

MANITOBA PUBLIC INSURANCE
2022 GENERAL RATE APPLICATION
CLOSING SUBMISSIONS
October 28, 2021



**MANITOBA
PUBLIC INSURANCE**

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1 INTRODUCTION

1. This General Rate Application (GRA) is about change. It is a theme that came up countless times throughout the process and is one that will be discussed further within this submission. Change can be scary. People are typically afraid of the unknown. But change can also be exciting. And with change comes hope. Hope for progress, improvement and results.
2. Next month will mark the 50th anniversary of the creation of Manitoba Public Insurance (MPI). And while much has changed in those 50 years, one constant is the dedication of MPI to meeting the general objectives of the public auto insurance system. Because of that dedication, Manitobans are the beneficiaries of a world-class automobile insurance product that provides them with unlimited medical expenses, unlimited rehabilitation expenses, enhanced coverage for catastrophically injured claimants, funeral expense reimbursement, death payments to surviving spouses, dependants and certain non-dependants, physical impairment benefits, Income Replacement Indemnity, all-perils coverage up to \$70,000, Loss of Use for theft of vehicle and a \$750 deductible.
3. A primary purpose of insurance is to protect against risk. Insureds purchase peace of mind so that, when things go wrong, they need not worry. And Manitobans need not worry about personal liability for bodily injuries they may cause or whether they will have sufficient rehabilitation and personal care assistance. For them, the process for obtaining coverage is simple, straightforward and convenient. In fact, their biggest auto insurance decisions are whether to lower their deductible through the purchase of an optional extension product, have additional third party liability coverage when driving outside the province or protect against the risk of receiving less than the full value of their new car in the event of an accident resulting in a total loss.
4. This system was created by Manitobans, for Manitobans and is delivered by Manitobans. MPI staff are Manitobans. They live throughout the Province and their job is to serve their neighbours. And in so doing, they remain focused on achieving the Mission and Vision Statements that they helped to develop:

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- a. To deliver exceptional coverage and service, affordable rates and safer roads through public auto insurance; and
 - b. To be the trusted auto insurance and driver services provider for every Manitoban.
5. This year, MPI introduced the Public Utilities Board of Manitoba (PUB) to a number of new key employees, including its President and Chief Executive Officer (CEO), Mr. Eric Herbelin. Mr. Herbelin testified as to the experience he brings to the position and his desire to ensure the success of the largest project in the history of MPI: Project NOVA.
6. Mr. Herbelin also commented that NOVA will be a transformational project that will enable MPI to service its customers in new ways (some of which may have been unimaginable 50 years ago). As the PUB heard from him, the new enhancements brought by NOVA *"... will lay the foundation for the continued success of MPI by introducing new technology and some streamlined processes."*¹
7. Mr. Herbelin clarified that new technology does not mean that MPI seeks to be a leader. Quite the opposite. His evidence is that MPI seeks to be a "fast follower," which means keeping pace, but not being at the leading edge.²
8. However, Mr. Herbelin also testified that change within MPI will not cease once NOVA is implemented. Introducing his plan to create an "MPI 2.0", Mr. Herbelin stated:

*"We will improve on the customer experience to ensure that our products continue to meet the evolving needs, offer a greater flexibility in how they choose to interact with us, and to make that happen, we will also focus on building the capabilities of all staff and all our systems and technology in order to create the capacity to deliver on these transformation – transformational initiatives."*³

¹ Transcript date October 12, 2021 page 204, line 17;

² Transcript date October 12, 2021 page 208, line 4;

³ Transcript date October 12, 2021 page 206, line 4 – Mr. Eric Herbelin;

9. In order to continue to improve on the customer experience, MPI defined a set of guiding principles. And the PUB heard about these principles directly from Mr. Herbelin during his opening presentation at the outset of the oral hearing. To paraphrase his evidence, these principles are:
- a. customer experience is driving improvements, but those improvements must make financial sense;
 - b. fiscal prudence remains at the centre of what MPI does;
 - c. there will be a culture of continuous improvement;
 - d. MPI will be a fast follower of industry best practices and trends; and
 - e. MPI will not be on the leading edge of technology and trends but will keep pace with a changing world.
10. The COVID-19 Pandemic has and continues to place a strain on Manitobans. We have all been called upon to do our part and the staff of MPI are no different. They have taken up the challenge over the past 19 months. And as a result of their efforts, Manitobans have seen limited disruption in service and, as indicated in the benchmarking materials presented to the PUB this year, customer metrics remain high. However, MPI acknowledges that the Pandemic created certain challenges regarding the forecasting of collision frequencies and, as a result, the total amount of premiums it required from ratepayers in order to break-even on its Basic compulsory automobile insurance line of business (Basic).
11. Throughout this GRA, the PUB heard that MPI over-collected premiums from its ratepayers. MPI agrees that its premium requirement forecasts were wrong and that it collected significantly more in premiums for Basic than needed. However, the PUB also heard evidence that predicting the progress of the Pandemic was a very difficult task and that MPI did the best it could with the information available to it. The PUB also

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heard that MPI did update its forecasting in the course of the GRA in order to incorporate new data points and trends.

12. Having over-collected Basic premiums, the issue at this juncture is what is the most appropriate way to return the amounts over-collected to ratepayers? One option is for MPI to follow its existing Capital Management Plan (CMP), a pre-Pandemic plan that never envisioned the current circumstances and which is specifically designed to return excess capital slowly.
13. MPI submits that it was required to consider the option in the context of its corporate values, one of which is:

Doing What's Right – *We act with integrity and accountability. We strive to be open and transparent.*

14. In this case, the amounts MPI over-collected can be attributed to a clear and quantifiable event (i.e. the Pandemic). Therefore, for MPI, doing the right thing means returning those amounts back to the very same ratepayers, as quickly as possible and by the best means available.
15. MPI therefore applied to the PUB for leave to issue in January 2022, rebate cheques to its Basic ratepayers in the total amount of \$335 million. If permitted, the rebate would represent the third one issued to Manitobans in the course of the Pandemic, and would increase the total amount rebated to \$514 million.
16. Nowhere in Canada has an automobile insurer, whether public or private, opened its books in this manner to demonstrate that it is returning to ratepayers all premiums collected during the Pandemic that are not required.
17. Notwithstanding, whether MPI has been transparent with the PUB, stakeholders and the public at large has become a central issue in this hearing. The PUB heard that MPI transferred \$60m in excess funds from its Extension line of business (Extension) to its Drivers and Vehicles Administration (DVA) line of business shortly before the end of the 2020/21 fiscal year. Intervenors now allege that MPI acted unlawfully, failed to be

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transparent, broke promises and used excess Extension premiums for an improper purpose.

18. MPI denies these claims and, in support of its position, cites the authority bestowed upon it under the applicable legislative scheme and the actual words of the CMP. That said, MPI freely admitted to the PUB that the transfer occurred in less than ideal circumstances. In particular, Mr. Herbelin testified:

*"Though I lament the fact that we were unable to forecast the first transfer to DVA, I want to assure you that these transfers are the most prudent option available and this decision was made in the best interests of the Corporation. Our investment strategy and asset liability management precluded other solutions, left us with no other viable options to address current and short-term deficits of the administration of the DVA line of business."*⁴

19. In a companion legal brief⁵, MPI will further address in more detail the applicable facts and law pertaining to the DVA transfer issue.
20. However, what MPI seeks to highlight for the consideration of all stakeholders is the fact that MPI was open and honest about the actions it took and tough decisions it had to make. The PUB heard that MPI remains committed to being a transparent organization and saw that commitment in action throughout the GRA process. In particular, MPI alerted the PUB to this issue at the first opportunity it had – the Overview section of this filing. MPI then provided 292 pages of responses to the 40 separate Information Requests on the DVA transfer topic from the PUB and interveners.
21. Another contentious issue related to the selection of a new Driver Safety Rating (DSR) model. MPI does not, at this time, have the desire nor the operational capacity to implement a new DSR system based upon a Primary Driver model. MPI did not give

⁴ Transcript date October 12, 2021 page 212, line 3;

⁵ MPI Exhibit #124;

due consideration to whether such a model can/will correct any of the perceived shortcomings in the current Registered Owner model.

22. Therefore, MPI proposes instead to undertake a comprehensive review and evaluation of its pricing and incentive models to determine what, if any, improvements are necessary. And while there may be concerns about the length of time required to conduct a thorough review and to implement any desired changes, MPI notes:
- a. the public is not demanding change;
 - b. the two jurisdictions within Canada with the lowest insurance rates and the greatest coverage (Manitoba and Saskatchewan⁶) both use the registered owner model as the basis for establishing rates;
 - c. if Primary Driver is the model that should be the basis for the next DSR system, the configurations to the new Duck Creek platform required to implement the change will be limited to specific business rules;
 - d. the effort is consistent whether it be part of the initial implementation of NOVA or whether it be completed at some later date; and
 - e. a high level estimate of the time to implement any required technology changes is 9-12 months.⁷
23. While a large part of the discussion pertained to the DVA transfer and DSR issues, the parties paid considerably less attention to the fact that, for the third consecutive year, MPI came before the PUB seeking an overall decrease in its rates (-1.2%), calculated in accordance with Accepted Actuarial Practice (AAP). This context is important and cannot be forgotten.

⁶ 2022 GRA, Benchmarking Chapter, Figures BMK-2 (page 9) and BMK-4 (page 14);

⁷ MPI Exhibit #117, response to Undertaking #41, page 1;

2 RATE AND REBATE REQUEST

24. On October 5, 2021, MPI updated the provisional rate indication. The final rate request for the 2022 GRA is an overall rate decrease of 1.2%⁸, driven exclusively by a -1.2% in the breakeven cost of Basic vehicle premiums⁹.
25. On the capital side of its 2022 GRA rate request, MPI seeks a one-year extension of its CMP, but also seeks a suspension of its capital release provision (to be replaced by a rebate). The Government of Manitoba (Government) directed MPI to rebate excess capital from Basic (as at March 31, 2021), and to apply to the PUB for leave to distribute a special rebate.
26. Mindful of the source of these savings is the COVID-19 Pandemic¹⁰, the Government was clear and straightforward in its directive to apply for a Special Rebate. In compliance with this Directive, MPI sought approval from its Board of Directors to accrue the excess capital available at fiscal-year 2020/21¹¹. At that time, the Basic Rate Stabilization Reserve (RSR) had a Minimum Capital Test ("MCT") ratio of 138%, representing \$155 million in excess capital.
27. On July 19, 2021, MPI filed the 2022 Special Rebate Application (SRA) based on actual and projected excess capital. Concurrently with the 2022 GRA Rate Update, on October 5, 2021, MPI updated its forecasts and defined the rebate requested, seeking for an order that:

*"MPI issue ratepayers a rebate on the percentage of their Basic premiums earned from November 22, 2020 to December 09, 2021, for all vehicle classes, **in an amount of \$335 million** which is forecasted*

⁸ Calculated in accordance with Accepted Actuarial Practice (AAP) and grounded on interest rates as at August 31, 2021, as indicated in MPI Exhibit #37;

⁹ MPI Exhibit #37, Figure RM-1 indicated Rate Change;

¹⁰ CAC (MPI) 2-4, Attachment A: "As these 2020/21 savings are directly related to the COVID pandemic, we are directing MPI to rebate its excess capital from the Basic line of business as at March 31, 2021 and apply to Public Utilities Board for the distribution of the special rebate."

¹¹ CAC (MPI) 2-4, Appendix 1;

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to lower the Minimum Capital Test ("MCT") ratio of the Rate Stabilization Reserve ("RSR") to its 100% target."¹²

[emphasis added]

28. Mr. Mark Giesbrecht, the Chief Financial Officer of MPI, testified to the PUB that the \$335 million capital rebate amount proposed by MPI represents its best estimate while being just enough to lower the MCT ratio of the RSR *"back to roughly a hundred percent to that target level."*¹³

29. The 2022 GRA is predicated solely on a breakeven rate indication. There is no need for a capital release as all excess capital should be returned to ratepayers via rebate. As explained by Mr. Giesbrecht:

"MR. STEVE SCARFONE: Is the 5 percent that's being removed included in the amount that the Corporation calculated for the rebate?"

MR. MARK GIESBRECHT (by Teams): Yes. So by removing the capital release, that -- that then flows into the premiums which flows into our overall financial position. And then we will release all excess capital over 100 percent that is projected in March of 2022."¹⁴

30. Furthermore, within the 2022 GRA MPI is seeking to remove the previously embedded 5% capital release from rates. Mr. Dean Dunstone, Manager of Reinsurance and Forecasting for MPI, reinforced the relief sought by MPI and explained the consequence of this on premiums, emphasizing the need for the Rebate (in contrast to a capital release or other available mechanism to return excess capital):

"MS. KATHLEEN MCCANDLESS: Thank you. So if we include the removal of the Capital Release Provision the average rate change the customers would see then would be a 3.8 percent rate increase. Correct?"

¹² Correspondence from MPI to the PUB and 2022 GRA Registered Interveners, dated October 5, 2021;

¹³ Transcript Date Oct 19, 2021 page 1272, line 8;

¹⁴ Transcript Date Oct 19, 2021 page 1273, line 12;

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MR. DEAN DUNSTONE: I know we have the CMP panel coming up next week. I can certainly provide a high level response to that. I -- you know, overall, the way MPI sees it, we could, you know, we could have included a -- a capital release again this year, but **we wanted to get the -- the rebate dollars out to Manitobans as quick as possible**, so overall we -- we see it as more of a 26 percent, or so, rate increase when we include the rebate attached to it.

So, it's, you know, like a -- a 1.21 percent rate decrease is the way we see it. But there is a 5 percent that's -- that's imbedded [sic] in there that we had to remove out of there, so overall, including the rebate that we're paying out, we -- **we see it as more like a, almost like a 26 percent decrease in rates overall for Manitobans.**¹⁵

[emphasis added]

31. Should the PUB maintain the 5% capital release in the rates, MPI submits that the decision would only postpone the impact on "the premium billing"¹⁶ that it will generate when it is eventually removed. As explained by Mr. Rajesh Sahasrabuddhe, the expert witness proffered by the Manitoba Branch of the Consumers Association of Canada (CAC):

"MR. RAJESH SAHASRABUDDHE (by Teams): So it's embedded in the premium billing, not in the rates. The rates and -- and the premium billing are two (2) different items. There's no discount in the rate structure itself.

MR. STEVE SCARFONE: Right. So -- and perhaps it's just semantics, but the 5 percent discount on premiums would still exist if the 5 percent capital release provision is made use of in the next rating year, correct?

MR. RAJESH SAHASRABUDDHE (by Teams): Yes, that -- yes.

¹⁵ Transcript date October 13, 2021 page 336, line 10;

¹⁶ Transcript date October 26, 2021 page 2397, line 9 -- Expression used by Mr. Rajesh Sahasrabuddhe to define premium deficiency, explaining the confusion the CMP brings to the rate setting process;

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MR. STEVE SCARFONE: And at some point would still have to be undone going back to that artificial premium deficiency that we spoke of, correct?

MR. RAJESH SAHASRABUDDHE (by Teams): Again, I -- I take -- I object to the term 'premium deficiency', but -- but I -- **I take the point that at some point it would have to be undone, which would appear as an increase to the ratepayer.**¹⁷

[emphasis added]

32. And because Mr. Sahasrabuddhe agreed with this statement, he also recognized that a rebate would be the less painful option for Manitobans, stating:

"MR. STEVE SCARFONE: Yes. So, in a -- in a year when there's excess available to the customers in the form of a rebate, that would be a better time to remove the embedded capital release than --

MR. RAJESH SAHASRABUDDHE (by Teams) I understand.

MR. STEVE SCARFONE: -- than in a year when there might be a rate increase.

MR. RAJESH SAHASRABUDDHE (by Teams): Okay. So, **the less painful, the 'less' there is a -- is a reference to timing, that the current timing is less painful than other potential timing periods? And I would agree with that.**¹⁸

[emphasis added]

33. In the 2022 Special Rebate Application (SRA), there is sufficient excess capital to greatly offset the impact that removing the capital release creates on customers. Mr. Dean Dunstone testified that he views the net impact on customers as being akin to a rate decrease of approximately 26%.¹⁹

¹⁷ Transcript date October 26, 2021 page 2401, line 6;

¹⁸ Transcript date October 26, 2021 page 2398, line 18;

¹⁹ Transcript date October 13, 2021 page 336, line 18;

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34. And while MPI acknowledged that there other ways to return excess capital (and even provided a variety of scenarios throughout the 2022 GRA in order to illustrate the outcome of those); MPI stated that "*...the most favourable (and palpable) outcome for the public is to immediately release excess capital through a capital rebate while also removing the previously approved capital release provision.*"²⁰
35. MPI submits that it is important to dissociate the capital component of the rate request from the breakeven rate indication. CAC expert Mr. Sahasrabuddhe agreed that a capital release and the breakeven rate request should remain separate as, when combined, they add complexity to the ratemaking process:

MR. STEVE SCARFONE: So there, sir, is where you discuss, if I can paraphrase, the – the difference between capital and ratemaking to the [extent] that the ratemaking is more of a perspective [sic] exercise looking into the future, and the capital is the accumulation of -- of money from the past. Is that fair?

MR. RAJESH SAHASRABUDDHE (by Teams): Yes, that's fair.

MR. STEVE SCARFONE: And in your paper you suggest, I think as MPI has, that the mixing of capital returns and that perspective [sic] rate setting can lead to some consumer confusion?

MR. RAJESH SAHASRABUDDHE (by Teams): Yes, it -- it certainly has the -- the possibility for that to occur.

MR. STEVE SCARFONE: And the – the mixing of that as well, I think you indicate is – is slow to return excess capital, to the extent that it includes a release provision versus a full rebate. Is that fair?

MR. RAJESH SAHASRABUDDHE (by Teams): Yes, I would agree it's -- a -- a release is slower than a rebate.

²⁰ Response to CAC (MPI) 2-37;

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MR. STEVE SCARFONE: And so, all else being equal, I think you're in agreement that if – to the extent that you can, you should avoid mixing capital with the ratesetting money?

*MR. RAJESH SAHASRABUDDHE (by Teams): Yes, I would agree with that.*²¹

36. MPI therefore submits that the most appropriate outcome is for the PUB to approve a removal of the 5% capital release provision and to approve its request to immediately release to ratepayers the \$335 million in excess capital through a capital rebate.

3 INFORMATION TECHNOLOGY AND PROJECT NOVA

37. *"You don't replace the house on a land that does not have modern plumbing."*²² This was the sentiment given by Mr. Herbelin during his opening presentation to the PUB. And, in the case of MPI, his specific comments relate to the infrastructure required for NOVA to succeed.
38. In this GRA, the PUB heard from Mr. Siddhartha Parti, the new Chief Information and Technology Officer at MPI, that he and his team are currently working *"...to ensure that the technical aspects of Program NOVA are well taken care of..."*²³ while they also begin to construct the foundation necessary to support MPI 2.0 and increase their focus on proactively reducing cyber-security risk.
39. Mr. Parti testified that a new five year roadmap that will *"...cover every single aspect from an information technology standpoint..."*,²⁴ will soon be finalized, be approved by the Board of Directors and be shared with the PUB in the 2023 GRA. Perhaps most importantly, the PUB heard testimony that MPI expects its existing IT budgets will remain intact with Mr. Parti adding:

²¹ Transcript date October 26, 2021 page 2392, line 10;

²² Transcript date October 12, 2021 page 216, line 11;

²³ Transcript date October 14, 2021 page 672, line 24;

²⁴ Transcript date October 14, 2021 page 676, line 10;

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*"One (1) important note to share here at this stage is that we are not seeing any variations on expenses or initiatives for our 2022/'23 and '24/'25 budgets. And we will ensure that this strategy is part of next year's submission."*²⁵

40. As it pertains to existing strategies, the PUB heard of the success MPI achieved with its IT External Labour Strategy. Mr. Parti testified that MPI completed Phase 2 of its consultant conversion initiative, with an additional nine conversions and for a total of 36 conversions since the initiative began. The PUB also heard that MPI realized savings from the initiative that were in line with expectations.²⁶ And regarding its Contingent Workforce Strategy, Mr. Parti indicated that although the use of various providers to source external labour generated \$1.56 million in savings in the fiscal year 2020/21, he hopes that recent improvements to the program will result in significantly more savings in the future.²⁷
41. IT business cases continue to be monitored for progress and realization of benefits by the Value Management team. The 2022 GRA demonstrates their success in that regard as IT projects remain on track and on budget.²⁸ But, as Mr. Parti noted in his testimony, the team will need to adjust as MPI moves toward an agile delivery model. The PUB can expect more information on this adjustments in the future.²⁹
42. Concerns were raised about whether MPI needs to be leading edge when it comes to technology given its status as a monopoly. And in the course of the hearing, MPI was asked about the value of analytics to customers. In response, the PUB heard from Mr. Parti:

"The premise behind building a data and analytics platform for MPI is not to increase market share or drive revenue. And in those kind of angles, that typically would explore when you talk about a private insurer."

²⁵ Transcript date October 14, 2021 page 676, line 15;

²⁶ Transcript date October 14, 2021 page 677, line 1;

²⁷ Transcript date October 14, 2021 page 677, line 9;

²⁸ Transcript date October 14, 2021 page 680, line 16;

²⁹ Transcript date October 14, 2021 page 680, line 11;

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The fact of the matter is that we are - we don't have a choice. We have to build a strong data capability within the organization for various other aspects, and especially from the lens of the customer experience.

As the -- as we go forward and we mature towards MPI 2.0 and we try to move towards more of an omnichannel experience for the customers, we talk about automation and so on. All of those future technologies and future aspirations heavily rely on data and analytics. So there is no way to build those advanced capabilities and improve our customer experience without having a solid data and analytics platform to support it."³⁰

43. What may not have been clearly articulated in the past but was so in this GRA is significant cooperation that exists between the IT and NOVA teams. Mr. Parti testified to this very point, stating:

"the collaboration with Program Nova with Mr. Mitra is going to be ongoing. The technology's piece of Program Nova is, obviously, extremely important for the organization and for the success of the program. The intention there is to collaborate with Mr. Mitra as much as I can."³¹

44. MPI progresses with NOVA entering into an implementation phase. To be clear, the aims of the project remain intact. MPI needs to update its legacy systems in order to deliver better customer service and mitigate technology risk. But NOVA is also an incredibly large, high risk endeavour. Through NOVA MPI seeks to transform its business, not simply update its platforms with commercially off-the-shelf solutions. MPI is comprised of four different lines of business, three of which offer automobile insurance services and products and one of which provides driver and vehicle licencing services pursuant to *The Drivers and Vehicles Act*.
45. Enter the NOVA governance structure that ensures project oversight and accountability. Last year, MPI introduced the PUB to the vast array of players who together comprise the structure. This year, MPI explained how the structure works.

³⁰ Transcript date October 14, 2021 page 766, line 12;

³¹ Transcript date October 14, 2021 page 682, line 15;

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Specifically, the PUB heard the following from Mr. Shayon Mitra, the Vice President and Chief Transformation Officer of MPI:

"...our Board is directly involved through the technology committee of the Board. We are meeting as often as needed -- once a month up to once a quarter -- based on where the program's at and important decisions or information that needs to be shared.

Our CEO, Mr. Herbelin, is directly involved in the program. PricewaterhouseCoopers, that's the box on the right -- the governance vendor - continues to stay engaged in the program to provide oversight and recommendations directly to the technical committee of the Board.

And then, my role, along with our system integrator partners -- so these are the ones that are helping us with the platforms -- we are working collectively with them.

And then, now the executive steering committee includes our CEO, Mr. Herbelin, Mr. Parti, myself, and members of the IT and Nova leadership team.

And that is forming the executive steering committee. And as and when needed, we are taking it to the executive steering committee of -- of MPI as well, on a frequent basis.

Now, if you go a little below, the Nova steering committee has two (2) components to it. There is a steering committee that is made up of Nova leaders or MPI leaders. And there's also a -- a committee that pulls in the system integrator partners as and when needed.

And then, we've got the technical or the architectural committee; that is where the business architects, the solution and system architects drive the configuration and the technical components. So that's to the right.

And then, at the bottom, is the delivery arm or how we're delivering Nova. And I want to echo Mr. Parti's comment. We are leveraging agile-- we are leveraging a scaled agile framework to deliver that.

And in my subsequent slide, I'll speak to the composition of the same.

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So when you think of a program of this magnitude and all its moving parts, it was important for MPI to adopt an approach where we would be able to highlight risks, issues, as early -- as early as possible. So we are able to mitigate them and address them.”³²

46. And the system is working. It identified risks early into the project (Release 1A). As Mr. Alex Ramirez, Program Director, NOVA Program Delivery stated to the PUB:

“So we have incurred some technical debt as part of this release. We have steps in place to mitigate, but there are some, obviously risks and issues that have popped up that are greater than our ability to mitigate everything at this point.”³³

47. Mr. Ramirez later added:

“So, from a program perspective and even beyond that from our Board, our Executive, we made a decision to do program review.

And so that is a direct result of the agile approach, the ability to leverage those iterations, to check whether we're on the right path to be successful as opposed to waterfall, where you might be surprised at the end that you've missed a schedule or you might be over budget.

This way leveraging agile and iterations, we've said, look, we're program increment planning number 3, which was back in August, let's take an approach to do a program review to make sure that we're on the path to success.

And so with that we have started an internal review towards the end of August. Our 1 current plan, obviously, is very ambitious, right, trying to deliver a -- a program of this size in just over three (3) years.

There is no other use case in the world that has done both PNC and DVA at the same time, including a digital platform. And so the complexities are -- are significant and so we are focused on completing that internal

³² Transcript date October 14, 2021 page 685, line 6;

³³ Transcript date October 14, 2021 page 702, line 10;

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review towards the beginning of next calendar year, and prior to our -- the end of our fiscal year.

The focus of that internal review is on de-risking the program, and so whatever – what decisions we need to make to de-risk and set us up for success.

Further progress, at this point, we don't have any financial numbers to say, we need to pivot and so that -- that's part of that assessment.

In parallel, we are engaged in an external party to execute an external review and validate that, what we found and the steps that we're taking to mitigate or address the risks and issues that we're having to deal with are sufficient.”³⁴

48. MPI expects to have the results of the external review in early 2022 and the PUB can expect to receive an update in the 2023 GRA, which may include a further re-baseline if deemed feasible and appropriate.
49. One question raised in multiple GRAs is whether MPI should, in light of the risks of the project, consider breaking NOVA down into smaller pieces. In response to this question, Mr. Mitra testified:

“That is our intent and that's why we're starting with our Commercial or Special Risk Extension line. It's a standalone line of -- for business. It's paper-based today, so the risk is minimal. Hence, the approach to start with that.

Further to that, I want to emphasize that we are also working with our legacy platforms. So when we think of Autopac online or, in my presentation, I spoke to IWS, the insurance workstation, the risk with decoupling a legacy system and extending it for a long period of time with backward integration actually amplifies the risk even more.

So it's a trade-off that we have to factor in when we make these decisions, and the best approach, based on feedback received from our

³⁴ Transcript date October 14, 2021 page 704, line 10;

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*– our system integrated partners and in consultation with other organizations that have done similar work, not identical, this was the path of least resistance.*³⁵

50. Last year, MPI completed a review and re-baseline of its business case for NOVA. It included the results of that exercise, complemented with further analysis, in the 2022 GRA. The PUB heard that the re-baselining exercise resulted in an increase in the total budget with contingency (up to \$128.5 million from \$106.8 million). MPI heard that it continues to consider use of a 7.5% discount rate appropriate in the circumstances. It therefore still assesses the 15-year Net Present Value (NPV) of the project to be \$18.4 million, with payback over 14 years. However, whether the final NPV is positive is not a primary aim for MPI. As Mr. Mitra stated:

"The reason why we're doing Nova is to continue to deliver value-added services to Manitobans. The risk of not doing Nova is letting our legacy platforms continue, and that is a bigger risk to Manitobans than -- that the NPV discussions.

*So, in short, we would be as prudent as we can be, as diligent as we can be, and as transparent as we can be. That is our intent, and we continue to do so.*³⁶

51. MPI cannot over-emphasize enough that NOVA is unlike any other project in its history. In terms of transparency, the PUB heard directly that MPI has concerns about whether NOVA remains on-track in terms of both its timeline and budget. The 2022 GRA hearing began with a presentation by Mr. Herbelin in which he candidly stated:

"But I would say so, if I had to design program Nova today, I would start by doing those other works before starting the progra – Nova program.

So we have a little bit of complexity added to the large program that Nova already is. And, as I can tell today, which is new information that this Board does not necessarily have evidence on just yet, but I want to be upfront and transparent so we don't have a discussion in a year from

³⁵ Transcript date October 14, 2021 page 764, line 24;

³⁶ Transcript date October 14, 2021 page 721, line 16;

now, we will most likely experience delay in delivering Nova, and with that, probably some deviations in terms of its overall costs.

I'm just not able to answer precisely today in terms of the extent of that because this is information that is happening as we speak.”³⁷

52. NOVA is not BI3, nor is it PDR. NOVA represents a change in not only how MPI carries out the planning and implementation of its project, but also how it reports its progress, risks and obstacles to its stakeholders and is accountable for the results.

4 CAPITAL MANAGEMENT PLAN

53. As indicated previously above, MPI has filed a companion legal submission with the PUB pertaining to the issue of whether the transfer of \$60 million in excess capital from Extension to DVA was unlawful. Additionally, the rationale for the request by MPI in this GRA that the capital release provision be suspended in the next fiscal year is extensively canvassed in the Rate and Rebate Request section above. Accordingly, this section is limited to an examination of the issue of whether the CMP affords any discretion with respect to the use of excess Extension capital.
54. The PUB approved the use of the CMP by MPI in December 2019, following the 2020 GRA³⁸.
55. Section 6.3 of *The Manitoba Public Insurance Corporation Act*, C.C.S.M. c. P215 (MPIC Act) prohibits using Basic money to subsidize the Extension line of business. The specific wording of Section 6.3 reads:

“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.”

³⁷ Transcript date October 12, 2021 page 216, line 20;

³⁸ PUB Order No. 176/19, page 131;

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56. However, there is no similar prohibition in the MPIC Act concerning use of Extension monies. That is, there is nothing under the MPIC Act that says that Extension monies cannot be used to subsidize Basic or any other MPI line of business.
57. Similarly, there is also no prohibition under the CMP regarding the use of Extension monies to subsidize lines of business other than Basic, provided any capital in the Extension reserve is used before fiscal year end.
58. The PUB will recall from the 2020 GRA that the CAC retained an expert, Mr. John Todd, to assess the CMP and the issues of cross-subsidization and anti-competitive activities. At the hearing, Mr. Todd confirmed that the CMP was in compliance with section 6.3 of the MPIC Act and did not offend the industry rule against money flowing from the monopoly utility (Basic) to a competitive line of business offered by the same utility (Extension)³⁹.
59. The PUB will also recall that when the CMP was presented to the PUB on October 11, 2019 (i.e. the 2020 GRA), the Chief Actuary of MPI at the time, Mr. Luke Johnston, made a presentation titled: "Claims, Ratemaking, Capital Management Plan" -- the first bullet at slide 33 reads as follows:

Capital Transfers

- *Transfers are now assumed to occur automatically when Extension [sic] the actual Extension Minimum Capital Test ratio > 200% at fiscal year end*

60. The narrative of Mr. Johnston on the slide also contained the following testimony:

"Okay. Moving on to capital transfers. So, this is another -- again, another form of essentially a capital adjustment. This is -- capital transfers from Extension was never part of the -- the basic rate. It's

³⁹ Transcript date October 21, 2019 page 2218, line 22;

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coming in at year-end and adjusting MPI's capital position in the form of the MCT ratio."⁴⁰

61. Also that year, contained within the RSR Chapter, was the CMP and its mechanics, which were described as follows:

Capital Transfers

*"After applying the Basic rate indication to the forecast, MPI will then determine whether there is excess capital in MPI's Extension line of business that it can transfer to Basic. If, **at each fiscal year end**, the Extension MCT ratio is:*

greater than 200% - MPI will transfer capital from Extension to Basic until the ratio is 200%.

less than 200% - MPI will not make any capital transfers from Extension."⁴¹

[emphasis added]

62. There can be no credible assertion that MPI was not transparent with the PUB when it first presented the CMP for approval. The mechanics of how it worked, including the year end test, was made clear and one need only refer back to the provisions of the CMP for certainty as to its terms.
63. The only prohibition under the CMP would be the transfer of Extension monies to a line of business other than Basic after March 31 (fiscal year end). MPI confirmed this even before it was first used in a GRA. The following is a reference from the first Special Rebate Application (SRA I), filed in April 2020:

"DR. BYRON WILLIAMS: Mr. Giesbrecht, going back to the concept of the capital management plan, a central element of that plan was a transfer of capital from Extension to Basic should the Extension MCT

⁴⁰ Transcript date October 11, 2019 page 941, line 3;

⁴¹ 2020 GRA, Rate Stabilization Reserve Chapter, page 7, line 4 – RSR 6.2 Capital Transfers;

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ratio of the Extension reserve exceed 200 percent at fiscal year end, correct?

MR. MARK GIESBRECHT: Yes. The plan entails a transfer of any excess capital for Extension that we -- will be moved to Basic, yes.

DR. BYRON WILLIAMS: And excess is in excess of 200 percent, sir?

*MR. MARK GIESBRECHT: Correct.*⁴²

64. And six months later, during the 2021 GRA, Mr. Giesbrecht again confirmed the fiscal year end condition contained within the CMP:

"THE CHAIRPERSON: So, he's [former MPI President Ben Graham] talking about a compulsory transfer. I don't see any qualifications for any business decisions or anything like that, do you, in this statement?

*MR. MARK GIESBRECHT: No. I mean, I think that refers to a compulsory transfer when the year-end calculations are completed on the -- the capital positions, on the various lines of business. And -- and, at that point in time, all excess capital will be transferred."*⁴³

65. The claim of the CAC in this GRA is that transfers under the CMP would be automatic, irrespective of the analysis that needs to be conducted of the Extension Reserve at fiscal year-end. This claim is fundamentally flawed because it could only result in two possibilities, each one as absurd as the next:

- a) that any and all excess Extension capital (> 200% MCT) would be earmarked for transfer to the RSR and off-limits to the corporation even in situations that called for immediate financial relief; or
- b) that upon exceeding the threshold of 200% MCT, if only by 1%, that excess capital would immediately be transferred to the RSR, and if the threshold

⁴² Transcript date April 30, 2020 page 38, line 6;

⁴³ Transcript date October 21, 2020 page 692, line 21;

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was again exceeded the following week, another transfer would occur, and so forth.

66. So long as any monies transferred from the Extension reserve occur before fiscal year end, the monies can be used at the discretion of MPI. Please see the following exchange, also from the 2021 GRA:

"MS. KATHLEEN MCCANDLESS: However, in the future, could MPI make a decision to utilize excess monies rather than transfer to Basic as it had done previously?"

MR. MARK GIESBRECHT: That is a possibility.

MS. KATHLEEN MCCANDLESS: So the Corporation does acknowledge that its position is it has the flexibility to not transfer those monies then?"

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: So another use for the funds could be deemed by a management business case, for example?"

MR. MARK GIESBRECHT: Possibly.

MS. KATHLEEN MCCANDLESS: Or a direction from the Board of Directors?"

MR. MARK GIESBRECHT: That is correct, yeah. It should be stated, though, that there are no plans. That is not the case. However, if something were to arise where there was a need and it was deemed as the -- appropriate to utilize those funds, that -- that could be possible at the discretion of the MPI Board of Directors."⁴⁴

67. Mr. Giesbrecht later confirmed this discretion with PUB Chairperson Gabor:

⁴⁴ Transcript date October 20, 2020 page 579, line 22;

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*"there could conceivably arise a situation where funds may be needed for some reason; however, it would be similar to the -- the pandemic that we're currently in, where it would be an extreme circumstance or some, you know, great need where it would make sense to do so."*⁴⁵

68. In one further excerpt, again from the 2021 GRA, Mr. Giesbrecht states that the discretionary use of Extension capital was always the intent of the CMP, right from time of conception in the 2020 GRA:

"THE CHAIRPERSON: Thank you. Mr. Giesbrecht, my -- my next question is to you. From your evidence yesterday afternoon and this morning, would -- would I be correct in saying that the position of MPI has changed from last year, where it proposed that transfers from Extension -- from Extension to Basic would be compulsory or nondiscretionary to a position now, this year, that MPI's position is that the transfer is discretionary?"

MR. MARK GIESBRECHT: I don't believe there is a change. The Capital Management Plan lays out that any excess capital above the threshold being 200 percent for the Extension line of business will be transferred. There -- so there's no change in that regard. The -- the question posed in that IR is, prior to any transfer taking place, can the Corporation utilize the funds for any other purpose. And so, that is a possibility. However, any remaining funds will be always be transferred as per the Capital Management Plan. And, also, then to reiterate a discussion that we had, there are no plans for other purposes of the -- the profits generated within Extension. But to answer that question that is there a possibility that that could take place? It is possible, but -- but, again --
*THE CHAIRPERSON: Okay.*⁴⁶

69. In any event, this discretionary use of Extension money is always for the benefit of Basic customers, directly (for something other than lowering rates) or indirectly. Recall that two years ago, in the 2020 GRA, MPI reported having transferred \$60M from Extension to Basic on February 28, 2019 to increase the RSR MCT ratio from 37% to 52%, a direct benefit to Basic customers. And because all Basic customers are DVA customers, to the extent the impugned transfers of \$60 million (\$53.5 million

⁴⁵ Transcript date October 21, 2020 page 693, line 12;

⁴⁶ Transcript date October 21, 2020 pages 690, line 16;

projected) would avoid increased DVA fees, Basic customers have derived an indirect benefit.

5 CLAIMS INCURRED FORECASTING

70. Knowing what amounts MPI will pay out in the future to cover the cost of claims is a difficult exercise that involves use of best estimates based on historical data and reasonable assumptions. And during the Pandemic, the task of forecasting claims incurred expenses is even more difficult.
71. And the difficulty lies in the fact that the Pandemic is a “*non-recurring event*”⁴⁷. We do not know the length of time it will persist, the degree to which it will continue to impact the frequency of collisions or whether there will be any lasting and permanent impacts, otherwise referred to as the “new normal.”
72. The 2022 GRA contained a number of assumptions that, with the benefit of time and more information, turned out to be incorrect. In response, MPI updated some of its forecasting assumptions prior to the oral hearing in October.
73. One of these assumptions relates to the cost of Basic claims in 2022/23. MPI updated its forecast and increased the expected amount by \$6.2 million. The PUB heard that the increase resulted from higher than expected repair costs resulting from the new Light Vehicle Accreditation Agreement (\$12 million) as well as increases to other expenses as a result of a slight increase in interest rates between the time of filing and the date of the update (~\$3.8 million). However, the evidence is that these increases were offset to some degree by the benefits of the new Salvage Management System (which reduced Total Loss Severity by \$5.4 million) as well as an improved hail forecast (\$4.2 million).⁴⁸
74. Another assumption relates to when MPI expected Manitoba to “return to normal”. In the original 2022 GRA filing, MPI forecasted that this would occur on October 1, 2021.

⁴⁷ CAC Exhibit #10, page 22;

⁴⁸ MPI Exhibit #62, slide 13;

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It did not. The impact of vaccines was not as immediate or as strong as predicted and people did not return to work in September as expected. Accordingly, MPI deemed it necessary to update its forecast to align with current information. It selected April 1, 2022 as the new "return to normal" date, with gradual increases in collision frequencies from August 2021 to that date. As Mr. Dunstone explained during the oral hearing:

"...it -- it didn't just pull that number out of a hat.

MPI did do some of its own due diligence. It spoke with other insurance companies like SGI and ICBC and -- and we've heard even evidence from some of the Intervener witnesses that -- that this seems to be the -- the approach taken by a lot of insurance companies.

The -- what I would call the naïve approach, just assume things are going to go back to normal and -- and, you know, hope for the best, but plan for the worst. And so, MPI has considered the expected return to work by -- by different governments.

The fourth wave data, some traffic and mobility reports, you heard about that, and then it's year-to-date experience and came to the conclusion that April 1st is -- is a -- a reasonable date to assume a return to normal.

Now, is that going to be the return to date -- return to normal date, most likely not, but we don't know what that will be and nor does anyone else.

And if anyone else tells you that that's -- you know, that's not the date and they can predict with some certainty what will be the date, then they are not being honest with you.

And we feel that we are at least being honest with the fact that we can't say for certain when that date will be. We would reiterate though in this circumstance that under collection and future rate increases that would

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result from that under collection, would be a worst scenario than a future re-- rebate."⁴⁹

75. As MPI considers April 1, 2022 to be the new "return to normal" date, the corollary of that is a belief by MPI that there will not be a "new normal" or no permanent changes in driving behaviour once the Pandemic subsides. Mr. Dunstone spoke further to this assumption at the hearing, stating:

We -- we discussed that for sure. Discussed that with ICBC, SGI, internally. We've discussed that, certainly. Everything is uncertain. If -- if I had to make, you know, a probability guess, that's quite difficult.

I -- I think there will be permanent changes in -- in behaviours, and driving behaviours, and -- and traffic congestions in 2022 and '23 forward. I don't -- I don't know what they look like. There's still a lot of uncertainty.

Yeah, I think I mentioned before, like, you know, there's definitely lower traffic congestion. That's likely going to continue, but there's also transit ridership. Are they going to start driving or not, or when are we going to see the impact?

So, it's very -- it's too soon to really tell exactly what the overall impacts are, but there will -- you know, I'm -- I'm -- I think there will be some permanent impacts of this. We just don't know it as of yet and -- and kind of wanted to take a cautious approach at this time not to include it in 2022/'23 rate-setting just due to the uncertainty.

So, I'm -- I'm assuming we'll have something in the '23 GRA for that."⁵⁰

76. As part of its intervention, the CAC retained the actuarial consulting firm of OliverWyman to investigate, among other things, the loss trends used by MPI. More specifically, expert Rajesh Sahasrabuddhe provided alternative pure premium trends for MPI to make use of for the purpose of calculating a revised rate indication (See line

⁴⁹ Transcript date October 27, 2021 page 2585, line 2;

⁵⁰ Transcript date October 18, 2021 page 1001, line 5;

29 of Figure 4 of MPI Exhibit #86). The results as compared against Figure RM-14 (MPI Exhibit #37, page 14) are below:

RATE INDICATION USING OLIVERWYMAN RESULTS

Figure 4 Rating Year 2022/23 Major Classification Required Rate Changes - Breakeven Rates Adjusted for DSR Discount Changes

Line No.	Coverage	Overall	Private Pass	Comm	Public	Motor-Cycle	Trailer	ORV
29	Cred Wtd Change (Bal)		0.1%	-0.3%	3.9%	2.2%	-11.3%	-9.3%

MPI RATE INDICATION (OCTOBER UPDATE NUMBERS)

**Appendix 1:
Figure RM-14 Rating Year 2022/23 Major Classification Required Rate Changes - Breakeven Rates - Adjusted for DSR Discount Changes**

Line No.	Coverage	Overall	Private Pass	Comm	Public	Motor-Cycle	Trailer	ORV
29	Cred Wtd Change (Bal)		1.5%	1.0%	5.3%	3.4%	-8.8%	-6.8%

- 77. You will see, not unexpectedly, that each of the Major Classes show a rate decrease using the Future Pure Premium Trend in Table 2 of the OliverWyman report. Some of the classes, including MPI’s largest, the Private Passenger class, show a substantial rate decrease, i.e. 1.4%, which would represent lower additional premiums for that class of approximately \$16 million using the Net Premiums Written figure from Revenues Figure 1 (2021A) x 1.4%.
- 78. If the OliverWyman advice is wrong, this would result in substantial under collection of revenue for the Private Passenger Class. Noted above as well are rate decreases for Commercial, Public, Motorcycle, Trailer and ORV using the Oliver Wyman projections. It is trite to state here the importance of getting the loss trends right (or as right as forecasting can be), because as Mr. Sahasrabuddhe says in his report at page 12: “Pure premium trend rates are a critical assumption in the determination of rate level

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indications. All else being equal, the higher the selected pure premium trend rates, the higher the rate level indication."

79. To be fair to the trend model used by OliverWyman, Mr. Sahasrabuddhe did emphasize during his evidence that MPI only used one of his trends (Future Pure Premium Trend) but did not, as he said was expected in response to Undertaking #28, use his Past Pure Premium Trend to arrive at the revised indication in the figure above. He wanted to emphasize that both past trends and future trends are important for the determination of rate level indications. He did understand however why MPI only used the Future Pure Premium Trend for the revised rate indication and provided the following explanation:

"MR. STEVE SCARFONE: Yes, but the -- the undertaking before us was to substitute the pure premium trend presented by Oliver Wyman. So -- and as you've indicated -- and perhaps you can explain why using the past year [sic] premium trend would be a difficult exercise?"

MR. RAJESH SAHASRABUDDHE (by Teams): Sure. So, I -- I guess let me, again, just sort of reiterate, that our intent, our pure premium trend in our report is -- has both past and future components. They're not separate. It's not adopt one (1) and not the other. It's -- it -- what we were asking was for both to be adopted.

MR. STEVE SCARFONE: I see.

MR. RAJESH SAHASRABUDDHE (by Teams): The -- the reason -- and again, acknowledging that -- that maybe we didn't use the words 'past' and 'future' in -- in the undertaking. And -- and I apologize for not being specific -- more specific with that. The -- the reason why it's difficult for MPI to -- to adopt or sort of adjust the model to consider a different past trend is because of the way the claims incurred section works where the -- the frequency and severity components are -- are forecast to -- to current levels. It's just a little bit wieldy. I'm -- I'm sure it requires some -- I'll call it for lack of better words, manual intervention. It's not something that you could do with just changing one (1) cell on a spreadsheet, which you could probably do with the future trend. So, I acknowledge that it's more difficult and -- and that it would be more difficult to -- to change the past. It doesn't mean that we think that the past trend is -- that the -- that the way the past trending was

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performed to arrive at – at sort of that inflection point between past and future, in response to Undertaking 28 is -- is correct. So, again, hopefully that -- that answers your question.”⁵¹

80. Notwithstanding the fact that the OliverWyman Past Pure Premium Trend was not factored into the response to Undertaking #28 (the revised rate indication), Mr. Sahasrabuddhe testified that he would expect his required rate changes for each of the Major Classes (Figure 4 of Undertaking #28) to reduce even further, i.e. even less premium would need to be collected. MPI says that caution should be exercised before relying too heavily on the OliverWyman loss trend model, significant amounts of additional premium might be required if Mr. Sahasrabuddhe’s low trends are too low.
81. During his cross-examination, Mr. Sahasrabuddhe admitted that his Future Pure Premium Trend for Collision (+0.62%) does not break down the coverage to consider frequency and severity at a detailed level (as does the MPI modelling which used a selected trend for Collision of +3.75%). For example, Comprehensive claims are comprised of several different perils such as hail, theft, vandalism, glass and other. MPI says in its response to Undertaking #28 (Exhibit #86) that to exclude these forecasting considerations by selecting just one trend for each coverage is an oversimplification and imprudent methodology.
82. During his testimony at October 26, page 2443 of the transcript, Mr. Sahasrabuddhe confirmed the following:

“MR. STEVE SCARFONE: And so if there were some underlying trends, and if for example theft claims were growing or -- or vandalism here in Winnipeg was increasing, that wouldn't be directly reflected in your future pure premium trend, correct?”

MR. RAJESH SAHASRABUDDHE (by Teams): No, but we are providing a pure premium trend for the coverage as a whole. We're not providing trends by peril.”⁵²

⁵¹ Transcript date October 26, 2021 page 2465, line 18;

⁵² Transcript date October 26, 2021 page 2443, line 15;

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83. In addition, as admitted in his report, at page 15 (see the bottom left panel), the Collision trend used by OliverWyman (+0.62%) is not statistically significant because the p-value was 0.542 and the typical threshold for accepting a coefficient is a p-value less than or equal to 0.05.
84. More importantly, again looking at the bottom left panel at page 15 of the OliverWyman report, the Collision trend used only data from 2016 to 2019 and all other data dating back to 2006 was excluded. This allowed OliverWyman to use a trend line (a trajectory) that appears flat. MPI's model used data from 2011 to 2019 and is upward sloping. Using just four years of data that is not statistically significant is strong evidence to support MPI's assertion that the trend model used by Oliver Wyman should not be relied upon.
85. And finally, as it concerns the reliability of the flat line forecasting of OliverWyman:

MR. STEVE SCARFONE: Okay. And the flattening, sir, because it occurred over the past four (4) years, might account for perhaps some milder winters in the last two (2) or (3) years?

MR. RAJESH SAHASRABUDDHE (by Teams): Yes. There certainly could be a -- a weather-related affect to collision claims.

MR. STEVE SCARFONE: And you, sir, are in Pennsylvania, as I understand it, correct?

MR. RAJESH SAHASRABUDDHE (by Teams): That is correct.

MR. STEVE SCARFONE: Have you ever been to Winnipeg?

MR. RAJESH SAHASRABUDDHE (by Teams): I have not. Hopefully next year.

MR. STEVE SCARFONE: And if you come during a particularly bad winter, sir, that certainly would affect the flattening that you have there in your four (4) year time frame, correct?

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MR. RAJESH SAHASRABUDDHE (by Teams): So are you asking me if the winter was particularly bad, would the data still -- would the data be as flat? Is that the question?

MR. STEVE SCARFONE: Yes. If -- if we have a bad winter this winter and collisions are up, that would certainly impact that flattening that you're saying should be relied upon.

*MR. RAJESH SAHASRABUDDHE (by Teams): Yes. And then, the future trend would be different. So, yes, I acknowledge that.*⁵³

86. The model employed by MPI is more robust and sophisticated than the model proposed in the report prepared by OliverWyman. Mr. Sahasrabuddhe admitted that it is reasonable to look at underlying trends like MPI does (October 26, 2021, page 2447), but not necessary in his view so long as the underlying perils can be reconciled with the aggregate data. That is, Mr. Sahasrabuddhe says that although his model uses only the sum of the data, it still reflects the different perils, for example, changes in the growth of repair claims versus changes in total loss claims.
87. However, if the underlying data for each of the perils does not balance to the sum of the components, how could this ever be discovered by OliverWyman when their model does not trend using underlying data? And if the underlying trends need reconciliation with the aggregate, how can OliverWyman conduct the reconciliation without the underlying trend data?
88. MPI says the significant difference in the selected trends for Collision, MPI at +3.75% and OliverWyman at +0.62%, demand the reconciliation recommended by Mr. Sahasrabuddhe, a reconciliation not performed in the OliverWyman report. In the absence of the understanding Mr. Sahasrabuddhe says is required for any such discrepancy (October 26, 2021 transcript, page 2446), the Oliver Wyman model should be rejected.

⁵³ Transcript date October 26, 2021 page 2457, line 5;

6 EXPENSES

89. MPI continues to diligently manage its corporate expenses.
90. In this GRA, the PUB heard that MPI completed its comprehensive budget cycle earlier than normal in order to align with Government reporting. The result was an unfavourable impact for total corporate expenses, which increased by approximately \$17 million in the 2022 GRA update filing, as compared to the original filing in June 2021. Of those expenses, MPI allocated approximately \$12 million to Basic, which increased the rate indication by 1.2%.⁵⁴
91. The PUB heard that the major drivers of the increase in expenses pertain to data processing costs and lean portfolio management initiatives. In his testimony before the PUB, Mr. Michael Gandhi, Corporate Controller for MPI, explained the purpose of these expenditures:

So getting into, kind of, what the --what the overall projects that are causing this is -- cloud adoption is the major expense category here. And we're working with the government on that as part of an overall project. And, more and more, our overall Nova requirements require that we are on the Cloud. So that investment is required to run our overall operation.

We will also see that more cloud adoption costs will come into our operating expenses as cloud adoption and -- is seen as a consumption model, where we don't have control over the servers in the cloud. So we'll see more costs in our operating line, as opposed to deferred. Overall, throughout time, those costs would -- would equal out.

We also see, in our lean portfolio management, data analytics and increasing our knowledge platforms, all meant to service our internal and external stakeholders better. The next slide.

Overall, for expenditure forecasts, as Dean has talked about, data processing costs have increased from the prior year. So we do see Nova costs in there for subscriptions for Celtic, which is our DVA line of --

⁵⁴ Transcript date October 13, 2021 page 310, line 10;

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*which services our DVA line of business. We also see, as I've talked about, accounting guidelines, IAS 38, which do not allow for deferral of cloud-based costs.*⁵⁵

92. And the benefits of the expenditures cannot be overstated. The PUB heard that these initiatives will provide better cyber security, cloud based offerings and data analytics.⁵⁶
93. Another topic highlighted in the GRA is compensation, which makes up the largest component of the expenditures of MPI. And for 2021/22, the PUB heard that MPI projects a -1.2% decrease in compensation for Basic – Normal Operations. However, MPI expects this expense to increase by 6.2% in 2022/23. As Mr. Gandhi noted, MPI is forecasting an increase in full-time equivalent (FTE) counts by 216 to 1949, stating:

"In our FTEs, we do see an increase in our FTEs for our filing for '22. And we do go up to 1949, and these are mainly term positions to service Project Nova, and also to service our SRE business.

*These are term positions on the SRE side, and do not impact the Basic line of business. We do see these as a requirement to ensure that we're organizationally aligned and ready for Project Nova. But we also have a significant amount of growth within our SRE line of business, which these -- these positions are there to help out and make sure that we don't have backlogs and missed revenue opportunities."*⁵⁷

94. Of course MPI cannot fill all of these positions immediately. MPI uses a vacancy allowance to account for the realities of its business. This allowance, reduced to \$8.3 million this year, is reflected within its forecast as a deduction against compensation. MPI heard that, as of September 30, MPI has 159 vacancies (i.e. 1,790 FTEs), 100 of which are in the recruitment phase. At the hearing, Mr. Dunstone updated the actuals to 1,864, suggesting that the vacancy rate was already declining.⁵⁸ When asked

⁵⁵ Transcript date October 13, 2021 page 319, line 20;

⁵⁶ MPI Exhibit #41, slide 20;

⁵⁷ Transcript date October 13, 2021 page 320, line 22;

⁵⁸ Transcript date October 13, 2021 page 435, line 22;

whether the current forecast budget for wages and benefits is overstated given the current vacancy level, MPI responded:

The vacancy allowance is reflected within the forecasts as a deduction against compensation, is properly captured in forecasts and is therefore not overstated.⁵⁹

95. Overall, the compounded growth rate for normal operating expenses over the past four years was -0.3%. Contrast this figure with the 6.1% increase produced if using an annualized consumer price index (CPI) target. The result supports that MPI continues to prudently monitor and track its expenses.

7 VEHICLES-FOR-HIRE

96. In the next GRA, MPI will introduce a revised Vehicles for Hire (VFH) model. The current model is now three years old and was developed in response to changes in the market and the emergence of new stakeholders. MPI now has a better understanding of how this market actually functions and how its model could be changed to better respond to the needs of its customers.
97. In April 2021, MPI participated in a VFH Technical Conference with representatives of the major stakeholders. The parties engaged in a meaningful discussion and MPI gained valuable insight about how the model might be changed to be more responsive and fair. From its own surveys conducted in 2020 and 2021, MPI learned that many parties see time bands, blanket policies and fairness as the issues that any changes to the model should address.
98. Not all VFH groups agree on what changes should be made, or how they should be made. MPI committed itself however to engaging further with all stakeholders, with the goal of implementing a new model on April 1, 2023.⁶⁰

⁵⁹ MPI Exhibit #87, page 1;

⁶⁰ Transcript date October 21, 2021 page 1749, line 3;

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99. Regarding the rates for the Private Passenger VFH use, the evidence in the 2022 GRA demonstrates that, after the first 20% rate increase directed by the PUB in Order No. 1/21, the loss ratio of the Private Passenger VFH was 67.37%, considering 2020 insurance year experience⁶¹ and would drop to 56% if MPI continued to increase their rates by 20%.⁶²
100. Bearing in mind that the ideal loss ratio ranges from 70 to 80%, Mr. Tai Phoa, Sr. Actuarial Analyst with MPI, testified that all available evidence must be considered when deliberating on the rate indication for the Private Passenger VFH use for this GRA, stating:

*...the experience for the use is the experience for the use. You know, I -
- I was -- I was directed by the PUB last year to look at all the evidence.
And the 2020 year, the evidence shows that the loss ratio is 67.37.*

*If I did this -- recognizing, of course, that the earned premium for that
year is not yet multiplied by 20 percent.*

*So if we -- if I took the earned premium for that year and I did -- and I
increased that earned premium by 20 percent to reflect the 2021
adjustment, that loss ratio would actually drop to 56 percent.*

And -- and so -- and if I did the same calculations --

*MR. ANTOINE HACAULT: Let's just stop there for a minute. Fifty-six
percent would still be higher than the 40 percent of the class.*

*MR. TAI PHOA: Absolutely. But that is definitely a significant
improvement from the 122 percent and 132 percent loss ratio that we
see for the 2 prior two (2) years.*

*So the -- again, for a small group like that -- like, a passenger Vehicle
for Hire and no different than the taxicab Vehicle for Hire group -- I was
asked to consider all evidence.*

⁶¹ TC Exhibit #7, page 6, row 1, column f;

⁶² Transcript date October 19, 2021 page 1201, line 14;

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And so, I -- I cannot just choose the two (2) years where -- where it's showing something higher. That evidence was already considered last year in the -- in the PUB determination and deliberations.

But this year, I have one extra year of which I should consider that evidence as well."⁶³

101. It is also not reasonable for MPI to increase the rates of Private Passenger VFH in order to reduce their loss ratios to levels similar to Taxicab VFH. In his testimony before the PUB, Mr. Phoa indicated:

"MR. STEVE SCARFONE: Is there a range of loss ratios that the Corporation worked within that's acceptable to them?"

MR. TAI PHOA: I -- I would say around 80 percent loss ratio, 70 or 80 percent loss ratio is -- is about right.

MR. STEVE SCARFONE: So the range is 70 to 80 percent that's acceptable to the Corporation?"

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

MR. STEVE SCARFONE: And can we reasonably expect all loss ratios for all classes to be the same?"

MR. TAI PHOA: Definitely not. Especially for smaller major classes -- sorry, for smaller insurance users, that's definitely not going to be the case."⁶⁴

102. MPI therefore submits that it has complied with Direction 2 in PUB Order 1/21, having demonstrated that the Passenger VFH Major Class is no longer being subsidized.

⁶³ Transcript date October 19, 2021 page 1201, line 6;

⁶⁴ Transcript date October 19, 2021 page 1239, lines 8-23;

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103. Regarding the serious loss loading issue, the PUB heard from experts presented by TC that MPI has not accurately priced the risk posed by the use because it did not factor serious losses into their rates.

104. Fortunately, the evidence is that Private Passenger VFH has sustained no serious losses since the creation of the use in 2018. However, MPI does not engage in the practice of using serious loss loading for uses or territories that have not had a serious loss in the past 10 years. And it is not improper to do so. As Ms. Jing Lang, Director, Pricing and Portfolio Management explained under cross-examination:

"We don't believe that is an unusual event. So based on our experience, if we -- our best estimate is there's no serious loading, then that is our current best est -- estimate. That's our current assumption."⁶⁵

105. Under cross-examination, the witness presented on behalf of the TC confirmed that he was not aware of AAP requiring the use of serious loss loading.⁶⁶

106. The PUB heard that the exercise is entirely subjective and would involve determining how much to load onto the rate. The PUB received a number of suggestions that range from \$428 per Private Passenger VFH unit to \$62 per unit. The argument in favour of serious loss loading is that it protects against the under-collection of premiums in the event that one or more serious losses occur in a given year. However, if no loss occurs in a given period, customers could be overcharged.⁶⁷ Further, uses that may be undercharged in one year may make up for that in future years based on their experience.⁶⁸

107. If the PUB were to direct MPI to use serious loss loading for one use, MPI submits that fairness dictates that the exercise be used for each use and territory without a serious loss in its most recent 10-year history. As Mr. Tai Phoa testified:

⁶⁵ Transcript date October 21, 2021 page 1869, line 4;

⁶⁶ Transcript date October 25, 2021 page 2198, line 1;

⁶⁷ Transcript date October 25, 2021 page 2193, line 1;

⁶⁸ Transcript date October 25, 2021 page 2195, line 12;

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"So the -- so that's on the -- on -- at the high level overall basis, at the insurance use level. There are many insurance uses that don't have serious loss.

And we're not looking at just a single year. We are looking at the last ten (10) years. There are many insurance uses that don't have single loss -- serious losses and -- and that includes some of the Vehicle for Hire insurance uses, including accessible V -- VFH and limousine VFH."⁶⁹

108. Without specific direction from the PUB, MPI is unable to judgmentally select the serious loss loading figure that should be added to these other uses and territories.
109. For the Taxicab VFH use, the TC argued that the methodology used to determine their rates was too slow to react to recent experiences. As a result of the Pandemic, like everyone else, the PUB learned that Taxicab VFH experienced a particularly good year. Its loss ratio in 2020 was just 44.6%⁷⁰ whereas loss ratios of between 70%-80% are typically required for MPI to breakeven.⁷¹
110. The TC advanced a number of recommendations to adjust the ratemaking methodology in ways that would give more credibility to recent experience. Of course any such measure would sacrifice rate stability.⁷²
111. And again, fairness dictates that any adjustment, whether it be increasing the credibility given to the current relativity from 10%, lowering the *K* value to something less than 60,000, or switching to the Classical Credibility Approach, must not be applied solely for a particular use. In other words, making rates more responsive for taxicabs means making them more responsive for everyone, as the expert witness for the TC confirmed under cross-examination.⁷³

⁶⁹ Transcript date October 18, 2021 pages 909-910, lines 22-25, 1-6;

⁷⁰ TC Exhibit #4, page 3;

⁷¹ Transcript date October 19, 2021 page 1199, lines 12-17;

⁷² Transcript date October 25, 2021 page 2241, lines 7-15 and 2242, lines 1-23;

⁷³ Transcript date October 25, 2021 pages 2242-2243, lines 16-25, 1-8;

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112. The most important question in all of this is what happens to rates if recent experience dramatically decreases? Will owners of taxicabs feel the ratemaking methodology is now *too* responsive? Although this is what owners of taxicabs may want (now), MPI does not believe making significant changes to its ratemaking methodology is what the vast majority of ratepayers want. In a time of great uncertainty, MPI submits that maintaining rate stability is of the utmost importance. MPI again cautions to avoid kneejerk reactions while the Pandemic plays out.
113. The PUB also heard evidence that the current ratemaking methodology results in a potential cross-subsidization of urban taxicabs by rural taxicabs. The expert witnesses presented by the TC testified as follows:

"So, it's hard for us to tell, is it truly underpriced and overpriced? We feel it is based on the data. Based on the historical experience, you may want to consider raising the rates in territory 1 and lowering it a bit in territories 2 to 4.

But we also understand it's a bit of a circular argument. Territories 2 and 4 don't have much data. There's not that many earned units, so it's going to be -- it's an issue of, okay, there's not a lot of credibility and not a lot of data. But if you look at it historically, it does look like the urban area needs more rate and the rural area needs less.

So, in our opinion, it's more about investigating this, like, is there an improvement in a rating algorithm, can we make it more complex, are there more -- are there more interactions to think about."⁷⁴

114. While MPI is committed to investigating the matter further, it submits that adding complexity to the rating algorithm may not be necessary or even desired. MPI expects that it can present a solution (should one be required), in the 2023 GRA.
115. Finally, there was robust discussion around the continued use by MPI of the Minimum Bias Procedure and whether MPI should make the switch to use of Generalized Linear Models (GLMs). MPI believes that switching to the use of GLMs is appropriate and has

⁷⁴ Transcript date October 25, 2021 pages 2144-2145, lines 18-25, 1-10;

committed itself to investigating the most appropriate way to do this. However, the move may not occur immediately. MPI can provide an update on its efforts in the 2023 GRA.

8 RISK MANAGEMENT

116. In this GRA, MPI presented evidence that it recently updated its reinsurance strategy with adjustments to its aggregate catastrophe reinsurance program, a program which protects it from both single large weather events as well as from a combination of several smaller weather events.
117. The PUB heard from Mr. Michael Gandhi⁷⁵ that MPI, prior to 2019/20, MPI utilized an event-based program that offered coverage against one-time catastrophic events (up to \$265 million) but did not permit MPI to collect on large accumulations of losses. As a result, its reinsurance did not activate and MPI did not recover on its losses. MPI sought to correct this issue through the acquisition of an aggregate catastrophic insurance program.
118. The aggregate reinsurance program applies to weather events with a total loss of a least \$1 million. Once it accumulates more than \$40 million in losses (up from \$35 million previously⁷⁶), the program activates and protects MPI from those losses up to \$400 million (up from \$300 million previously⁷⁷).
119. As indicated in its response to information request CAC (MPI) 1-61, MPI increased the upper limit of its coverage because its own modelling suggested that its prior coverage was insufficient to protect it from a 1-in-100 year event (which would result in an approximate loss of \$350 million⁷⁸), Calgary recently sustained a \$390 million catastrophic hail loss in 2020 (which suggests the threat is real and is occurring nearby) and because climate change is making our weather more extreme and less predictable. And while a \$350 or \$390 million loss would not exceed the current \$400

⁷⁵ Transcript date October 13, 2021 pages 474-477;

⁷⁶ Transcript date October 13, 2021 page 474 to 477;

⁷⁷ CAC (MPI) 1-61;

⁷⁸ CAC (MPI) 1-61; Transcript date October 13, 2021 page 480;

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million coverage limit, these amounts would have exceeded the limits to which MPI was covered before this most recent adjustment.

120. Further, as indicated in its response to information request PUB (MPI) 1-81, with the inclusion of trending, the current reinsurance program would have been pierced 6 times in the past 27 years. And as indicated in its response to information request CAC (MPI) 2-29, "...Manitoba experiences earlier and more severe changes in its climate than do many other parts of the world. Over the past several years, MPI experienced an increased frequency in catastrophic losses (i.e. 2015, 2016, and 2018), including an unprecedented ice storm in 2019."
121. To be clear, the reinsurance strategy does not supplant but rather supports the RSR. It is another tool in the proverbial toolbox. Another means by which MPI seeks to protect ratepayers. Without appropriate protection, a single catastrophic event or a multitude of smaller ones could almost completely deplete the RSR in a single year and render MPI unable to shield ratepayers from the risk of large losses in the future. Additionally, future ratepayers would be responsible for rebuilding the RSR to its required 100% MCT ratio target. The result could therefore be significant rate instability and many consecutive years of rate increases. MPI does not believe that ratepayers would tolerate such a bleak scenario, especially if they knew that MPI could have easily avoided it through a cost-effective strategy.

*"MR. DEAN DUNSTONE: I think, you know, it's appropriate, it's reasonable, it's responsible. We need to protect ourselves, and MPI, and Manitobans against the potential for a large claim loss event due to -- due to a catastrophic weather event, whether it be hail, flood, tornado, whatever kind of perils we're exposed to here. I don't think it would be responsible for us to -- to rely on our RSR to -- to pay for any large loss event and then have a depleted RSR and have to work on -- on rebuilding that RSR. So, I think the protection that we purchase from our reinsurers is -- is something we believe we need to do to, you know, maintain rate stability"*⁷⁹

⁷⁹ Transcript date October 13, 2021 page 328, line 5;

122. Though some may argue that the strategy provides too much protection or that the risk that MPI seeks to protect against will never materialize, MPI submits that the strategy is appropriate, reasonable and responsible. The risk of a severe depletion of the RSR is real and the strategy offers good protection and value.

9 INVESTMENTS

123. The important evidence this year as it concerns Investments is the intention of MPI to have prepared another Asset Liability Management (ALM) Study. The ALM strategy that MPI currently operates under was developed in 2017 by Mercer and was fully implemented in 2021. While MPI would normally allow a full market cycle (3-5) to unfold following implementation of the strategy, the evidence was that pending changes under IFRS 9 & 17 and the rising inflation trend seen over the past six months brought forward the need for an updated ALM Study.
124. While a new ALM Study will be underway before the end of 2021, the Investment Fund continues to perform well during the course of the Pandemic. As at March 31, 2021, the returns on the Basic Claims portfolio (3.9%) had outperformed the benchmark and the RSR and EFB portfolios returned 13.2% and 13.9% respectively, with the equity market having fully recovered from early pandemic losses.
125. Glenn Bunston, Manager of ALM & Investment Management, explained Moment Matching, recently implemented under the existing ALM strategy. Designed to complement the duration matching of investments to liabilities, it matches convexity between the assets and liabilities of Basic. Moment Matching is expected to further reduce interest rate risk exposure by 40% while not compromising the portfolio yield. It also served to extend the duration of the Basic Claims portfolio following the purchase of MUSH bonds totaling \$40 million for the new strategy (the provincial bond portfolio duration was lengthened to accommodate the low 5-year duration of MUSH bonds).
126. MPI and the Coalition of Manitoba Motorcycle Groups (CMMG) continue to explore ways to address the long term liabilities associated with the PIPP claims of

motorcyclists. The use of interest rates at points on the yield curve did not have the desired result and so MPI will now file an alternate rate indication in the 2023 GRA that uses the yield that corresponds to the average duration of each Major Class (to be calculated using only the claims for a particular class).

127. While MPI is open to suggestions made by the CMMG, it maintains that having growth assets to back the long term nature of the motorcycle injury claims is not a prudent strategy. When the equity market goes down and incurs losses, the motorcyclists would see a dramatic increase in rates unless other Basic customers were to subsidize those losses. Alternatively, if the Basic claims portfolio were to include growth assets to accommodate the motorcycle liabilities, the interest rate forecasting risk would increase for the corporation (less fixed income) and so too would the minimum capital requirements of Basic.

10 DRIVER SAFETY RATING SYSTEM

128. The Driver Safety Rating (DSR) system has been discussed for a number of years. The PUB's concerns are threefold:
- a. That the current DSR scale does not accurately reflect risk;
 - b. That the current driver premiums and vehicle premiums are not actuarial sound; and
 - c. Is it better to introduce changes when Project Nova goes live or at a later date?
129. MPI's position is that there should be no changes to the current Registered Owner model for at least five years and that during this time it can gradually move to a more actuarial sound driver and vehicle premiums. This is consistent with the position MPI put forward last year.

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130. MPI also submits it should undertake a thorough review of its pricing and incentive models. At this point in time what this will entail or how long it will take is unknown but for the next GRA MPI can submit a work plan setting out the scope and duration of the review.

131. The reason MPI is opposed to changes to the current Registered Owner model for the next 5 years is that:

- a. It does not know the size of the problem it is trying to solve;
- b. It does not know whether the Primary Driver model is the appropriate solution; and
- c. MPI is going through a major transformation with Project Nova and does not have the capacity to implement an additional major DSR model change at the same time.

132. Ms. Satvir Jatana, *Vice President & Chief Customer Officer* with MPI, on October 21, 2021, added the following:

"What we know today, that our current model is serving the needs of Manitobans, and it is something that can stay for the next five (5) years. And the reason why we are definitive about that, one is, as I alluded to earlier, we cannot do this half-assed and we cannot do this without understanding the customers' needs, without understanding what solution might come out post-COVID.

And doing this, in rushing with this Legacy system change, is not the right thing for the Corporation, although the system offers us the capability to input the current model or potentially another model from systems we know we have those capability. That is one (1) of the reason why we're investing in this Project Nova, so the systems would allow these changes to occur more efficiently and more effectively in the future.

However, those -- doing those changes right now, it's more the capacity issue. Our organization, as any organization going through this major

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*transformation, would only have so much capacity from a resourcing perspective, from engaging stakeholders, and from thorough analysis and the rigor that it requires for us to make this change. And the time simply isn't in the next five (5) years."*⁵⁰

133. MPI supports gradually moving to more actuarial sound driver and vehicle premiums over the next five years. This position is supported in the OliverWyman Report, DSR Conclusion:

*"Given the stated goals of the program and fairness issues with the subsidization, we recommend that the Public Utilities Board adopt actuarially indicated DSR credits with due consideration to the acceptability of year-over-year rate changes and the use of capping to address acceptability."*⁸⁰

134. And this conclusion was further supported by Mr. Sahasrabuddhe in cross-examination:

"MR. STEVE SCARFONE: And so, I think you'd agree with me, sir, that that is, in fact, what MPI's proposal does. It -- it adopts the DSR actuarially indicated credits, but with due consideration to the year-over-year changes and the use of the capping that's in place. Do you have any reason to disagree with that?"

*MR. RAJESH SAHASRABUDDHE (by Teams): No, I don't. I think that's MPI's view of acceptability as opposed to the PUB's view of acceptability. But I -- I don't disagree with that."*⁸¹

135. MPI submits that there should be a thorough review of its pricing and incentive models, noting that:

- a. It has to analyze data to determine if there is a problem and, if so, the nature in order to develop the best solution;

⁸⁰ CAC Exhibit #4, page 11;

⁸¹ Transcript date October 26, 2021 page 2428, line 5;

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- b.* This requires MPI to do thorough review of its pricing and incentive models;
 - c.* For the next GRA, MPI should be able to submit a work plan setting out the scope and duration of the review; and
 - d.* This would require a comprehensive business case.
- 136. The fundamental error that all the parties have had in approaching this topic was assuming that the Primary Driver model is the solution to the problem. The first step should have been to conduct a thorough review/business case to determine the nature and extent of any problems and then determine what, if any, solutions are required.
- 137. Changing the Registered Owner model to a Primary Driver model will involve a significant amount of work. It will be different than what Manitobans are used to. And it is contrary to what the majority of Manitobans want.
- 138. The obvious PUB concern is – can we wait five years before making a change? MPI response is:
 - a.* MPI does not know if there is a problem or the size of the problem that needs to be fixed;
 - b.* The public is not demanding change;
 - c.* If there was something significantly wrong with the current approach, the public would be demanding changes;
 - d.* The two jurisdictions in Canada with the lowest insurance rates and the greatest coverage (Manitoba and Saskatchewan) are the only ones using the registered owner model as the basis for establishing rates;
 - e.* MPI is unaware of Government appetite for any change; and

f. NOVA is not a barrier to implementing a new model at a later date.

139. If MPI is to take these drastic steps it should be certain the benefits would be greater than the costs. No such evaluation has taken place. MPI does not know if there is a significant problem to be solved and if the proposed solution (Primary Driver model) will actually solve the problem.

11 BENCHMARKING

140. Benchmarking compares MPI to its peers. When done right, benchmarking provides insights into the performance of the corporation and this allows MPI to identify opportunities for improvement. MPI is committed to changing if that change means improving the products and services it provides or its value to Manitobans.
141. MPI employs four main benchmarks:
- a. *Canadian Vehicle Rates Comparisons and Average Premium Growth* – which looks at how the rates offered by MPI for its products compares to the rates offered by others across Canada; currently and over time;
 - b. *Serving Manitobans* – which looks at the views of customers and whether they are satisfied with MPI and particular products and services;
 - c. *Operational Efficiency (Crown)* – which looks at how MPI compares to its crown counterparts SGI and ICBC in a host of different metrics; and
 - d. *Information Technology* which looks at IT maturity and spend compared to peers.

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142. The PUB previously heard that the automobile insurance rates offered by MPI are consistently among the lowest in Canada and have also grown at a slower pace. That continues to be the case this year.⁸²
143. Also, the results of surveys conducted by Forrester Research Inc. show that Manitobans generally agree or strongly agree that MPI meets their needs.⁸³
144. On the IT Benchmark, MPI provided another report from Gartner. The results show that MPI compares well with its peers in terms of its IT investment level, IT staffing level and IT process maturity.⁸⁴ Gartner also identified no general concerns.
145. The question posed during the hearing was whether MPI remained committed to conducting an IT benchmarking exercise. Mr. Parti confirmed that MPI was so committed when he stated:

"I also want to state my intention going forward to the Board. From an IT perspective, it will absolutely be benchmarking ourselves, whether it's through internal practices or through some external agency going forward.

Whether we do it every year or whether we do it every two (2) to three (3) years is yet to be established, but our intention is to benchmark ourselves against our peers and industry to ensure that we provide the best value for the money that we're spending on products and technologies and people. So I wanted that to be on the record.

MS. KATRINE DILAY: But not necessarily through -- by retaining Gartner to do that exercise?

MR. SIDDHARTHA PARTI: It could be another RFP process. We could go to the market and find someone else other than Gartner perhaps to do the job, but holistically, the intention would be to benchmark, whether

⁸² MPI Exhibit 42, Slides 4-7;

⁸³ MPI Exhibit 42, Slide 8;

⁸⁴ MPI Exhibit 48, Slide 10;

it's through Gartner or – or through some other third party, and also supplement that with our internal processes.”⁸⁵

146. The PUB heard that MPI will conduct another IT benchmark in the third quarter of this fiscal year and include the results in the 2023 GRA. Conducting the assessment later in the year ensures the use of the most recent financial data in the exercise.⁸⁶
147. And finally, MPI introduced for the first year the results of its Crown Benchmarking Exercise. MPI filed comparative reports with the 2022 GRA for the years 2017/18, 2018/19 and 2019/20. The reports compare MPI to SGI and ICBC on 60 different internal measures.⁸⁷
148. MPI notes that the methodology is not yet mature. The reports do not account for variations in the products, business structures or economies of scale of the three crown corporations. As a result, on some measures, the reports may not offer an appropriate “apples-to-apples” comparison or give the entire picture.
149. For example, MPI received questions about its FTEs per \$100 million of Gross Premiums Written numbers and why they appeared to be higher than SGI and ICBC. What information is currently unknown is whether the lower FTE counts for SGI and/or ICBC may be attributable to higher reliance on external consultants. MPI reminds the PUB of its efforts to convert external consultants to FTEs as part of its External Labour Strategy, a strategy that the PUB endorsed in PUB Order 128/15.
150. MPI notes that while FTE counts cannot be discounted, the more important metric is the Total Net Expenses as a % of Gross Premiums Written as this metric identifies how lean the cost structure is of each organization. In that metric, MPI notes that it consistently performs better than SGI. In the case of ICBC, MPI believes that the result may be explained by its significantly larger scale of operations.⁸⁸

⁸⁵ Transcript, October 14, 2021 page 816, line 3;

⁸⁶ MPI Exhibit 48, Slide 10;

⁸⁷ MPI Exhibit 1, pages 250-252;

⁸⁸ Transcript, October 14, 2021 page 640, line 19;

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12 CONCLUSION

151. We must not lose sight of the years of hard work and effort that afforded MPI the opportunity to present three consecutive GRAs seeking negative overall rate indications.
152. In its 50 years, MPI has seen lots of change, both good and bad. But it is precisely because of its desire to change, to grow and improve, that MPI arrived at this point of fiscal stability in a time of great instability.
153. In his presentation to the PUB, Mr. Herbelin identified that MPI is on a 5-year journey or ambition to improve itself further, stating:

"This is all about creating the kind of MPI that meets customer needs, is a progressive and rewarding place to work, and is considered a fair and transparent partner to its stakeholders, a place where employees can work effectively, they are empowered, where data are driving decisions, and where customers have the choice to interact with us in any way that they need at any time."⁸⁹

154. MPI believes this GRA provides a clear example of a step along this journey. Whether it be the thousands of pages of documents filed, the countless number of information requests, undertakings or pre-asks answered or the fact that MPI provided the PUB and intervenors with unprecedented insight into the financial operations of not only its Extension but also its DVA lines of business, MPI hopes that this exercise has demonstrated its commitment to building and maintaining strong and productive relationships with its stakeholders.

ALL OF WHICH IS RESPECTFULLY SUBMITTED.

S. Scarfone

A. Lafontaine Guerra

⁸⁹ Transcript, October 12, 2021 page 203, line 22;