	$2,427	$2,427	$2,427	$2,427	$2,218
4	**Regina**	$1,929	$2,134	$2,134	$2,134	$2,134	$2,134
5	**Toronto**	$2,679	$2,655	$2,570	$2,327	$2,392	$1,980

Source: 2020 GRA, Part IV (i) – Benchmarking

17. MPI's rate request application is in the best interest of captive ratepayers as it seeks to decrease rates for the majority Manitobans, improve customer accessibility, upgrade critical IT infrastructure, improve road safety outcomes and establish a transparent capital management plan. Combined with a zero-profit provision, Manitobans continue to have access to affordable insurance and meaningful protection.

18. Evolving to the respond to customer demands has been one of the underlying themes in this application. MPI is seeking to improve customer accessibility by committing to better online capabilities. Manitobans have stated loud and clear that they want more online services and product offerings[6]. In order to achieve this, and other valuable IT benefits, MPI has embarked upon Project NOVA to upgrade critical IT infrastructure to

[5] Tx:133, line 9
[6] 2020 GRA Information Request – Round 2, CAC (MPI)2-4, Appendix 1

ensure swift and modern service delivery. MPI has incorporated the expert advice of independent professional consultants in the development of Project Nova.

19. MPI must address its IT infrastructure before deficiencies impact the ability to offer cost effective and accessible products and service that Manitobans expect. MPI is playing catch-up to the evolution of the marketplace, and taking action to ensure that Manitobans enjoy the same service delivery options as many other Canadians.

20. MPI is providing unprecedented transparency to the PUB and the public on this project, and is committed proactive disclosure on Project Nova through future rate applications, and other means the PUB may find appropriate

3 Transparency Creates Accountability

21. MPI is improving transparency in every aspect of its operation with special attention being paid to transparency with its customers and its regulator. Transparency creates accountability, and the accountability drives performance. MPI is improving its performance by focusing on the core insurance business, managing claims and expenses, pursuing value for money in its partnerships, and optimizing road safety programming.

3.1 MPI's Natural Revenue Growth is Declining

22. MPI can expect a natural growth in revenues each year due to the increase in the size of the fleet of insured vehicles (called the volume factor), and the tendency of newer vehicles to replace older vehicles (called the upgrade factor).

3.1.1 Volume Factor is Shrinking

23. Mr. Giesbrecht explains the volume factor forecast as:

> *MS. KATHLEEN MCCANDLESS: And can you explain, yourself or Mr. Johnston, what the volume forecast represents?*

> *MR. MARK GIESBRECHT: That's the assumption of new cars that are entering the fleets, and amount of new cars that are on the road. So we have seen over the last little while a decline in that -- that growth rate, and so the forecast had a higher growth rate than what we actually experienced.* [7]

24. Actual volume growth in 2018/19 was the lowest in the past 15 years[8], and in response MPI has modestly reduced its volume growth forecast this year over last year, to reflect lower growth in the volume of Highway Traffic Act (HTA) Units. Figure 4 below presents the most recent actual, and the forecast used in the current GRA.

Figure 4 HTA Earned Unit Forecast

Line No.	Year	This Year	Last Year	Difference
1	**2018/19(a)**	1.01%	1.50%	-0.49%
2	**2019/20 and thereafter**	1.40%	1.50%	-0.10%

3.1.2 Upgrade Factor is Near Historical Averages

25. Upgrade factor is mostly driven by vehicle upgrades, which in the simplest conceptual terms, is the overall fleet becoming 'newer', but also considers other factors such as vehicle types (say, cars versus trucks), or insurance uses (say, all-purpose versus pleasure). Mr. Johnston explains the upgrade factor as:

> *You have a ten (10) year old car and you go buy a new SUV, MPI didn't change any rates, but you bought a more expensive car, so we got more premium. That would be an example of upgrade.* [9]

26. There is also some movement in upgrade factor as a result of the motorists moving up and down the DSR scale, however this is relatively minor, compared to the vehicle upgrade, as the DSR scale has stabilized as it has matured[10]. MPI made an adjustment to the DSR upgrade, to account for the Taxi Vehicles for Hire customer class becoming eligible for DSR discounts, which is quite close to the actual observed last year.

[7] Tx:347, line 1-9
[8] Figure REV-5, and Tx:305 lines 11-14
[9] Tx:924, line 11-15
[10] See Figure REV-8

27. The most recent actual upgrade factors are consistent with the historical trends, and the upgrade factor forecast for this GRA is unchanged from last year.

3.1.3 Basic Relies on the Combined Volume and Upgrade Factors

28. Mr. Johnston explained in testimony that the upgrade and volume factors together provide Basic with a natural growth in revenue, and as long as Basic's costs do not exceed that revenue growth, no additional rate request is needed:

> *The average growth is 4.4 percent per year. That is what I call kind of the Goldilocks zone of rate setting. And what I mean by that is we're going to get our volume growth of the fleet of about one and a half percent, sometimes two (2), sometimes a little less. And we're going to get upgrade so then the natural growth and premium, as people buy new cars, of about 2 1/2 percent.*
>
> *So you put those together, we typically get 4, 4 1/2 percent of premium growth without asking for a rate increase. So when we had that nice run of about fifteen (15) years where we either didn't have an increase or -- or we had a rate decrease, that's why we were able to stay in that happy kind of 4 percent or less growth phase, and we didn't have to ask for additional rate.* [11]

29. However, the combined upgrade and volume factors need to be realized in order to set the proper foundation for calculating the following year's rates. Mr. Phoa explains:

> *MR. TAI PHOA:So this slide just says that because the volume came in significantly lower than what we projected last year -- so this year, we have to actually ask for 0.7 percent more than -- 0.7 percent more to compensate sort of for last year's -- last year's forecast.*
>
> *MS. KATHLEEN MCCANDLESS: And so a lower volume times the same frequency and severity would translate to lower total claim dollars, yes?*
>
> *MR. TAI PHOA: Can you repeat that?*

[11] Tx:908, line 7-22

MS. KATHLEEN MCCANDLESS: If there's a lower volume but the same frequency and severity, that would translate to lower total claims dollars, yes?

MR. TAI PHOA: Yes, that's true.

MS. KATHLEEN MCCANDLESS: So then why does it affect the indication?

MR. TAI PHOA: So why does the lower volume forecast affect the indication? If -- if I may put it a different way assuming last year we forecasted the volume to be exactly what we see in this actual volume, last year we would -- in our rate indication, we would have come back and asked for an indication that's 0.7 percent higher because what would happen is that we would take our entire loss cost, and we would divide by the expected volume that we had last year which included a higher projection for volume going forward. So the average loss cost is lower.

Now if the average loss cost – the volume projection -- if we had known that the volume would come in significantly lower for the '18/'19 year, what would happen is that we would then have a higher projected loss cost from last year which was -- which would then affect our rate indication from last year.

So essentially this is just saying we just -- the way -- the way the -- the volume has come in this year, we -- we have said that it's significantly lower. That's why we have to sort of make up for what we didn't ask last year. Or to put it simply -- so it was just to recognize the difference between forecasted '18/'19 volume and actual '18/'19 volume. [12]

[emphasis added]

30. In the simplest terms, MPI did not sell as many policies as expected last year, given how significantly the volume factor came in under last year's forecast. In order to set the correct break-even rates this year, a correcting adjustment is needed to make up for the policies MPI forecasted it was going to sell in the prior year, but never did.

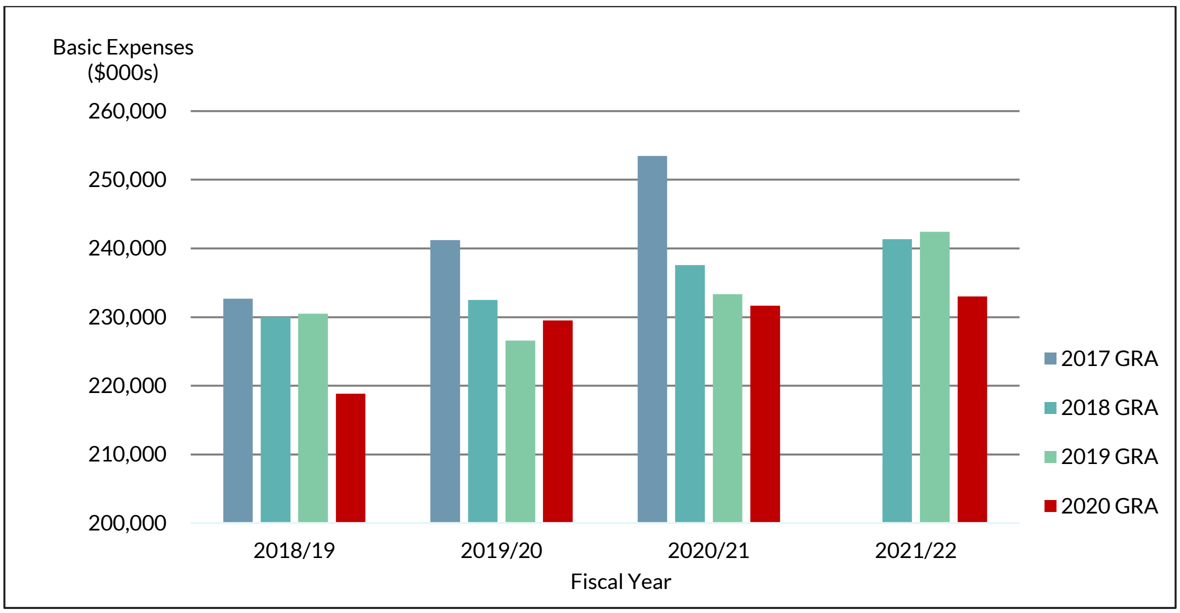
[12] Tx:1097 to 1099

31. While natural revenue growth is desirable to offset growth in claims costs, once it is factored into the rate indication, it becomes relied upon. When upgrade or volume factor growth lags projections, this must be accounted for in the subsequent rate indication order to set the appropriate break even rates.

3.2 MPI is Aggressively Managing those Expenses it Controls

32. For the second GRA in a row, MPI has brought an expense forecast that is lower than the prior year's projections[13]. The following chart from page 18 of Exhibit 46 shows that for the rating years, 2020/21 and 2021/22, MPI has forecast a reduction of controllable operating expenses over last year's GRA forecast.

Figure 5 Total Basic Expense, 4 Year GRA Comparison



33. The 2019/20 year is the outlier in this trend, but as indicated in MPI's October 4th Application Amendment, the performance in the first two quarters of the fiscal year, bring this projection from ~$229 million down to ~ $222 million, based on the current projections for this year (see the 2020P column of the PF.1 filed on October 4th), with

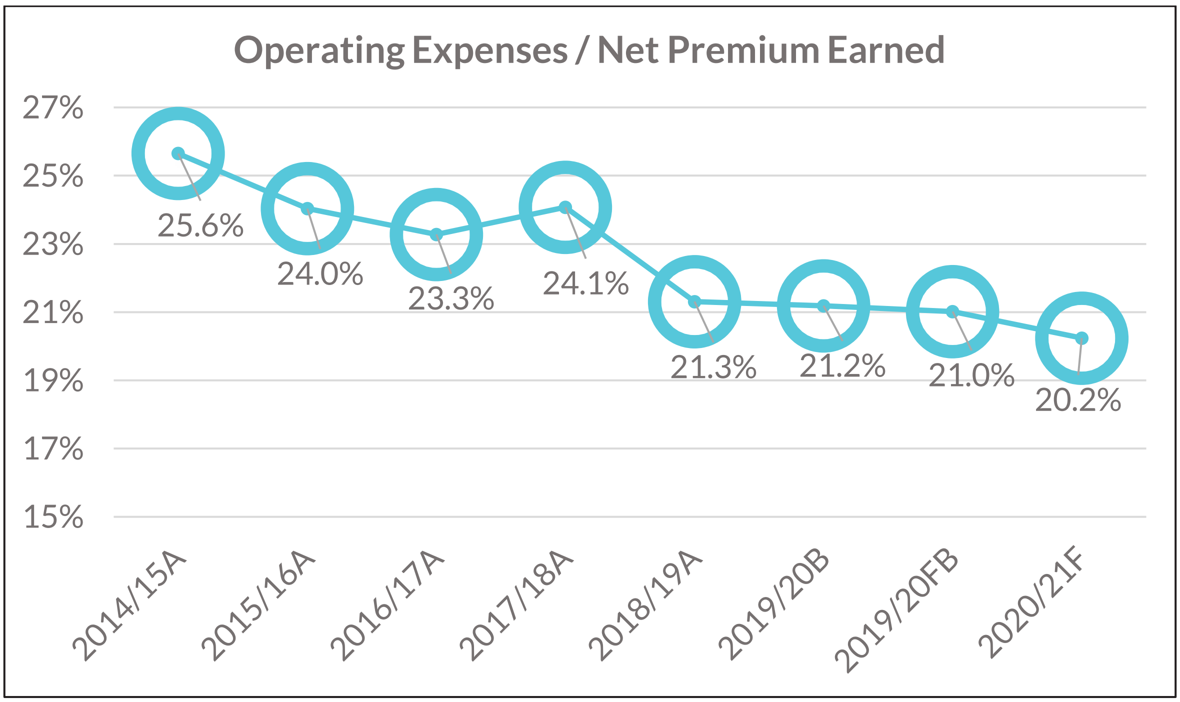
[13] 2020 GRA, Part V (i) – Expenses, Figure EXP-1

savings realized in Claims Expense, Operating Expense, and Regulatory and Appeal cost categories.

34. These forecasts are lower on an absolute basis, and don't factor in the growth in the business. When operating expenses are compared against Net Premiums Earned (a measure of revenue), the positive trend is undeniable, both on an actuals basis and through the forecast.

35. The following chart, also from MPI Exhibit 46, at page 16, demonstrates that the share of Basic ratepayer funds that are used to operate the Basic line of business has been decreasing, almost steadily from 2014/15.

Figure 6 Prudent Fiscal Management, Operating Expenses / Net Premium Earned



36. Mr. Giesbrecht speaks to the implication for ratepayers of this improving ratio:

> *I am happy to report that our expense ratio continues to improve, and what that means is there is more dollars from our ratepayers available*

> *for coming back right to them in the form of claims as opposed to running the cost of the operation.*[14]

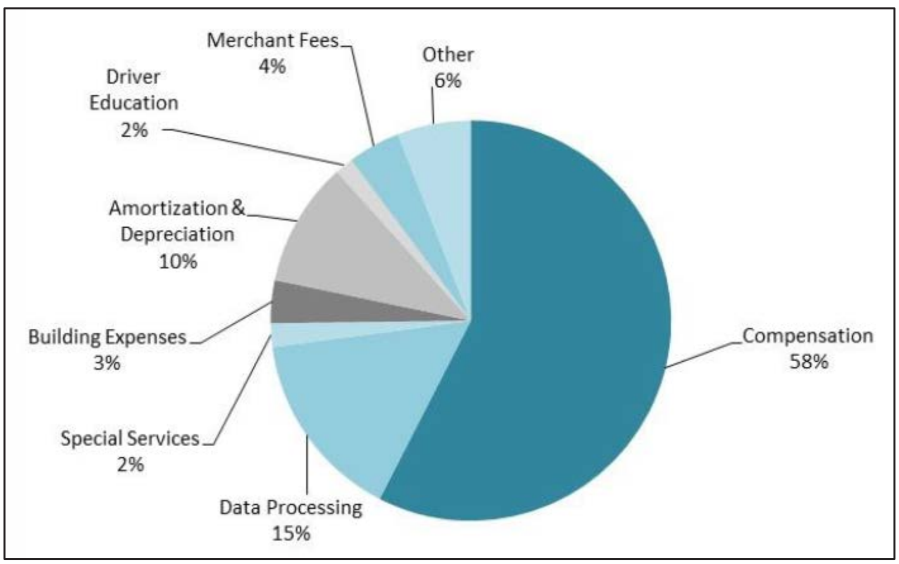
37. One very important aspect of prudent fiscal management is reducing those costs that are under the custody and control of MPI management. Mr. Graham stressed this point in his overview testimony:

> *So when I came here last year, and I spoke about really focusing on claims management, and focusing on our core, they are the results that we wanted. So with every part of the business that was - is within our care, custody, and control, we are managing this Corporation better.* [15]

3.2.1 Compensation and Vacancy Allowance has been Challenging

38. Compensation is by far the single largest cost category within Total Corporate Operating Expenses. Figure 7 below (same as Figure EXP-6 from the GRA) shows that in 2018/19 compensation is nearly two thirds of Operating Expense, with Data processing the next largest expense at only 15%.

Figure 7 2018/2019 Actual – Total Corporate Expenses



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[14] Tx:301-302
[15] Tx:204, line 3-8

39. MPI employs a vacancy allowance to reflect the fact that the actual Full Time Equivalent (FTE) complement will never equal the budgeted amount, reflecting the time that a position may be vacant while a recruitment process is ongoing. In the current year, MPI is experiencing a much higher than normal vacancy rate.

40. Ms. Campbell explains:

> *We currently have a very large vacancy rate. And so we benefitted from a lack of having all of our positions filled in '18/'19, but we have budgeted for a status quo number of FTEs. That is shown on -- if you look at figure EXP-10 which is on page 18 of the expenses book, for '18/'19 we had actuals of one thousand seven hundred seventy-two (1,772). Our budget for 2019/20 -- my apologies – is nineteen eleven. So we haven't budgeted for an -- an increase. What we're doing is we're budgeting for our vacancies to be filled.*[16]

41. The 2018/19 actual staffing level was materially under the 2019/20 budget, as can be seen in Figure 8 below (same as Figure EXP-10 from the GRA).

Figure 8 Normal Operations Staffing

Line No.	Fiscal Year	Actual	Budget	Over (Under) Variance
1	**2014/15A**	1,874.8	1,927.7	(44.4)
2	**2015/16A**	1,866.7	1,898.7	(52.9)
3	**2016/17A**	1,898.9	1,927.5	(28.6)
4	**2017/18A**	1,863.5	1,910.0	(46.5)
5	**2018/19A**	1,772.7	1,884.0	(111.3)
6	**2019/20FB**	-	1,911.1	-
7	**2020/21F**	-	1,907.3	-
8	**2021/22F**	-	1,905.3	-
9	**2022/23F**	-	1,905.3	-
10	**2023/24F**	-	1,905.3	-
11	NOTE: From 2017/18 and onward includes staff related to Specialty Programs			

42. Ms. Campbell characterized some of the current year understaffing as carrying-over from the under budget staffing levels the year prior, but also a result of higher than

[16] Tx: 374, line 14-25

expected retirements, which might reasonably be expected as the organization undergoes change:

> *Yes, this is absolutely a "hangover" from '18/'19. The organization has gone through and will continue to go through significant change. We have a new executive. We have a new strategy. So we do have a very high retirement rate right now.* [17]

43. Hiring is active and ongoing, and MPI is committed to retaining the proper number of staff to provide service to customers. However, MPI is being careful and diligent in its approach to hiring, with positions only being filled after careful review of the organization's needs. Ms. Campbell again explains:

> *In speaking to our HR team, **we have upwards of seventy-five (75) positions on the board right now being hired fo**r. So what you're seeing here is actually a very large vacancy rate in our corporation right now. We've had higher than normal retirements, and higher than normal turnover. We're in a process of -- of significant change right now. We've changed our executive team. We're changing our processes. So we've had a fair amount of turnover. We are hitting highs of turnover rates, higher than what we've seen over historical averages over the last several years. So we are seeing high numbers on vacancies. **We are, though -- every time we get a vacancy, we're reviewing the position, ensuring that the skill set's needed. We're reviewing to see whether or not we need the position somewhere else**. Again, as I noted, big change.* [18]
>
> *[emphasis added]*

44. MPI has prepared the vacancy allowance forecast on the basis of historical averages[19], and on the basis that it was not expecting the under budget staffing levels to persist as they have through the current year. MPI expects that some impact on the coming year is inevitable, but still expects the vacancy allowance forecast for 2020/21 to be

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[17] Tx: 478
[18] Tx: 394-395
[19] Tx: 399, line 15-17

reasonable. This fact is expressed in the exchange between PUB counsel and Mr. Giesbrecht:

> *MS. KATHLEEN MCCANDLESS: Does the Corporation expect that the $6 million expense savings will continue for the remainder of 2020?*
>
> *MR. MARK GIESBRECHT: A portion of it, for sure, as we are -- we do have about -- as Ms. Camp -- Campbell mentioned, seventy-five (75) posted recruitments actively ongoing. But we -- it won't likely be possible to get back up to that normal level of staffing, you know, by the end of the year. So we will expect to have some further savings throughout the last half of the year.*[20]

45. Finally, MPI can say with certainty, that ongoing under budget staffing levels do not result from a deliberate effort maintain vacancy of otherwise needed positions. The positions that are required, are being recruited as efficiently as possible, understanding that all vacancies are being reviewed to ensure the hiring is meeting requirements:

> *MR. MARK GIESBRECHT: And if I may just add to that, so we are having higher than usual, higher than average turnover. There has been no*[21]*direction to our staff to, you know, hold those positions vacant for a period of time to control costs. However, we are taking the opportunity to review the roles, make sure that they are, you know, properly staffed, and the requirements are properly met. But there is no direction to actively find, you know, a -- a set amount of dollars to achieve a -- a budget variance.*[22]

3.2.2 Prudent Fiscal Management in Action

46. MPI's Board of Directors and Management team have made prudent fiscal management a priority. The results of this focus are found in MPI's controllable expenses and claims handling, and it is also materializing in other priority areas of the business such as re-insurance and service provider contracts.

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[20] Tx: 415, line 15-25
[21] Tx: 479
[22] Tx: 480

47. Mr. Graham established the direction to examine the factors driving costs for service providers. On the surface these issues may not may not appear to cause concern, but close inspection has revealed troubling trends that demand correction:

> *We've made significant progress in relation to some of our strategic partnerships. We were able to renegotiate a number of agreements, all except one (1), and that has been rolled over the next two (2) years. It would be remiss of us as a Crown corporation to not explore the value that we get from those partnerships. And what do I mean by that is that MPI continues to offer Manitobans extremely low rates, but that doesn't mean that we shouldn't pull the covers back and have a look at the underlying assumptions that sit behind it.*[23]

48. Partnership agreements were renegotiated over the past two years, resulting in improved outcomes for MPI and its customers in almost all cases. Trade agreements with repair shops, chiropractors, rental cars and commercial vehicle[24], were renewed, with increased value for money, which translates directly to a benefit for MPI's customers.

49. MPI is focused on bringing terms of trade agreements into alignment with industry best practices, which in the case of the Light Vehicle Accreditation Agreement (LVAA), meant removal of the $81 direct repair premium for estimating. Mr. Johnston elaborates:

> *The light vehicle accreditation agreement, LVAA, is in our forecast. One aspect of that agreement was the removal of the direct repair premium of eighty-one dollars ($81). That additional premium was not actually recorded in collision costs. It was recorded in a -- a separate expense item, unallocated expenses. The removal of that premium saves the Corporation about $6 million a year, so that was taken out of the forecast as part of the benefit.*[25]

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[23] Tx: 194
[24] Note this agreement provides service exclusively for SRE, but is highlighted here as a further example of the approach MPI is taking to improving the value proposition of its trade agreements
[25] Tx: 917-918

MPI was also focused on stalling (or where possible reversing) trends in compensation increases, to align with trends in the broader industry and to deliver better value for money. Mr. Wennberg elaborates on further positive outcomes of the LVAA negotiations:

> *They are represented by the ATA and MMDA or the Auto Trades Association and the Manitoba Motor Dealers Association. This came into effect in April of this year. There's some big changes. Some of these we signaled to the PUB last year.* ***One is that there's no labour rate increase.*** *What we find is that actually many other provinces also didn't have a -- a rate increase over the last few years and in fact even Alberta went -- went down the other way.*[26]
>
> *[Emphasis added]*

50. MPI has also established a modernized re-insurance program, to provide better protection against a variety of storm events, and give the Corporation a better ability to budget for catastrophic events. MPI's former re-insurance program did not provide any coverage for smaller hail storms, or other events that resulted in less than $15 million in damage. In some years' past, a series of smaller hail storms cost MPI over $50 million in hail claims, but MPI was unable to recover any amounts through re-insurance.

51. Mr. Graham explains how the new reinsurance program improves over the old approach, and is so innovative that it is now being explored by other firms:

> *The first one was around optimizing reinsurance. We had an archaic system where we would have risk event coverage, and I don't want to go into the details -- I can talk later 'cause it's one thing that excites me about this job -- is that reinsurance was clunky and did not serve customers well. So every time there was a hail storm, the reinsurance program would restart. We had to retain all losses up to 15 million, and then we would have a $2 million reinstatement fee. I believe three (3) years ago or four (4) years ago, we lost $53 million in hail, and we recovered zero. That makes budgeting for hail extremely difficult. So we now have a single aggregate tower, the first of its kind in Canada of which our broker now Aon is saying a number of other insurance*

[26] Tx: 1610-1611

> *companies are exploring. It allows us to budget for hail. If we go above it, it is recovered from reinsurance. If we do not, we are under budget, and under the new capital management plan, that money will flow back directly into the pockets of consumers.* [27]

52. This protection comes at a modest increase in cost, about 1.6 million[28] annually but provides significant advantages for MPI and its customers over the old program.

53. MPI has also been focused on improving processes within the core insurance business, improving MPI's claims handling, improving customer service outcomes and improving MPI's internal operations through LEAN process redesign.

54. A recent project that encapsulates and demonstrates each of these improvements is the Total Loss initiative, which implemented an IT solution to establish consistent market values for vehicles in total loss collisions. The initiative is expected to improve the customer experience by providing consistent information on market values to all customers, streamlining the negotiation process with uniform data, and improving MPI's internal processes through LEAN value stream mapping.

55. As explained in the SDM.2.5, the Total Loss project team shadowed adjusters, estimators and call centre representatives to learn the various stages of the total loss process. Value Stream Mapping exercises identified process steps and issues, then generated solutions and defined possible future states. Customer focus groups were also held through a third party vendor to get customer feedback on the current total loss process, sample valuation reports, and what information was needed in valuation reports. The LEAN tools, concepts, and mindset allowed the project team to identify front-line issues and solutions that will improve the customer experience.

56. Mr. Wennberg elaborates on the need for enhancements to the total loss process, and the how that process provides a consistent data set to customers in the total loss process:

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[27] Tx: 192-193
[28] 2020 GRA: Part V (i) – Revenues: Figure REV-32

> *Another innovation -- this is very recent -- we have added a new total loss software piece actually, and a new total loss process to what we do. This is important. In our -- in our 900 million of claims in total per year, total losses amount to 250 million. So a quarter of a billion dollars a year go through this process, and as you saw earlier, our customer satisfaction through it has not been solid. So we bought this new valuation tool. We launched it in September of this year. This is an independent -- about five (5) pages that will go to our adjustors and our customers, if they ask for it and wish for it. It shows relevant ads. It takes away, in algorithms that are based on many other insurance companies' experiences, what a car value truly is.*[29]

57. Mr. Wennberg further elaborates on the benefits of this initiative, and approach to total loss:

> *And so we have less of the -- less of the negotiation process or, even better, less of an issue where I have, let's say, thirty (30) different adjustors that do total loss. Each one (1) of them may come up to a different number based on what they use on Kijiji or looking at Black Book or looking at autotrader.ca or their own personal views on things. And that's not a good customer experience. We don't want someone who's a hard negotiator and someone who isn't to have two (2) different experiences out of MPI. We're here for everyone equally, and we want to make sure that everyone gets the right number for their car.* ***So this results in a faster turnaround. We have actually seen, just in the more recent data on total loss, an uptick in customer satisfaction****. This -- this could be one (1) of the drivers. It's -- it is very, very new, but -- but so far we like it, and we think it's being very fair.*[30]
>
> *[Emphasis added]*

58. MPI has been making improvements across the business, with a focus on improving core insurance operations, reducing costs, and delivering an improved customer experience. The early impact of these improvements are being seen through financial performance and customer service metrics.

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[29] Tx: 1619-1620
[30] Tx: 1620

3.3 Prudent Fiscal Management is a Focus on Core Insurance Operations

59. The focus on the prudent fiscal management also extends to claims management where MPI has been showing early signs of improving claims management and reducing claims costs. In fact, MPI's amended rate request was possible in large part due to better than budget claims performance through the first half of the current year.

Mr. Graham established this expectation, and MPI has followed through:

> *So when I came here last year, and I spoke about really focusing on claims management, and focusing on our core, they are the results that we wanted. So with every part of the business that was - is within our care, custody, and control, we are managing this Corporation better.*[31]

60. MPI's performance to mid-year on the claims budget has accounted for most of the improvement in the Basic's financial position. The current year claims incurred budget improved from $884 million[32] to $823 million[33], before accounting for any interest rate impacts.

61. While MPI has to credit some of the success to factors beyond its control, such as limited hail experience and favorable investment performance[34], MPI has also adopted the philosophy of paying what is owed, and relying on the expertise of MPI's staff to settle claims fairly. Mr. Graham explains:

> *I'm talking in that slide about empowering our employees. While some might have held senior positions in other insurance companies globally, I've never been an adjuster. I've never inspected a vehicle at time of claim and been able to say that that is two thousand four hundred dollars ($2,400) worth of damage. So why would I overturn the decisions of those that are trained in that special field?*

[31] Tx: 204
[32] 2020 GRA, Part V (i) - ProFormas PF1, line 14, 2020B
[33] MPI Exhibit 42, PF1 Line 14, 2020P
[34] Tx: 1129, line 13-23

> *We have been very clear in making sure that all of our staff are as trained as possible, and we support their decisions. We will make mistakes. Everyone does. But the ability of someone to call MPI the executive floor and basically state that, you know, write me a cheque for a total loss or I'm going to go to the press, we're standing by our people. Those days are gone, and that is clearly reflected through our claims experience of this year.*[35]

62. Beyond Mr. Graham's elaboration on MPI's philosophy of paying the claimant what they are owed, prudent fiscal management is evident through the new approach to Total Loss, and also through the treatment of rodent claims, and fine tuning some PIPP rehabilitation coverage.

3.4 MPI is Finding the Optimum Road Safety Program and Budget

63. The rate of traffic fatalities per 100,000 people in Manitoba is trending downward and is below the fatality rate of Manitoba's most comparable province, Saskatchewan[36]. Although this is a positive sign, there is still more work to be done in order to reach the ultimate goal of zero fatalities on the road. The costs of claims are also a concern for MPI as the average cost per collision claim is increasing. There are many factors which contribute to this, such as the increasing cost to repair technology-laden vehicles and the social costs associated with collisions. Social costs of road collisions and associated injuries includes but may not be limited to:

- Loss of life and life quality
- Loss of output due to temporary incapacitation
- Medical costs
- Legal costs
- Property damage costs

64. Social costs represent the costs of collisions in their totality and is not simply the claims costs incurred by MPI. It can also include things such as:

[35] Tx: 191-192
[36] MPI Exhibit #48 Presentation on Road Safety, Slide 5

- Traffic delays
- Out of pocket expenses
- Tow trucks
- Ambulance Services
- Fire Department Service
- Police

65. The rate of serious injuries (requiring a hospital visit) is increasing, and MPI is following this increase closely[37]. To tackle this issue, MPI has identified the primary factors contributing to serious collisions and has developed plans to address these. The top three factors are distracted driving, speed and impaired driving[38]. MPI is undertaking a multi-faceted approach to reduce collisions and promote safe driving.

66. MPI is taking action through the Provincial Road Safety Committee (PRSC) to develop action items and engage the broad spectrum of partners who contribute to road safety culture and initiatives in Manitoba. MPI provides funding and support to enhance enforcement, including expanding automated speed enforcement which is a proven method to mitigate speeding on our public roads.

67. MPI is also partnering with key stakeholders to research the causes of collisions at high-risk intersections. MPI supports the use of intersection cameras placed at high risk intersections, as distinct from high revenue intersections. MPI would like to be critical stakeholder in passive enforcement strategy, funding, and decision-making, and is willing to engage the City of Winnipeg and Winnipeg Police Service, and other government departments to share data, and the develop a program to target these intersections. The end goal is change behavior and reduce accidents, not collect revenue. MPI will be looking to engage the PRSC on this initiative[39].

[37] MPI Exhibit #48 Presentation on Road Safety, Slide 6
[38] MPI Exhibit #48 Presentation on Road Safety, Slide 8
[39] MPI Exhibit #48 Presentation on Road Safety, Slide 11

68. Educational programs for youth, such as the Driver Z program, are critical in developing safe drivers in the earliest stages of driver education. Future projects for MPI also include researching the use of telematics to improve road safety.

69. MPI appreciates the contribution of Bike Winnipeg on road safety matters and its continuing efforts outside the GRA. MPI has reservations with suggestions of retesting experienced drivers[40]. Although MPI believes this to be a well-intentioned suggestion, Bike Winnipeg has not provided evidence that retesting experienced drivers based on predetermined time-frames (i.e. every 10 years) contributes directly to improving road safety. Nor has Bike Winnipeg established that MPI's current approach to driver fitness is lacking.

70. With respect to a First Nations strategy, MPI appreciates the mindfulness of the CAC to address MPI's mandate letter concerning interactions with First Nations and on collecting data which could be valuable in decision-making. MPI recognizes it has a role to play by focusing on the basics of vehicle registration and driver training and licensing. MPI has already begun establishing greater access to these basic services in major northern communities.

71. MPI's road safety expenditures are prudent. They are built from the ground up, and based on business case analysis. MPI is employing its Road Safety Framework, using proven and promising road safety interventions and industry best practice to develop and fund its programming.

72. MPI performs program evaluation to all road safety initiatives. Those road safety initiatives that yield measurable outcomes in the short term, and that do not produce results, will have funding allocated to efforts that yield better outcomes.

[40] Tx:140, line 24

4 Adequate Capital Reserves are the Linchpin to Making the System Work

73. Adequate capital reserves hold the Basic Autopac scheme together, much like linchpins hold the wagon wheels on the axle. A known and stable level of capital reserves are the anchor point for planning purposes, and allow MPI to chart its path better insulated from the risks of adverse events and insolvency.

4.1 How Capital Management Plan Works

74. MPI brings to the 2020 GRA a new Capital Management Plan (CMP) for approval by the PUB. The CMP is a transparent mechanism to manage the ever fluctuating capital reserves of the Corporation. The anchor points of the CMP are the 100% MCT minimum for Rate Stabilization Reserve (RSR) and the 200% MCT minimum for the Extension Reserves under the Reserves Regulation, 76/2019 (the "Regulation"), which was recently enacted under *The Manitoba Public Insurance Corporation Act*.

75. The CMP is based upon the premise that the amount in the various reserves is continually fluctuating. There will be times when the reserves are above the minimum requirements and there will be times when the reserves are below the minimum requirement. The purpose of the CMP is to provide transparent guidance on what is to be done in either situation.

76. An open question has been – what does MPI do with the capital reserves for the Extension line of business? The Regulation and the CMP answer that question. If at the end of each fiscal year the Extension MCT ratio is greater than 200%, MPI will transfer capital from Extension to Basic in an amount that reduces the Extension ratio to 200%. If the RSR is below the 100% MCT level, the excess Extension monies will be added to raise the level of the RSR. If the RSR level exceeds 100% MCT, the excess Extension monies will be used to reduce the Basic rate charged to customers.

77. The Regulation, which serves as an anchor point to the CMP, not only sets out the capital targets for Basic (100% MCT) and Extension (200%), but contains a provision that will lower rates for Basic customers once Basic is at 100% MCT:

> ***Use of surplus moneys in rate stabilization reserve***
>
> ***3*** *The corporation may use amounts in the rate stabilization reserve that are in excess of the amount required under clause 2(a) only for the purpose of reducing the rate indication required for the plan of universal compulsory automobile insurance in a subsequent year.*

78. In his direct evidence, MPI's Chief Actuary, Luke Johnston, testified that the CMP contains a capital build provision if Basic MCT is not at its target (100%), after taking into account the transfer of any excess capital from Extension and the retention of investment income from the RSR. Most recently, on February 28, 2019, MPI transferred $60 million from Extension into Basic, and is forecast to transfer in excess of $75 million this current fiscal year end[41].

79. While there appears to be some actuarial debate over the RSR investment income, whether it should be applied to Accepted Actuarial Practice (AAP) ratemaking or retained on the capital side of Basic's rates, MPI says it becomes moot when one considers the overall rate indication would be the same irrespective of how the RSR investment income is accounted for. As illustrated in response to Undertaking 15[42], had the RSR investment income been factored into the AAP rate indication, it would have lowered the rate indication while triggering the build provision under the CMP, resulting in a requirement on the capital side that would return the overall rate indication to - 0.6%.

80. During his testimony on October 15, 2019, Mr. Johnston explained it this way to counsel for the PUB and the Consumers Association Canada (Manitoba):

[41] MPI Exhibit 42, PF3 line7
[42] MPI Exhibit 97

MS. KATHLEEN MCCANDLESS: The reserves regulation effective -- effectively changes that status quo to have Basic now work towards a single target capital level, yes?

MR. LUKE JOHNSTON: That's right. It -- the approach that we're using is intended to constantly tweak our capital levels to move towards the target, and prevent, essentially, bubbles from occurring. So, you know, like getting really close to the bottom of a range, and then falling below and having to ask for a bunch of money. This approach is trying to do the adjustments in small, incremental bits before those bubbles occur.

MS. KATHLEEN MCCANDLESS: How is the single target capital level consistent with the objective of promoting Basic rate stability?

MR. LUKE JOHNSTON: Basically, just to reiterate my comments again, we're always actively managing rate stability in this -- in this proposal. So we know our target. We're never allowing ourselves to get too far below or above that target. And we put the -- the five (5) year build and the three (3) year release in to recognize that there is some year-to-year volatility. We don't want to overreact, but this approach of constantly moving a little bit is seen as a -- a way of – a better way to manage rate stability than wait for, say, a big buildup of reserves and have a large rebate, or delay small builds and -- and wait until you know you're in really bad shape to ask for a really big surcharge. So that's -- that's why we think this is more stable.

MS. KATHLEEN MCCANDLESS: Okay. So just to understand your response, then, Mr. Johnston, I gather it's that -- not that the single target promotes rate stability, but it's the Proposed Capital Management Plan that would ameliorate the extent to which a single target is less than fully compatible with the objective of promoting rate stability?

MR. LUKE JOHNSTON: That's true. The -- the -- this -- without some mechanism to move towards that target, the – it wouldn't make a lot of sense to have just a single target. It's the -- it's the Capital Management Plan that rules around it that create this -- the rate stability.[43]

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[43] Tx: 1124, line 22; 1126, line 19

DR. BYRON WILLIAMS: Thank you, Mr. Johnston. I have what we call some short snappers for you just to finish up my examination. Mr. Johnston, you had an extensive discussion with My Learned Friend from the Public Utilities Board about the capital build provision. Do you recall that from this morning, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And hastening to point out that I am not asking for a legal opinion, would it be fair to say that the MPI five (5) year plan for rebuilding the capital build provision is contingent on an assumption that achieving a minimum 100 percent minimum capital test in each app – in each rate application is not mandatory. That's the assumption underlying it, sir?

MR. LUKE JOHNSTON: If you are saying that achieving 100 percent MCT in the rating period of the application, then MPI would say that is not mandatory. It -- we were suggesting that it's within five (5) years per our proposed Capital Management Plan.

DR. BYRON WILLIAMS: And that assumption is the hinge upon which the five (5) year Capital Plan operates, sir?

MR. LUKE JOHNSTON: Right.

DR. BYRON WILLIAMS: It's a critical assumption?

MR. LUKE JOHNSTON: It is. Yeah.[44]

81. Mr. Johnston also explained the capital release provision under the CMP, which is triggered if the RSR is more than 100% MCT on March 1 of any given year. The excess capital is then released (in the form of rate decreases) over a three year time horizon, incrementally and in equal amounts, until the RSR has been returned to 100% MCT.

82. The Consumers Association of Canada (Manitoba) called John Todd as its witness to give evidence about the CMP as proposed by MPI. Aside from the appropriate level of the capital target as provided for under the Regulation (which was beyond the scope

[44] Tx: 1237, line 3; 1238, line 7

of his testimony), Mr. Todd agreed with the mechanics of the CMP including the capital transfers and the build/release provisions therein.

83. Mr. Todd, did however, express two main concerns for the regulator. The first is ensuring the monopoly utility in question (Basic) does not subsidize any competitive lines of business offered by the same utility (Extension). The second is that where rigorous rules to limit anti-competitive activity have not been imposed, the financial success of the competitive lines of business (Extension) may be reasonably attributed, in whole or in part, to the monopoly utility (Basic).

84. Both of these concerns, cross-subsidization and anti-competitive activities, are addressed by section 6.3 of *The Manitoba Public Insurance Corporation Act* and the CMP.

> *Separation of compulsory and extended businesses*
>
> *6.3 The corporation must ensure that the revenue from its plans of universal compulsory automobile insurance and its other revenues are not used to subsidize the corporation's plans of extension insurance.*

85. During his cross-examination on October 21, 2019, the following evidence was adduced:

> *MR. JOHN TODD: Okay. For the sake of argument, let's assume that this board accepts the Company's position that a 200 percent MCT is the appropriate test for the prudent reserves for Extension.*
>
> *MR. STEVEN SCARFONE: Yes.*
>
> *MR. JOHN TODD: When you get to 210, that 10 percent would be available for transfer.*
>
> *MR. STEVEN SCARFONE: And then is used to lower the rate indication?*
>
> *MR. JOHN TODD: Well, as I mentioned in direct, it could be -- it's -- it would flow back to customers. There are different ways you could do*

that. One (1) -- one (1) way would be to reduce rates. Another way would be to provide a rebate.

MR. STEVEN SCARFONE: And another way might be to achieve a capital target that the monopoly might not be at?

MR. JOHN TODD: If the monopoly is below its target --

MR. STEVEN SCARFONE: Yes.

MR. JOHN TODD: -- that would probably be the first recourse, yes --

MR. STEVEN SCARFONE: Yes.

MR. JOHN TODD: -- which is exactly consistent with MP --

MR. STEVEN SCARFONE: Yes. And that's what the capital management plan contemplates?

MR. JOHN TODD: Exactly.

MR. STEVEN SCARFONE: Yes.

MR. JOHN TODD: Exactly.[45]

MR. STEVEN SCARFONE: So at line 25, it reads: "Assuming the PUB determines that generally accepted rate-making principles are relevant to the rate approval process, the following considerations should guide this Board's approach in reviewing MPI's rates." And you've set out one (1), two (2), three (3), four (4), five (5), things for this Board to consider, correct?

MR. JOHN TODD: Correct.

[45] Tx:2206, line 3; 2207, line 8

MR. STEVEN SCARFONE: First of which is to ensure there's no cross-subsidization, and that the Corporation is acting in line with Section 6.3 of the Act.

MR. JOHN TODD: Correct.

MR. STEVEN SCARFONE: And as we've heard, the transfer of capital isn't from basic into the competitive lines, but in fact the opposite.

MR. JOHN TODD: Correct.

MR. STEVEN SCARFONE: The second bullet is that: "MPI's extension and SRE insurance lines are analogous to the non-utility services of other utilities since they are products that are also available from other participants in the market and are options for MPIC's customers." So that recommendation I think goes back to the mischief that the Ontario Energy Board tries to address in its affiliates rules where you don't have an advantage derived without some benefit to the monopoly policyholder.

MR. JOHN TODD: Yes, and -- and which is also addressed for non-utility services of a monopoly through the mechanism of flowing 100 percent of the benefit as a reduction in rates for customers - - reduction to revenue requirement and, therefore, rates.

MR. STEVEN SCARFONE: And -- and I would suggest to you, sir, that the proposed Capital Management Plan, as you've said, provides for a rigorous rule that this Board can use as a -- as a -- as a way of achieving -- or avoiding this mischief.

MR. JOHN TODD: Once the reference point is set in a way that the Board considers to be prudent and --

MR. STEVEN SCARFONE: Appropriate?

MR. JOHN TODD: -- appropriate.

MR. STEVEN SCARFONE: Yes.

MR. JOHN TODD: Yes. And with -- with -- with the caveat that part of that Capital Management Plan structure is addressing the rate stability *question. It's -- it's specifically addressing that, and again, assuming the Board agrees with that mechanism, has the right degree of rate stability relative to retention of customers' dollars.*

MR. STEVEN SCARFONE: Now, the third bullet speaks to the excess earnings, and again that is the amount that's over and above whatever capital target that might ultimately be affixed for the Corporation.

MR. JOHN TODD: Correct.

MR. STEVEN SCARFONE: And the offsets that you refer to there would be addressed in that case -- again, once the appropriate level is determined, addressed by the Capital Management Plan.

MR. JOHN TODD: Correct.[46]

86. While not made clear in his evidence, there was some indication from Mr. Todd that excess capital from Special Risk Extension (SRE) should also be transferred to Basic for the benefit of ratepayers. In response to this suggestion, MPI says that SRE, which is MPI’s commercial trucking business, derives no benefit from the Basic monopoly. SRE operates independently with no relationship between customers.

87. MPI says the CMP represents an example of unprecedented transparency. It provides a necessary look-see into the financials of Extension, including historical financial performance and capital forecasts. More importantly, the CMP is designed to back the operations of Basic, which recently has not been self-sustaining.

88. While MPI is optimistic that Basic will soon return to its days of operating on a stand-alone basis, the CMP is a full answer to past inquiries made by the PUB concerning what use MPI made of retained earnings by Extension.

89. MPI says approval of the CMP by the PUB makes eminent good sense for Basic and its ratepayers.

[46] Tx:2218, line 22; 2221, line 18

4.2 Investments - The ALM Strategy is Working as Expected

90. Investments, as compared against other issues canvassed in the 2020 GRA, was relatively straightforward, particularly if one considers the attention it drew over the past couple rate applications.

91. In 2017, Mercer was engaged and conducted an Asset Liability Management (ALM) Study for MPI, the recommendations of which are now substantially implemented (with the exception of the illiquid asset classes, including private debt, real estate and infrastructure). The benefits of the ALM Study cannot be overstated. The segregation of portfolios allows the Basic Claims portfolio to have at its primary objective the mitigation of nominal interest rate risk (i.e.: changes in the level of actual interest rates) while allowing other portfolios like Employee Future Benefits (Pension) and Rate Stabilization Reserve (RSR) to seek higher returns with the right mix of growth and fixed income assets.

92. Basic suffered net income losses of $163 million from 2015 to 2017 as a result of interest rate forecasts that did not prove accurate. This required the MPI Board of Directors to approve the transfer of $176 million from the Extension line of business to the RSR to keep Basic in satisfactory financial condition. These capital transfers, it seems, were foreshadowing a new way of doing business at MPI. This year, another $60 million has been transferred from Extension into Basic's RSR as per the new CMP.

93. In addition, the corporation is retaining RSR investment income within the RSR to further strengthen its capital position. Both of these strategies, capital transfers and the retention of RSR investment income, will allow MPI to achieve its new capital target under the Reserves Regulation – 100% MCT.

94. The investment strategy under the ALM is also inextricably linked to the capital position of MPI and the new Capital Management Plan. Last year, during the 2019 GRA, MPI's Chief Actuary explained how the investment strategy and its segregated portfolios had the effect of lowering the capital required to keep MPI in satisfactory financial condition. Following the 2019 GRA, the capital targets ordered by the PUB

were $140 million (lower) and $315 million (upper). Compare those targets against the targets ordered in the 2018 GRA under the old commingled portfolio, $180 million (lower) and $325 million (higher)[47]. Figure 9 below (same as Figure RSR 8 from the 2020 GRA) illustrates the impact of the ALM on Capital Requirements.

Figure 9 MCT Ratio % Summary – Pre vs Post ALM Strategy

Line No.	(All figures in $000s, unless otherwise noted)	as at February 28, 2019	as at March 1, 2019*
1	**Capital Available:**	**203,767**	**203,767**
2	**Capital (Margin) Required at Target:**		
3	Insurance risk margin	299,190	298,745
4	Market risk margin**	271,932	159,657
5	Credit risk margin	24,665	41,460
6	Operational risk margin	77,718	68,938
7	Less: Diversification credit	80,416	64,225
8	**Total Capital (Margin) Required at Target**	**593,089**	**504,575**
9	**Minimum Capital (Margin) Required (line 8 / 1.5)**	**395,393**	**336,383**
10	**MCT Ratio (line 1 / line 9)**	**51.54%**	**60.58%**
11	*Investment asset values are modelled to be as at June 1, 2019		
12	****Market Risk Margin**		
13	Interest rate risk	37,388	23,222
14	Foreign exchange risk	17,536	21,001
15	Equity risk	147,977	83,897
16	Real estate risk	68,420	31,537
17	Other market risk exposures	611	0
18	**Subtotal: Market risk margin**	**271,932**	**159,657**

95. The effect of the ALM upon capital was touched upon by MPI's Chief Actuary in his evidence of October 15, 2019:

> *MR. STEVEN SCARFONE: Thank you. And then Ms. McCandless also asked you some questions about, in previous years, the Corporation had suggested capital targets, whereas this year there's one (1) single target for the Corporation to achieve.*

[47] More to the point, the MCT range for 2019 was 34% – 88%, compared against 29% – 74% for 2018, notwithstanding the higher targets in 2018

Can you say what the amount of -- what's the dollar value of the 100 percent MCT target?

MR. LUKE JOHNSTON: Obviously, it's different depending on what date you're looking at, but we're -- we're in the 350 to $400 million range today and into the forecast period.

MR. STEVEN SCARFONE: And are you aware, sir, if that would exceed the -- the amount of the upper target that was ordered by the Board last year?

MR. LUKE JOHNSTON: I -- I can't recall the exact dollar value of the upper target. On an MCT basis, my recollection was it was around 85 percent MCT equivalent, but again, we've since changed our -- our investment portfolio, which dramatically lowered our capital needs. So prior to the investment portfolio redesign, a hundred percent MCT was over 400 million, and the -- the de-risking of the Basic line brought that almost a hundred million dollars lower.[48]

96. The overall return on the Investment Fund was 4.9% during the fiscal year (2018/19) with $208.5 million of investment income allocated to Basic. As the Corporation prepared its portfolio for transition to the new asset allocation strategy for 2019/20, there was a one-time gain of $93 million from the sale of equities.

97. The MPI Investment Fund is performing well and is now expected to do as intended - find the right balance between acceptable returns while mitigating the risks associated with interest rate changes.

98. The use of the naïve interest forecast in rate setting has also reduced pricing risk, as has the use of AAP ratemaking. Reducing the impact of interest rates on premiums charged to customers, among other improvements, leaves MPI confident that it can avoid the magnitude of the losses that gave rise to the financial challenges experienced between 2014/15 and 2016/17.

99. With implementation of the ALM study recommendations now substantially complete, the only outstanding issue for Investments this year were the Shadow Portfolios that

[48] Tx:1291, line 20; 1292, line 18

the PUB directed MPI to develop for comparison against its actual portfolios. The PUB was interested to know how the Basic and Employee Future Benefits (Pension) portfolios would perform with the inclusion of Real Return Bonds and a less constrained portfolio as part of an optimal portfolio mix. In consultation with the PUB, the Corporation engaged Mercer to develop four shadow portfolios, two for Basic and two for Employee Future Benefits (Pension).

100. MPI complied with the PUB's directives concerning the Shadow Portfolios and arranged for Dave Makarchuk to attend the hearing and give evidence about how the Shadow Portfolios were constructed, how they have performed to date, along with some advice concerning the practicality of making a comparison against the portfolios implemented by MPI.

101. In PUB Order 159/18 that arose following the 2019 GRA, the PUB stated as follows:

> *When it comes to the Corporation's overall investment strategy, the Board recognizes that its oversight role does not extend to directing the Corporation as to the particulars of its portfolio management.*
>
> ...
>
> *It appears to the Board that the Corporation has selected from a range of reasonable options for its portfolios as a result of the Mercer ALM study.*

102. However, in the Order from last year, the Board took note of Valter Viola's critical analysis of the ALM Study and stated that the Corporation may have "foregone an opportunity to hedge against long-term risks by rejecting RRBs and reducing real assets".

103. In his evidence, Mr. Makarchuk was clear about two important points:

> *the securities included in the Shadow Portfolios, including RRB's, growth assets in the Basic Claims portfolio and leveraged bonds were contrary to the Corporation's investment objectives and risk tolerance; and the six month timeframe used for the comparison of the Shadow Portfolios*

against MPI's portfolios was well outside the 5-year comparison timeframe commonly recognized in the industry.

104. Mr. Makarchuk testified that the underlying model, whether to hedge real interest rate risk (based on use of the Real Liability Benchmark) or to assume a static inflation hedge of 2% (based on use of the Nominal Liability Benchmark), was a decision that rests with the investor. Mr. Viola admitted the same thing is his testimony in the 2019 GRA.

105. MPI chose a Nominal Liability Benchmark for the ALM Study, based on reasonable inflation expectations.

106. During the course of his cross-examination, Mr. Makarchuk was asked by counsel for the Consumers' Association of Canada (Manitoba) to assume a Real Liability Benchmark was underlying the actual Basic Claims portfolio that MPI selected under the newly implemented investment strategy. Their exchange shows the difficulty that comes with trying to insert MPI's actual portfolio selection (Basic 3) onto a model that uses a Real Liability Benchmark:

> *DR. BYRON WILLIAMS: Again, the analysis of these two (2) portfolios should understand that they're not starting from the same level of risk, correct?*
>
> *MR. DAVID MAKARCHUK: Correct.*
>
> *DR. BYRON WILLIAMS: And sir, if you wanted to look at the shadow portfolio for Basic at the same level of risk as Basic 3, one (1) option would be to move to the right in terms of surplus volatility to four point five (4.5). Would that be fair?*
>
> *MR. DAVID MAKARCHUK: Yes. I'm not sure where you're going with it, because it's hard to move Basic 5 [the Shadow Portfolio] over there with RRBs.*
>
> *DR. BYRON WILLIAMS: You -- you would have to change the –*

> *MR. DAVID MAKARCHUK: You would have to shorten your provincials or something weird.*[49]

107. Notwithstanding the inherent difficulty that comes with comparing portfolios that make use of different risk models, Mr. Makarchuk did provide such an analysis (MPI Exhibit 59) for the period March 2019 to August 2019, but not before commenting about the timeframe:

> *MR. STEVEN SCARFONE: So just to be clear, sir, this six (6) months that we're going to review here shortly, in your view, is too short a time frame to make a fair comparison against MPI's actual portfolios?*

> *MR. DAVID MAKARCHUK: To draw conclusions about -- it's too short a timeline to draw any conclusions about what one should do going forward. Even if we went for a full market cycle, say, five (5) years or so, just because one (1) portfolio outperformed the other does not necessarily suggest that that lead portfolio -- that – whichever portfolio was -- was higher -- is the best portfolio for the next five (5) years, for example.*[50]

108. The comparison ordered by the PUB under Directive 11.18 (PUB Order 158/19), which Mr. Makarchuk said should make use of MPI's passive returns (page 1341 of the October 16, 2019 transcript), show the following for the period March 1, 2019 to August 31, 2019:

- Shadow Portfolio – PI Basic (9.34%)
- Shadow Portfolio – P2 Basic Unconstrained (9.14%)
- MPI Basic Portfolio (Passive) – **10.17%**

- Shadow Portfolio – P3 Pension (7.54%)
- Shadow Portfolio – P4 Pension Unconstrained (15.15%)
- MPI Basic Portfolio (Passive) – **7.77%**

[49] Tx: 1438, line 21
[50] Tx: 1337, line 7

109. Again, the unconstrained Shadow Portfolios contain investment classes (growth assets) and investment strategies (leveraging) that the MPI Board of Directors was not prepared to consider given the primary objectives of the ALM study. In addition, as stated last year, the Corporation did not purchase Real Return Bonds for the MPI portfolios because it had no reason to believe inflation would rise above 2% for any prolonged period of time.

110. Finally, MPI confirmed by way of undertaking (Undertaking #24) that the Shadow Portfolios, with the exception of Shadow Portfolio – P4 Pension Unconstrained, would have an unfavorable impact on the MCT ratio. That is, if the corporation was to have in place either of the Shadow Portfolios for Basic, the corporation would require more capital to achieve its 100% MCT target[51].

111. While the results of the comparison are interesting, with perhaps some limited value from a benchmarking standpoint, the shadow portfolios are of little value so long as the MPI Board of Directors maintains the investment objectives communicated to Mercer under the ALM Study. The reality of a critique of any investment portfolio, whether personal or corporate, is the benefit of hindsight that the critique enjoys, that is to say, insight into market developments not available to the investor at the time of portfolio selection. Significantly more germane is the reasonableness of the choices made by the investor, choices that should be consistent with the investment objectives of the investor and the interests of portfolio beneficiaries.

112. The PUB made the following comments in Order 159/18: “It appears to the Board that the Corporation has selected from a range of reasonable options for its portfolios as a result of the Mercer ALM study.” Based on the comparison above, although preliminary, the Board should now be satisfied as to the reasonableness of the portfolio and order that no further examination is required in the 2021 GRA.

[51] While Shadow Portfolio – P4 Pension Unconstrained might show a favorable impact on the MCT ratio, it is heavily leveraged (RRBs and long-term provincial bonds) and therefore bears no resemblance to the actual Pension portfolio selected by the corporation.

5 Ensuring that Information Technology Costs are Prudent

113. MPI continues to prudently manage costs to ensure they are reasonable. As Ms. Campbell explained in her testimony to the PUB, operating expenses are down for the second straight year; 2 percent from the 2019 GRA ($5.4 million), 5.1% percent under budget for this year.[52] Further, the ratio of operating expenses to Net Premiums Earned (NPE) has decreased from 25.6 percent in the fiscal year 2014/15 to 20.2 percent in the fiscal year 2020/21.[53] In other words, while the business has grown, associated expenses have shrunk and have done so in the face of forces that naturally drive up costs, including inflation and contractual obligations.

114. The result of being fiscally responsible is this: operating expenses will not impact the overall rate request this year in any significant way.[54]

115. Management of expenses extends to major initiatives, and this year MPI embarks on its largest project ever, Project Nova (formerly Legacy Systems Modernization). Mr. Graham testified that Project Nova is not akin to upgrading from Windows 7 to 10. It is a much bigger exercise.[55] Project Nova seeks to manage technology risks, enhance information security controls, introduce new ways to provide customer service, give MPI the ability to respond quickly to change as well as to increase efficiencies and reduce ongoing costs.[56] While Project Nova will bring new technologies to MPI, it is not innovative. As Mr. Bunko testified, with Project Nova, MPI aligns its processes to industry best practice. Software customization will be the exception, not the norm.[57]

116. The costs of Project Nova are significant, approximately $84 million with a 25% contingency (bringing the total budgeted to $106.8 million) and estimated recurring costs of $21.3 million annually. Its size and scope mean that Project Nova is a project

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[52] Tx: 309, line 7 to pg. 310 line 2;
[53] Tx: 311, line 4-13;
[54] Tx: 309, line 11-13;
[55] Tx: 198, line 21-25;
[56] 2020 GRA Part IV - IT Appendix 5 pg. 679 eBook;
[57] Tx: 1029, line 7-9;

that must be implemented and managed in accordance with industry best practice to ensure MPI effectively controls its costs, and delivers the anticipated benefits. Industry best practice requires that projects be supported by sound business cases. Here, MPI consulted with Deloitte and Avasant in the fiscal year 2018/19 to prepare an effective business case for Project Nova.

117. In addition, transparency is key to ensuring success and MPI is already demonstrating its commitment to presenting Project Nova, its progress, costs, benefits and value, to the PUB in a transparent and insightful way. Mr. Graham testified that he and Mr. Bunko presented the Project Nova business case to Darren Christle and Marc Caron on behalf of the PUB earlier this year and answered all of their questions.[58] MPI also filed the Project Nova business case, as well as the supporting reports of Deloitte and Avasant, through the PUB-approved confidential process.

118. MPI hopes the PUB and interveners appreciate the greater transparency associated with Project Nova than was provided with the previous BI3 and Physical Damage Re-engineering projects.

119. However, oversight of Project Nova is not simply limited to the annual GRA process. Project Nova requires a unique governance structure and MPI has developed one that will be reviewed and approved by an Independent Program Governance Advisor (IPGA). Mr. Remillard confirmed in his testimony that MPI has selected an IPGA (comprised of 5 consultants from a specific firm who will be onsite as early as October 28th) and that MPI is committed to sharing their original assessment and all monthly assessments with the PUB.[59]

120. Project Nova's proverbial buck stops with the Board of Directors (BoD) through its Technology Committee. The Project Nova business case cannot be changed without its approval. It owns all changes, good or bad. However, in exercising their control, the BoD will have the benefit of regular updates from the IPGA and reasoned submissions from the Executive Steering Committee, comprised of the Chief Executive Officer and the Vice Presidents of MPI, who are themselves accountable for decisions and are

[58] Tx:199, line 9-19;
[59] Tx: 1046, lines 9-13; 1532, lines 21-24; 1533, line 1

champions of the Program as a whole. At the business level, five Operational Business Champions (OCBs), director-level employees from each of the business and IT areas affected by Project Nova, will ensure the realization of the benefits identified in its business case.[60] Finally, in addition to helping to develop the business case, Value Management will monitor any changes to the business case and revise the cost and savings estimates accordingly.[61]

121. MPI will develop and deliver Project Nova using Agile (not Waterfall) practices. As explained by Mr. Bunko in his testimony, Agile is another example of MPI incorporating industry best practice into its operations. Using shorter delivery cycles (faster iterations) and prioritization, Agile helps MPI to realize value more quickly.[62] Mr. Remillard testified that MPI will use a "model office" to permit employees to experience the software before it is rolled out.[63] And, although MPI continues to develop its abilities in this area, it has already successfully employed Agile in the pilot projects such as the deployment of its new website. MPI has provided and continues to provide Agile training to its staff members. For Project Nova, MPI is bringing on an Agile Coach, a specialist to ensure development and implementation of the Project's deliverables in a manner that is consistent with that methodology. Further, MPI will select a system integrator and product vendors with expertise in Agile.[64] As Mr. Remillard explained, MPI is not embarking on this journey alone.[65]

122. This oversight and management will help to ensure that Project Nova attains its anticipated Net Present Value (NPV) of $12.7 million and payback by 2033 as currently projected.[66] That said, Project Nova is not without risk. MPI is cognizant of this fact. Project Nova is only 9 months into the 4-year process. MPI has yet to select software vendors. As Mr. Bunko stated in his testimony, it may be too early to pass judgment on its budget.[67] MPI has calculated the NPV for Project Nova using a 7.5% discount

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[60] CAC(MPI) 1-56;
[61] 2020 GRA pg. 293 of eBook;
[62] Tx: 1031, lines 7-20;
[63] Tx: 1130, lines 9-15;
[64] PUB(MPI) 1-83;
[65] Tx: 1581-1582, lines 23-25, 1-2;
[66] Figure - IT App 5-2 pg. 684 of eBook;
[67] Tx: 1078, lines 18-21;

rate (consistent with a project classified as medium-high in terms of level of risk). MPI believes that it understands and has properly classified the risks associated with Project Nova. However, MPI will also employ the risk mitigation strategies referenced above to ensure that Project Nova delivers as advertised.

123. From a benchmarking perspective, MPI's spend on IT as a percentage of its operating expenses continues to be below the peer average (5.37% versus 5.42%)[68]. MPI plans to continue exercising control over its IT spend and, in particular, its contingent workforce spend, through an advanced procurement and contract negotiation process. As Mr. Lazarko testified, MPI has moved away from exclusive dealings with two strategic partners and sought proposals from 31 different entities for the provision of external resources.[69] Additionally, MPI will soon retain a Managed Service Provider to manage its network of providers. Mr. Lazarko explained the change in process as follows:

> *"MPI currently provides this service, so when we have a request for a new resource, we have our team issue a request to our network, to the ten (10) -- in this example, ten (10) providers for project manager. They provide us with five (5) resumes and rates, and we take a look at those, and we determine what the best combination of experience and capability is for MPI. We make a selection. We bring them on board.*
>
> *RFP2915 is going to move this to a third party. We're expecting to turn that on later in December. This third party will manage the process for us, so using self-service portal, we will put in the request, and they will take care of the rest in terms of surveying our network of agents -- or, sorry, our network of providers, collecting resumes, reviewing them for us, presenting us with different candidate and rate combinations, and we still make the ultimate selection.*

[68] GRA – Part IV(i) Benchmarking, pg. 29 of 50, lines 8-9;
[69] Tx: 1504, lines 14-21;

So that is the process as we have it right now and as we expect to have it in December."[70]

124. MPI expects that this new contingent workforce model will save it $1.5m-$2.0m annually and $500,000 in the fiscal year 2019/20.[71]

125. Finally, in an effort to refresh its benchmarking products and services and ensure that it continues to receives value, MPI has issued a Request for Proposals (RFP) for IT benchmarking services (please see answer to Undertaking No. 27 for the said RFP) and expects to retain a new service provider in December 2019, with services to begin in January 2020 and a new benchmarking report to be filed in the 2021 GRA.[72]

6 Customer Service as Defined by the Customer

126. MPI is in the very earliest stages of redesigning the customer service experience. The online service delivery options can only be explored in detail once MPI has made progress on Project Nova, including the selection of vendors for the P&C and DVA solutions, and the High Productivity Platform.

127. It is clear that the particulars of the online sales channel have yet to be determined, and neither MPI nor it's Broker partners have developed a clear vision of how that future service delivery will be rolled out to customers, how it will impact MPI's systems and how Brokers will participate and adapt to the new system.

128. However, at this early stage, MPI does know a few key factors that are setting the direction for future service delivery:

[70] Tx:1505, lines 4-24;
[71] 2020 GRA, Part IV(ii) – IT Appendix 2, Pg. 3, lines 24-26;
[72] Tx: 1522, lines 17-20;

1. Customers have a legitimate expectation of being able to perform transactions online. Facilitating more complex online transactions is possible[73].
2. MPI is committed to a shared distribution channel in which Brokers remain a key component of delivering services to customers[74].
3. Brokers act as MPI's agent for the delivery of insurance products and DVA services. MPI and brokers are not competitors; MPI pays brokers to provide services on its behalf.

129. From MPI's perspective there are three separate issues related to online transactions:

a. What services will be provided online

b. How will online services be delivered

c. What will be the compensation structure for the online delivery of these services

130. What services will be delivered online will be dependent upon technical capabilities. However, since the P&C and DVA solutions have not been selected it is premature to state exactly what those services will be. How online services will be delivered will hopefully be determined by the Minister's Directed Conciliation. The compensation structure for providing online services will be dependent upon what services are provided online and how those services are delivered.

131. At the conclusion of the evidentiary portion of this hearing, the Chairperson asked:

> *First, what is the Board's jurisdiction on the issue of the delivery of online services? And secondly, as there is a conciliation underway between MPI and IBAM on the issue of online -- online services, and possibly other issues as*

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[73] 2020 GRA Information Request – Round 2, CAC (MPI)2-4, Appendix 1

[74] MPI Exhibit 45

well, what are they and what are they seeking by way of a directive or recommendation from this Board in relation to that?[75]

132. MPI's position is that for the purposes of transparency the PUB requires notification and information that future service delivery will be different from what it is today. At the present time, decisions on the future of online services have not been made, and the PUB has no role in making those decisions. At a future General Rate Application MPI will be seeking approval of rates that flow from the decisions that are ultimately made in relation to online services. At that point in time, the PUB will be considering the justness and reasonableness of those rates. MPI is not seeking any directive or recommendation from the PUB at this time.

133. The PUB would be putting itself into a conflict if it made determination over the online service delivery model today, and then at a future General Rate Application had to assess the just and reasonableness of the rates that flow from those determinants. It is a management decision to decide what the online service delivery model will be. The General Rate Application is not the forum for these matters.

134. However, when making these decisions MPI will be considering the solutions through the perspective of; How does this solution provide exceptional coverage? Provide exceptional service? Help achieve affordable rates? And contribute to safer roads?

135. Finally, there was significant time spent discussing various perspective related to online service delivery. Since none of these discussions are relevant to the present application, MPI sees no purpose in repeating that debate.

6.1 Prudent Fiscal Management Applied to Service Provider Agreements

136. MPI is applying its commitment to prudent fiscal management with all its partners. MPI discontinued sponsorship payments or other like payments to the Automotive Trades Association of Manitoba Inc., the Manitoba Motor Dealers Association Inc., and

[75] Tx: 2625

IBAM where there is no clear benefit to MPI's core business interests, as expressed in MPI's letter to IBAM[76]:

> *"Today, MPI's Executive and Board would not enter into a sponsorship agreement, with any party, that does not have clearly specified deliverables related to achieving MPI's core business interests.*

137. MPI provides services to the public through numerous independent service providers. The distribution of these services throughout the Province of Manitoba is dependent upon these service providers. MPI cannot successfully deliver services to the public without the assistance of these service providers. Likewise, some of these service providers are dependent upon MPI for the work that sustains their livelihood.

138. Determining appropriate compensation for these services requires a balancing of competing interests. If the compensation is too low, service providers may not find it economical to perform the services; if this occurs MPI **<u>will not be able</u>** to deliver its services to Manitobans. Alternatively, if the compensation is higher than what a competitive market would pay for those service the result is that MPI (and ultimately rate payers) is paying too much for these services.

139. MPI service provider agreements set out the compensation provided to the service providers and MPI's relationship with those service providers. The following service provider agreements are currently in existence:

    a) Industry Agreement between MPI and the Automotive Trades Association of Manitoba Inc. and the Manitoba Motor Dealers Association Inc. effective as of April 15, 2019.

[76] CAC(MPI)1-1 Appendix 8

b) Agreement between MPI and the Manitoba Commercial Vehicle Repair Association Inc., dated December 18, 2018.

c) Agreement between MPI and the Manitoba Car & Truck Rental Association, dated December 1, 2018.

d) Agreement between MPI and the Insurance Brokers Association of Manitoba, extended November 12, 2018.

e) Agreement between MPI and Doctors Manitoba (signed by the parties on September 11, 2015 and October 1, 2015).

f) Agreement between MPI and the Manitoba Athletic Therapists' Association, dated January 1, 2016.

g) Agreement between MPI and the Manitoba Chiropractors Association, dated November 1, 2018.

h) Agreement between MPI and the Manitoba Physiotherapy Association, dated January 1, 2016.

i) Agreement between MPI and Mid-Canada Marine & Powersports Dealers Association, dated December 22, 2017.

140. There was significant evidence in Information Requests and in cross-examination that raises questions of anti-competitive behavior that contravenes the federal *Competition Act*. Some of the possible results of anticompetitive behavior identified were:

a) Highest benchmarked chiropractic treatment fees

b) Guaranteed chiropractic treatment visits significantly in excess of other benchmarks

c) Rental car rates in excess of benchmarks

d) Among the highest collision repair rates in Canada

e) $81 premium for estimating done by direct repair shops

f) Requirement for shops to perform 5 repairs a week in order to qualify for Direct Repair Status

g) Highest commercial repair rates in Canada

141. Further, evidence of potential conduct that may contravene collusion provisions of the Competition Act

a) Coordinated withdrawal of services by northern repair shops for the purpose of negotiating a new agreement

b) Requirement that services be exclusively provided by association members

c) The services are an important portion of the association members' businesses

d) The association developed a representative negotiating team to negotiate the compensation agreements on behalf of their members

e) The association updated members throughout the negotiations on the developments of the negotiations

f) The association sought members concerns regarding entering into an agreement

g) Members had input to the compensation sought by the association

h) All members of the association are bound by the agreement and have no ability to accept a lower rate of compensation

i) All members of the associated agreed to have the association to negotiate a compensation on their behalf

142. These agreements are negotiated between MPI and the various service provider associations. MPI has authority pursuant to *The Manitoba Public Insurance Corporation Act*[77] and the Automobile Insurance Certificates and Rates Regulation[78] to enter into agreements with service provider associations.

143. A service provider agreement that is contrary to the provisions of the *Competition Act* is not in the best interest of the ratepayer. When competing members of service providers associations share pricing information or other competitively sensitive information to put forward fixed prices for their services this will inevitably result in higher prices for consumers.

144. The need to avoid anti-competitive price fixing was recognized by the Insurance Corporation of British Columbia (ICBC) and the Insurance Brokers Association of British Columbia (IBABC) in their *5th Accord July 1, 2019 to January 1, 2027* (which was submitted by IBAM in response to PUB (IBAM) 1-3 Appendix 2).

> ***5.1 It is acknowledged that ICBC, IBABC and CUISA are committed to full regulatory compliance, including the federal Competition Act. As part of its ongoing commitment to regulatory compliance, ICBC has adopted guidelines for meetings and a model for the exchange of competitively sensitive information with its brokers.***
>
> *ICBC, IBABC and CUISA have adopted a model for discussions amongst the parties on issues of remuneration and the exchange of competitively sensitive information. The full details will be set out in the MOUC Terms of Reference and available to all brokers. In brief, ICBC will make decisions on remuneration and competitively sensitive topics*

[77] 6(2)(k) The corporation has the power and capacity to do all acts and things necessary or required for the purpose of carrying out its functions and powers and, without limiting the generality of the foregoing, the corporation may negotiate and bargain with persons engaged in the business of motor vehicle and trailer repairs with a view to establishing fair and reasonable prices for motor vehicle and trailer repairs in relation to which payments may be made under this Act;

[78] 7(1) The corporation may enter into an agreement with one or more service providers, or an agent or representative of the service providers, to establish fair and reasonable terms, including prices, on which the service providers will provide goods and services for which payment is made under the Act or this regulation.

> *independently and unilaterally. From time to time, ICBC will seek information from broker associations and brokers using an independent third party who will collect and aggregate the information such that ICBC will not know the identity of the brokers who have provided the information. ICBC will receive submissions from IBABC and CUISA on the aggregated data prior to making decisions.*
>
> *IBABC and CUISA will be invited annually to make suggestions for improvement to this process.*

145. Over the past decades, service provider agreements have not been provided in previous GRA's. The GRA process has not examined the implications of these agreements. There has been no questioning of these agreements.

146. With an efficient service delivery model, low premiums, and very positive operational expense ratios there may appear to be little reason to questions the underlying expenses to see if there is anything inappropriate.

147. MPI is committed to transparency, and submits that there is a need to shine a light on how these expenses come about. The details of how service providers are compensated should be made public so that ratepayers know what MPI is paying for and how those amounts are derived.

148. There will always be debate as to whether a particular compensation arrangement was a good deal or not. The role of the PUB is not to approve these arrangements, or pass judgment of the merits of a particular provision or arbitrate between MPI and the ten service provider associations who signed the above mentioned nine agreements. In fact, the PUB would probably loath the idea of having service provider associations and MPI air their commercial disputes before them.

149. However, the PUB should be satisfied that compensation arrangements for the provision of Basic services reflect prudent costs, are just and reasonable, and do not potentially violate the *Competition Act*. This can be attained by the following:

Recommending that all future arrangements affecting the compensation of service provider association members be in compliance with the Competition Act.

Ordering that all such arrangements be filed with the PUB at the first GRA subsequent to the establishment of the arrangement;

Ordering MPI to file evidence demonstrating that the compensation arrangements reflect prudent costs, are just and reasonable and are in compliance with the Competition Act.

150. The Board has heard oral testimony of John Todd on the nature of the extension marketplace.

> *MR. ROBERT WATCHMAN: Given that the Extension insurance is -- MPI holds 95 percent of the market share, do you believe that there is a risk of anti-competitive activity in Manitoba?*
>
> *MR. JOHN TODD: Given the observation on the marketplace, I would --* ***my starting assumption would be I would assume that is -- is the result of anti-competitive activity****. Now, when I use the term 'anti-competitive activity' -- I've done work under the Competition Act -- that's not -- I'm not using it in the legal sense of the way the Competition Act would define 'anti-competitive'. I'm using it in the economic sense, in that the types of benefits that I've talked about, Basic potentially providing to Extension, probably are taking place, and that's the reason for the result in the market share. And those, in the way I've designed -- defined them in my evidence, would be anti-competitive in that they're providing, in effect -- providing subsidies in the form of information, advantages, customer convenience, and so on.*
>
> [emphasis added]

151. The Board must be extremely cautious in relying on the testimony of Mr. Todd for several reasons, and MPI submits it is curious to invoke the specter of ‘anti-competitive acts’ in the extension market while simultaneously distancing oneself from the only accepted meaning of the term. Anti-competitive acts are evaluated in the economic context.

152. Firstly, Mr. Todd was not qualified as expert in the economic field of industrial organization, or similar field that would permit him to opine on the competitive dynamics and general health of the marketplace for Extension products. He was qualified as an expert in regulatory principles and regulatory methodology, generally, as well as regulatory principles and regulatory methodology as they relate to Crown corporations and their ratepayers, specifically, including issues related to risk, capitalization, reserves and the relationships between regulated and un-regulated lines of business[79].

153. His written and oral testimony did not provide the Board with any analysis or insight into the actual competitive workings of the Extension marketplace. His opinions were based on assumptions and speculation, in reply to questions put to him in the hearing. He did not produce evidence or an opinion based on analysis of the actual extension marketplace.

154. MPI notes that there is an extensive body of knowledge on economics and industrial organization that supports competition law. The relevant authority on competition law is the Competition Bureau, who is tasked with conducting the economic analysis to evaluate possible breaches of the Competition Act. The Competition Bureau has developed Abuse of Dominance Enforcement Guidelines that describe the Bureau's general approach to enforcing the abuse of dominance provisions found in Sections 78 and 79 of the Competition Act.

155. Mr. Todd provided no evidence of actual anti-competitive acts, or an assessment of any practice that would constitute exclusionary, predatory, or disciplinary conduct on the part of MPI. In particular, Mr. Todd provided no evidence that MPI’s conduct has *prevented* competitors from being more effective, rather than conduct that *requires* them to be more effective. Mr. Todd also provided no evidence on the possible business justifications for MPI’s conduct in the extension marketplace, including product quality or service.

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[79] Board Order 92/19.

156. Mr. Todd also provided no evidence of analysis of the competitors in the extension marketplace. The PUB heard from IBAM witnesses that there just aren't many products available for sale in Manitoba's extension marketplace:

> *MR. BRETT MCGREGOR: No. I – I don't -- I don't personally feel pressure to only sell MPI Extension products. We do offer other Extension products within our office. Sometimes the challenge has been getting other insurers to offer the product. You know, there are specific insurers that will do it and are doing it in Manitoba, but there aren't as many. The -- the market -- the market, as a whole, isn't as large, so once you take out Basic and then once you look at MPI's market share, it's tough for some of these insurance companies to switch resources from Ontario auto to the Manitoba Extension products.*

157. Mr. Todd also provided no evidence as to the quality of MPI's extension product, that is the combination of price, product attributes and customer service, vis-à-vis the other products offered in the extension marketplace. Without such an analysis, no conclusions can be drawn that the extension product is not a genuinely superior product in the marketplace.

158. Mr. Todd's opinions on the competitive dynamics of the marketplace were elicited in a free flowing discussion and were based on a <u>starting assumption</u> of anti-competitive behavior. There was no supporting analysis or understanding of the extension market place, and no approved credentials to conduct such an assessment. The PUB must be extremely cautious in applying any weight to this off the cuff testimony.

159. What the PUB did hear from Mr. Todd is that an appropriate regulatory treatment of the excess profits from non-utility service would be to return those excess profits to the regulated customer. That is precisely what MPI's Capital Management Plan does.

160. The PUB is tasked with establishing just and reasonable rates for Basic insurance. Notwithstanding the PUB's prior recommendations that regulatory oversight for price setting should be extended to the Extension line of business, the PUB has to date heard no evidence from any expert that would permit it to conclude that price regulation of a contested market is the appropriate remedy. MPI understands the concerns of the PUB related to Extension's target profit margins, market share, and

selling practices, but reminds the PUB that these facts alone cannot allow it to conclude that regulated price setting is the first, best, or only solution to speculative concerns with competitive dynamics in the extension marketplace. The Competition Bureau is the regulatory authority tasked with addressing any such concerns, and it, and only it, is equipped with the appropriate framework for assessing compliance with the Competition Act's abuse of dominance provisions.

7 Summary and Conclusion:

161. Manitobans have access to one of the best auto insurance products that money can buy in Canada thanks to this rate setting process facilitated by the Public Utilities Board. MPI would like to thank the interveners for participating in this process and for their cooperation in this hearing. Manitobans can be assured that many of their voices are well represented by the hard work of the interveners. MPI would like to thank them further for the useful evidence to assist the PUB in reaching their decision.

162. Basic's capital position has improved at a rate faster than forecasted just months ago, and MPI cannot credibly request ratepayers fund a further capital provision. MPI applied to amend the Application on October 4, 2019, by removing the Net Capital Maintenance Provision, from the AAP rate.

163. As a result of the amended rate request, MPI is requesting the approval of rates for service for the 13 month period March 1, 2020, through March 31, 2021, including:

1) a -0.6% overall *decrease* in the break-even cost of Basic vehicle premiums:
    a. calculated in accordance with Accepted Actuarial Practice (AAP);
    b. updated based on the interest rate forecast as at September 30th, 2019; and
    c. without the Net Capital Maintenance Provision
2) Discontinuance of anti-theft Discount for newly insured vehicles;
3) No changes to Miscellaneous Permits and Certificates;

4) No changes to driver premiums through the Driver Safety Rating (DSR) system, and no change to Vehicle Premium Discounts;
5) No changes to Basic Autopac Service and Transaction Fees; and
6) No changes to fleet rebates and surcharges.

164. MPI also requests approval of its proposed Capital Management Plan (CMP), which establishes:

the means and pathway to achieve the 100% Minimum Capital Test (MCT)capital level for the Basic Rate Stabilization Reserve (RSR), as codified in the Reserves Regulation (M.R. 76/2019); and

the assumed minimum regulatory target under the 1 base scenario during the forecast period, used for determining satisfactory financial condition in the Dynamic Capital Adequacy Test (DCAT).

165. The effect removing the Net Capital Maintenance Provision is to reduce the overall rate request to -0.6%. Given Basic's progress towards the 100% MCT capital target, there is no requirement for a build provision under the Capital Management Plan. MPI still seeks approval of the overall Capital Management Plan, and will continue to apply the Capital Management Plan as intended in next year's GRA based on a revised 2021 GRA forecast. If favorable results continue, a capital release may be appropriate at that time.

166. It is therefore submitted to the PUB that MPI has brought a rate request which is just and reasonable, and fully supported by the evidence before the PUB. MPI has presented a clear and compelling case, supported by unprecedented transparency and access to MPI staff including corporate executives. MPI respectfully submits that the application should be approved as filed. MPI is committed to serving Manitobans.

167. ALL OF WHICH IS RESPECTFULLY SUBMITTED.

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S. Scarfone

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A. Lafontaine Guerra