LOST BALANCE, LOST CONTROLS: MPI AND CAPTIVE RATEPAYERS

Closing Argument of the Consumers' Association of Canada (Manitoba Branch)

Prepared by: The Public Interest Law Centre
November 9, 2022
Manitoba Public Insurance (MPI)
2023/24 General Rate Application (GRA)

ROADMAP

- Ms. Schubert, Ms. Jassal and CAC Manitoba
- Seeking a Signal
- The Challenging Regulatory Role
- A Unique Hearing
- Making a Manitoba Advantage
- Implications of the Rate Application for Consumers
- At the Crossroads: A Simple Monopoly Experiencing Declining Demand
- Unreasonable and Imprudent Practices
  - Broken Guardrails of cost control
  - Self-inflicted harm, high risk and Project Nova
  - High risk – low return investment choices
- Modernizing claims incurred forecasting
- A Reluctant Path to Fairness for Driver Safety Rating
- Next Steps for Road Safety
- A Lost Balance: the Rate Stabilization Reserve and Capital Management Plan
- A Just and Reasonable Signal for the Revenue Requirement

MS. SCHUBERT, MS. JASSAL AND CAC MANITOBA

- GRAs are extraordinary hard work for all involved
- Want to acknowledge two special people who have made an important contribution to the independent rate setting process
- Thank you to CAC Manitoba Board as supported by our consumer advisory panel

SEEKING A SIGNAL

CAC Manitoba respectfully seeks:

- a strong revenue requirement signal that MPI is on an unreasonable and imprudent path in terms of expenditure control;
- recognition of the need to modernize the MPI approach to claims incurred forecast to achieve best estimates; and
- a time sensitive path to address enduring inequities in DSR.

THE CHALLENGING REGULATORY ROLE

Public utilities are regulated because they provide services of "special public importance or necessity" in a monopoly or effective-monopoly environment.[1]

> [35] The PUB's role in the determination of rates for compulsory automobile insurance is based on three interrelated statutes—the *MPIC Act*; *The Crown Corporations Governance and Accountability Act*, CCSM c C336 (the *CCGAA*); and the *PUB Act*. . . . As a result of these three Acts, the PUB is required to set rates for basic policy holders that are just and reasonable in the public interest.[2]

[1] Bonbright, Danielsen and Kamerschen, *Principles of Public Utility Rates*, first edition, 1988 at 8.
[2] *Manitoba Public Insurance Corp v Manitoba (Public Utilities Board) et al*, 2022 MBCA 86 at para 35. See also PUB Order 98/14 at 28.

A UNIQUE HEARING – THE MAGNITUDE OF CHANGE

> BOARD MEMBER NEMEC: just seeing a lot of changes that came through and it must have went through some kind of a process, some kind of approval. I'm just wondering, you know, **is that something unique to this GRA**?
>
> […]
>
> MR. MARK GIESBRECHT: Yeah. I mean, this -- this has been typical that there is some level of change. I would say that the -- **the quantum or the delta, generally speaking, has been much less**.[3]

There has not been a MPI GRA over the past two decades where such significant year over year changes in proposed operating expenses or Full Time Equivalent (FTEs) has been presented.

[3] October 20, 2022 Transcript at 562-564 (Nemec-Giesbrecht). [emphasis added]

UNIQUE GRA – FUNDAMENTAL DIMINISHMENT OF PUB AUTHORITY RELATED TO FINANCIAL TARGETS FOR RATE SETTING PURPOSES AND RATE REBATES

Over the past two decades, PUB authority related to financial targets for rate setting purposes and rate rebates has:

- incented risk-based analysis rather than mechanistic formulas for financial targets;
- deprived MPI of a bad management "cushion" in the form of excessive reserves;[4] and
- delivered over $1 billion dollars in rebates to Manitobans.

The choice of whether and if to trigger a rebate application now rests exclusively with MPI.[5]

---

[4] November 2, 2022 Transcript at 2094-2096 (Williams-Low).
[5] November 1, 2022 Transcript at 2024 (Scarfone-Low); 2058-2059 (McCandless-Low).

MAKING A MANITOBA ADVANTAGE

To the extent we conclude that the basic insurance monopoly in Manitoba has performed relatively well over time, it is important to acknowledge the collaborative contributions of the Manitoba community including:

- Legislators who intervened to protect the monopoly and ratepayers through the Personal Injury Protection Plan;[6]
- MPI staff and executive over time who have balanced relatively high service standards with a commitment to vigorous cost controls including through Key Performance Indicators as a way to set aggressive targets and measure prudence and performance;
- Intervenors and independent experts who have contributed valuable practical and policy advice; and
- The Independent Regulator

[6] October 19, 2022 Transcript at 246 (Williams-Herbelin).

MAKING A MANITOBA ADVANTAGE – THE ROLE OF RIGOROUS REGULATION

THE REGULATORY COMMITMENT TO PRUDENCE

DR. BYRON WILLIAMS: On that point, you'll agree that the level of rigour in terms of provincial regulators varies across Canada.

MS. CARA LOW: Yes.[7]

[7] November 2, 2022 Transcript at 2097-2098 (Williams-Low).

MAKING A MANITOBA ADVANTAGE – THE REGULATORY COMMITMENT TO PRUDENCE FOR MPI

"The Board has in the past characterized one of the key elements of its independent review function and rate-setting role as ensuring that actual and projected costs incurred are necessary and prudent, in the context of setting just and reasonable Basic rates. . . The Board continues to hold a keen interest in the Corporation's efforts to reduce and contain costs."[8]

"The Board continues to support the Corporation's cost containment efforts, including its steps taken to reduce operating expenses and optimizing staff levels."[9]

"With respect to PDR, the Board found that MPI had not clearly established that the program was in fact operating within its original budget and that the Corporation was challenged in controlling the spending on the program."[10]

---

[8] PUB Order 176/19 at 85-86. [emphasis added]
[9] PUB Order 159/18 at 70. [emphasis added]
[10] PUB Order 159/18 at 70-71. [emphasis added]

MAKING A MANITOBA ADVANTAGE – STRETCH TARGETS AND ANALYTIC SUPPORT FOR EXPENDITURES

In the Hydro context, the PUB:

- has encouraged the use of stretch targets to mitigate inflationary pressures,[11] and
- emphasized the need for evidence based information to support operating expenditure decisions.[12]

[11] PUB Order 69/19 at 23-24.
[12] *Ibid.*

IMPLICATIONS OF THE MPI APPLICATION ON CONSUMERS AND MPI RELUCTANCE TO DISCUSS

Surprisingly difficult to get the MPI CEO to address the actual implications of this General Rate application for Manitobans – instead he was quite anxious to tell our clients "the way Manitobans should feel" about this application.[13]

[13] October 19, 2022 Transcript at 254-261 (Williams-Herbelin).

IMPLICATIONS OF THE MPI APPLICATION FOR CONSUMERS – THE OVERALL PREMIUM INCREASE

CAC Manitoba accepts the description of the overall premium change:

- The combined impact of a -0.05% rate decrease with the 5.54% impact of removing the Capital release provision leads to an effective 5.5% overall premium increase.[14]
- Under the MPI application, about 68% of vehicles would see a premium increase with 13% receiving no change in rates.
- The remaining 19% are expected to receive a premium decrease.[15]

[14] November 7, 2022 Transcript at 2487-2488 (McCandless).
[15] November 7, 2022 Transcript at 2487-2488 (McCandless).

IMPLICATIONS OF THE MPI APPLICATION FOR CONSUMERS – DSR

"MPI has also applied for changes to vehicle discounts available through the Driver Safety Rating system by increasing the scale to discounts applied to drivers at DSR plus 9 to plus 14 and plus 16 on the DSR scale, increasing the maximum merit level under the DSR scale from plus 16 to plus 17 in the 2023/'24 policy year, allocating a .9 percent rate decrease to the DSR vehicle discount levels with the most significant needs for rate decreases based on actuarial indications, and making no changes to DSR driver premiums."[16]

[16] November 7, 2022 Transcript at 2489-2490 (McCandless).

AT THE CROSSROADS: A SIMPLE MONOPOLY

Before turning to the assessment of proposed expenditures, it is important to take stock of where MPI sits today.

> "We are, as you very well described, just this utility providing a simple product to Manitobans, and this is our core."[17]

[17] October 19, 2022 Transcript at 286 (Herbelin).

A SIMPLE MONOPOLY WITH A SIMPLE PRODUCT

- MPI Basic is a statutory monopoly immune from the pressures and demands of the competitive marketplace.
- Basic customers have nowhere else to go.[18]
- Manitobans are rightfully attached to their crown monopoly but at its heart it offers:
    - a simple product which (with the exception of PIPP) has changed relatively little over 50 years,[19] and
    - a simple transaction from the ratepayers' perspective with simple choices.[20]

---

[18] October 19, 2022 Transcript at 235 (Williams-Herbelin); November 2, 2022 Transcript at 2089-2090 (Williams-Low).
[19] October 19, 2022 Transcript at 243-246 (Williams-Herbelin).
[20] *Ibid.*

A SIMPLE MONOPOLY WITH A SIMPLE SERVICE

- MPI is not the Winnipeg Regional Health Authority or Manitoba Health.
- It provides auto insurance, adjudicates claims and invests in road safety – nothing more.
- In recent years, MPI has delegated many of its simpler estimating tasks to repair shops through the Physical Damage Re-engineering Project.[21]
- It has contractual arrangements with body shops, automotive trades and medical service providers for non-MPI services.
- Assuming Release 3 and 4 of Project Nova deliver, its delivery of face-to-face services either through brokers or services will diminish as Manitobans turn to on-line service options.[22]

---

[21] October 20, 2022 Transcript at 534-536 (Williams-Giesbrecht).
[22] October 19, 2022 Transcript at 164-167 (Herbelin).

A SIMPLER MONOPOLY WITH GOOD CUSTOMER SATISFACTION AND STAFF SATISFACTION SCORES

- In terms of customer satisfaction over the past 4 years MPI has scored in the good range and sometimes on the margin of the excellent range.
- It outscores the overall home and auto industry by a fair margin.[23]
- In terms of employee engagement it scores over 80 percent.[24]

[23] October 19, 2022 Transcript at 246-248 (Williams-Herbelin).
[24] October 27, 2022 Transcript at 1718 (Williams-Giesbrecht).

AT THE CROSSROADS: A SIMPLE MONOPOLY WITH DECLINING DEMAND

"…biggest drivers for the decrease would be the work-from-home adjustment. Collision frequency continues to be down from pre-pandemic levels."[25] (Oct 20, 2022; Nemec-Low, 565-566)

"…we expect a lower claims frequency on certain aspects of the coverage, including collisions."[26]

"…the total number of accidents, we believe . . . is pretty convincingly declining."[27]

[25] October 20, 2022 Transcript at 565-566 (Nemec-Low).
[26] October 19, 2022 Transcript at 262 (Williams-Herbelin).
[27] November 3, 2022 Transcript at 2333-2335 (Sahasrabuddhe).

AT THE CROSSROADS: A SIMPLE MONOPOLY WITH DECLINING DEMAND

"But, similarly, you'll -- you'll hopefully see a theme that -- that claim frequency is decreasing. And there's lots of reasons for that, some of those reasons -- or many of those reasons have to do with improvements in safety technology and even road -- and -- and even better road safety. And, we see this, not only in Manitoba, but -- but we see it across the country, that there are just fewer -- there are just fewer and fewer claims.

And -- and I know at some point there's certainly the possibility if we have complete autonomous driving that there will be no claims. That if you just sort of think about the, you know, where things are headed to -- to potentially having no claims, we're -- we're just on -- we're -- we're just sort of on the slow path there.
But that's really what's driving the decreased -- the -- the decrease in frequency."[28]

[28] November 3, 2022 Transcript at 2315-2316 (Sahasrabuddhe). [emphasis added]

IS SIGNIFICANT EXPANSION OF THIS SIMPLE MONOPOLY JUSTIFIED?

UNREASONABLE AND IMPRUDENT PRACTICES

- Broken Guardrails of cost control:
  - Dramatic rise in basic operating expenses
  - Significant rise in FTEs despite pre-existing benchmark concerns
  - Inflation busting growth in Corporate Normal Operations expenses
  - MPI explanations of what is driving significant budget growth have been inconsistent veering between MPI 2.0 and KPIs
  - MPI admission that the ephemeral MPI 2.0 is guiding budgeting decisions
  - Little evidence in budgeting documents to suggest Key Performance Indicators, Balanced Scorecard or other good management practices are being used to evaluate proposed expenditures and measure outcomes

THE GUARDRAIL ANALOGY

- MPI choice (Exhibit MPI-86, Appendix 1, slide 6)

> DR. BYRON WILLIAMS: …would you accept a definition of guardrail as a strong fence at the side of a road, middle of an expressway, intended to reduce risk?
>
> MR. MARK GIESBRECHT: I would accept that.[29]

- Guardrails serve more as a baseline or floodgate
- Guardrails for FTEs and Expenses soon broken[30]

---

[29] November 3, 2022 Transcript at 2250 (Williams-Giesbrecht).
[30] November 3,2022 at 2263-2267 (Williams-Giesbrecht).

DRAMATIC RISE IN BASIC OPERATING EXPENSES - $100 MILLION LINES OF EXPENDITURE MATTER

MPI closing argument expressed surprise that CAC Manitoba would focus on this line of expenditure.

Key reasons for focus:

- PUB has long understood – operating expenditures are more within corporate control (unlike claims expenses which have a greater correlation with actual claims)
- A $100 million line of expenditure is worthy of vigilance especially when it has grown by 38% in just 2 years
- New baseline may turn into a springboard for future growth
- MPI forecast for operating expenses in 23/24 departs sharply from:
    - 22/23 basic operating expense budget
    - Last year's forecasat for 23/24 year;
    - Initial 23/24 GRA forecast

DRAMATIC YEAR OVER YEAR GROWTH IN BASIC OPERATING EXPENSES

- Forecast basic operating expenses for 23/24 grew almost 20% year over year[31]
- 17.9 M increase year over year[32] (MPI Exhibit 50, PF1, p. 13). (Oct 20, 2022; Williams-Giesbrecht, 494)
- Basic Operating Expenses forecast to grow 38% in two years from 21/22 A $75,945,000 to forecast 2023/24F $107,488,000[33]
- $31.5 million higher over last two years[34]
- Key drivers are FTE growth and changes in claims allocation

[31] Exhibit MPI-50, PF-1, p 13. See also October 20, 2022 Transcript at 494 (Williams-Giesbrecht).
[32] Exhibit MPI-50, PF-1, p 13. See also October 20, 2022 Transcript at 494 (Williams-Giesbrecht).
[33] Exhibit MPI-50, PF-1, p 13. See also October 20, 2022 Transcript at 492-493 (Williams-Giesbrecht).
[34] Exhibit MPI-50, PF-1, p 13. See also October 20, 2022 Transcript at 492-493 (Williams-Giesbrecht).

DRAMATIC GROWTH IN OPERATING EXPENSES FOR 23/24 AS COMPARED TO LAST YEAR'S FORECAST

- Expenses for 22/23 forecast to be $13.4 M higher than previous year's forecast
- About 17.5% higher than last year's forecast
- Operating expenses for 23/24 forecast to be 37% higher than last year's forecast
- $29 million higher than last year's forecast[35]

[35] PUB (MPI) 2-30, Figure 1; Exhibit MPI-50 at PF-1, p 13; October 20, 2022 Transcript at 495-497 (Williams-Giesbrecht).

OPERATING EXPENSES $11.5 MILLION HIGHER THAN THIS YEAR'S GRA FILING

> DR. BYRON WILLIAMS: Okay. And so, in terms of the projected operating expenses for the '23/'24 year, between late June/early July to October 12th, there's been $11 million -- $11.5 million growth in projected operating expenses for the '23/'24 year, agreed?
>
> MR. MARK GIESBRECHT: Yes.[36]

Expenditures that are this dramatically different in such short times frames demand careful and rigorous justification.

[36] October 20, 2022 Transcript at 498 (Williams-Giesbrecht).

SIGNIFICANT RISE IN FTES DESPITE PRE-EXISTING BENCHMARK CONCERNS

Grounds for concern:

- FTES are a key driver in the growth of operating expenses as well as overall corporate expenses[37]
- on rise from pre-COVID numbers even before 23/24
- benchmark data suggested IT FTE numbers for MPI already high compared to its peers
- benchmark data suggest overall MPI FTEs may be high as compared to other Crown monopolies

[37] October 20, 2022 Transcript at 509 (Williams-Giesbrecht).

FTES RISE FROM PRE-COVID BASELINE DESPITE DECREASING CLAIMS FREQUENCY BOTH PRE AND DURING PANDEMIC

The budget figure for '22/'23 as compared to the pre-COVID year of 2019/'20 has eighty-four (84) more full-time equivalents.[38]

[38] October 19, 2022 Transcript at 263-266 (Williams-Herbelin).

GARTNER BENCHMARK SUGGESTS HIGHER IT FTES THAN PEERS BOTH WITH AND WITHOUT PROJECT NOVA

While MPI CEO doubts the relevance of Gartner IT benchmarking, Gartner benchmarks suggest MPI has (with and without Nova) higher IT spend, FTEs, IT maturity than its peers.[39]

[39] October 19, 2022 Trancript at 197 (McCandless-Herbelin); October 27, 2022 Transcript at 1657-1658 (McCandless-Parti).

CROWN BENCHMARK SUGGESTS HIGHER FTES THAN SGI AND ICBC PEER IN MULTIPLE METRICS

- MPI behind peers on FTEs – premiums written ratio[40]
- MPI has higher FTE counts than peers by multiple metrics[41]

<u>Benchmarking exercise does not reflect 22/23 or 23/24 growth in FTEs</u>[42]

[40] October 20, 2022 Transcript at 594-595 (McCandless-Gandhi).
[41] October 20, 2022 at 596-598 (McCandless-Gandhi).
[42] October 20, 2022 at 608 (Williams-Gandhi).

FOR 23/24 – FTE NUMBERS HAVE BROKEN THROUGH THE GUARDRAILS

Total Normal Ops FTE forecast for 23/24 is 2,269. This is:

- 232 FTEs more than at the time of the GRA (2,269 v. 2037.7)
- 283 more FTES in the 23/24 budget versus 22/23 Budget (2,269 v. 1,986)
- a 14% increase in FTEs between 22/23 and 23/24[43]

[43] Exhibit MPI-55 at slide 14; October 20, 2022 Transcript at 516-517 (Williams-Giesbrecht).

283 FTES EQUALS $36 MILLION

MS. KATHLEEN MCCANDLESS: Thank you. So first, can we just go briefly to MPI Exhibit number 66, response to Undertaking number 13. And MPI was asked to advise what the two hundred and eighty-three (283) -- so that's additional full-time equivalents -- represents in dollar numbers. And if we could go down somewhat. Thank you. So we see here that the response provides that this increase translates into $36 million from the 2022/'23 budget, correct?

MR. MARK GIESBRECHT: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And this increase represents the October update, the -- the hearing update of two hundred and eighty-three (283) full-time equivalents?

MR. MARK GIESBRECHT: Yes, that's true.[44]

[44] November 3, 2022 Transcript at 2199 (McCandless-Giesbrecht). [emphasis added]

NOVA IS NOT THE DOMINANT EXPLANATION FOR THE 283 FTES

- 44 IT consultants on Nova
- No more than 63 of the 283 FTEs can be ascribed to Nova[45]

[45] November 3, 2022 Transcript at 2267-2268 (Williams-Giesbrecht). See also October 27, 2022 at 1704-1706 (Williams-Parti-Giesbrecht).

INFLATION BUSTING GROWTH IN CORPORATE NORMAL OPERATIONS EXPENSES

- Normal Corporate Operations Expenses grew by $44 million or 13.56% between 22/23 and 23/24 budget
- 5.56 % higher than the rate of inflation
- If Normal Corporate Operations Expenses would have tracked inflation between 22/23 and 23/24, they would have been $19 million lower[46]

[46] Exhibit MPI-97, Figure 1. Normal Operations Expense for two years compared to Consumer Price Index

MPI EXPLANATIONS OF WHAT IS DRIVING SIGNIFICANT BUDGET GROWTH HAVE BEEN INCONSISTENT

Mr. Herbelin was unwilling to provide clarity on how MPI develops budgets and measures performance.[47]

[47] October 19, 2022 Transcript at 269-272 (Williams-Herbelin).

MPI EXPLANATIONS OF WHAT IS DRIVING SIGNIFICANT BUDGET GROWTH HAVE BEEN INCONSISTENT

Mr. Giesbrecht tried to suggest it was all about performance metrics:

> DR. BYRON WILLIAMS: And does the Corporation have a process to measure whether they're achieving that, sir? Like, how are you going to measure whether they're doing what they're -- they're promising?
>
> MR. MARK GIESBRECHT: Yes, our different divisions and departments have different operating metrics, different service levels, and -- and they measure to those constantly.
>
> DR. BYRON WILLIAMS: And so, there's a document that will articulate the expectations of the value that will be delivered by this $36 million investment in -- sir?
>
> MR. MARK GIESBRECHT: Yes, there will be numerous documents by different areas. Yes.[48]

This discussion eventually led to MPI Exhibit 86.

[48] October 20, 2022 Transcript at 505-506 (Williams-Giesbrecht).

MPI NOW ADMITS THAT MPI 2.0 IS GUIDING BUDGETING DECISIONS

The 5-year Ambition (MPI 2.0) guided the buildup of the MPI budget. MPI based its budget builds up on its five-year ambition, in alignment with its corporate goals. The three aspiration statements, focused on the long term, guide the budget and are paramount to ensuring that MPI can continue to provide exceptional service to Manitobans.[49]

Guiding questions

- How will the requested new roles support the journey to MPI 2.0?
- What vacancies can be considered when looking at the needs of the corporation (to run and change the business)?[50]

[49] Exhibit MPI-86 at 3.
[50] Exhibit MPI-86, Appendix 2, slide 8.

HOW CAN AN ILL-DEFINED AMBITION DRIVE A RIGOROUS BUDGETARY REVIEW?

From the first questions of PUB counsel in this hearing – there has been an effort to understand or document MPI 2.0.

MPI 2.0 IS ABOUT "EVERYTHING POST NOVA" – BUT HOW CAN IT GUIDE A BUDGET WITH ANY RIGOUR?

"So there are elements of the transformation 2.0 that we have prioritized such as providing a flexible work environment for employees or making sure that we have the data that we require as we move into a more robust and analytical perspective on a number of fronts. But effectively, they are <u>plans that are for the future that have not been necessarily elaborated</u> just yet that depicts that picture of . . . MPI 2.0 in the five (5) year ambition level."[51]

MR. SIDDHARTHA PARTI: So MPI 2.0 I do not believe is a document, an aspirational state for MPI. It's – <u>it's about everything post-NOVA</u>… no, we do not have an MPI 2.0 document, as such.[52]

---

[51] October 19, 2022 Transcript at 182 (McCandless-Herbelin).
[52] October 27, 2022 at 1751-1752 (Nemec-Parti).

LITTLE EVIDENCE OF EVALUATION OF OUTCOMES

There is little evidence in budgeting documents to suggest Key Performance Indicators, Balanced Scorecard or other good management practices are being used to evaluate proposed expenditures and measure outcomes.

WHERE ARE THE KEY PERFORMANCE INDICATORS?

CAC Manitoba and others spent much of the hearing trying to find the KPIs that are allegedly guiding budgeting decisions.

CAC Manitoba sought to identify and understand:

> "…performance measures and targets, including for IT, the process how they're set and developed, and how they're measured and adjusted to…"[53]

CAC Manitoba did so because for a number of years, MPI expenditure decisions were driven by a rigorous and measured approached to the KPIs as way to set targets and evaluate performance.

---

[53] October 27, 2022 Transcript at 1719 (Williams-Giesbrecht).

WHERE ARE THE KEY PERFORMANCE INDICATORS?

Leaving aside Exhibit 86, this is what we know:

- MPI does not have a target for benchmarking performance on FTEs/gross premiums written;[54]
- FTEs are not a KPI for ministerial reporting;[55] and
- KPIs are alleged to be 'scattered' throughout the application.[56]

[54] October 20, 2022 Transcript at 596 (McCandless-Gandhi).
[55] October 27, 2022 Transcript at 1718 (Williams-Giesbrecht).
[56] October 27, 2022 Transcript at 1718 (Williams-Giesbrecht).

A DEARTH OF KEY PERFORMANCE INDICATORS IN THE KEY BUDGETARY DOCUMENTS

Exhibit 86 – a 325 page behemoth in response to:

> *Undertaking #10 To the extent that there are expectations or indicators that Mr. Giesbrecht expected to guide the budget deliberations for the '22/'23 and '23/'24 years, to provide same.*

MPI spent 2 weeks responding to the undertaking. Yet, KPIs were nearly impossible to find in MPI documents with less than 5/325 slides attempting to apply them in the context of a competitive line of business.

And as Mr. Giesbrecht explained, "This is one but I wouldn't expect you'd see this in…Basic…"[57]

---

[57] November 3, 2022 Transcript at 2261 (Williams-Giesbrecht). See also November 3, 2022 Transcript at 2286-2288 (Guerra-Giesbrecht).

THIS IS NOT HOW RIGOROUS BUSINESS DECISIONS ARE MADE AND DOCUMENTED

This is a far departure from the admittedly vigorous approach to Key Performance Indicators that MPI took only a few years ago.

THE DRAMATIC GROWTH IN MPI EXPENSES AND FTES IN THE 23/24 BUDGET IS NOT REASONABLE OR PRUDENT

The alleged FTE guardrails have been obliterated.

With declining collision claims frequency, with declining WI claims frequency, with the reduction in estimating pressure flowing from PDR, with the pending delivery of on-line services, what is wrong with how MPI is managing its business that FTES have to grow by 14%?

Operational cost containment initiatives and measures have faded from the GRA and need to be returned with increased vigor and determination organization-wide.

RECOMMENDED FINDINGS

Financial Management

- The current benchmarking practices of MPI are weak (Crown Benchmarking) or dated (Gartner-IT) and need to be strengthened to enable MPI to attain optimum performance across all areas.
- KPIs or analogous measures can be a critical tool to establish performance measures and targets, including for IT.
- Current MPI KPI's seem to be focused on providing material for presentations but do not appear to drive organizational performance improvements.
- MPI should differentiate between lagging and leading KPI's to drive performance and add value to MPI.

RECOMMENDED FINDINGS

Reasonableness and Prudence of Expenditures

- Forecast Basic Operating Expenses for 23/24 are unreasonable.
- The growth in MPI FTEs between the 2022/23 year and the 23/24 year is unreasonable.
- More reasonable and prudent management of FTEs and Expenses and the use of stretch targets could achieve savings in excess of 2% in the revenue requirement.
- There are other budgetary "place holders" that do not appear to have been rigorously developed and which could provide opportunities for prudency including the $5M placeholder budget in special services for achieving MPI 2.0[58] and the $2M in Loss Prevention for to-be-determined projects.[59]
- To send a prudency signal, the current revenue requirement for MPI should be reduced by between 2% and 3%.

[58] October 20, 2022 Transcript at 532-533 (Williams-Giesbrecht).
[59] October 26, 2022 Transcript at 1373 (Triggs).

SELF-INFLICTED HARM, HIGH RISK AND PROJECT NOVA

"We are entering the dead zone and we have to go through."[60]

CAC Manitoba places heavy reliance on its written and oral arguments supporting its confidential closing submissions.

[60] October 19, 2022 at 309-311 (Gabor-Herbelin). [emphasis added]

A HIGH RISK PROJECT

While the evidence of PwC in CSI is to be preferred to the evidence of MPI on any points of material disagreement, the evidence of the public record confirms that:

- Competing corporate priorities continue to place the achievement of Project Nova outcomes in terms of functionality, costs and benefits at risk;
- Senior non-Nova executives appear to be "late to the table" in assuming ownership of Project Nova;
- Project Nova governance challenges continue to place the achievement of Project Nova outcomes in terms of functionality, costs and benefits at risk;
- The untendered contract to McKinsey of February, 2022 was unreasonable;
- The achievement of current expectations of Project Nova in terms of functionality, benefits and NPV continues to be at high risk;
- Additional cost pressures on Project Nova may arise from corporate messaging which might suggest that Project Nova must be completed at all costs.
- Further review of issues related to the allocation of costs of Project Nova is necessary.

FROM NOVA TO SUPERNOVA – LAST YEAR'S WARNING

"The Board acknowledges that MPI continues its efforts to contain costs, but finds that there is a significant risk that its IT initiatives will increase in scope and cost. The Board noted its concern in Order 1/21 with the budget overruns early in Project Nova. The re-baselined business case has increased the project budget, but the costs outlined in the re-baseline may not be a reliable indicator of future project costs, given MPI's now planned move towards MPI 2.0 through Supernova."[61]

su·per·no·va - a star that suddenly increases greatly in brightness because of a catastrophic explosion that ejects most of its mass.

[61] PUB Order 134/21 at 107.

COMPETING CORPORATE PRIORITIES

- CAC Manitoba Confidential Closing Submission Slides 24-29

DR. BYRON WILLIAMS: And you'll agree that that was one (1) of the concerns of Manitoba Public Insurance shortly after Project Nova was initiated with its competing priorities?

MR. SHAYON MITRA: Yes.[62]

[62] October 31, 2022 Transcript at 1899 (Williams-Mitra).

SENIOR NON-NOVA EXECUTIVES APPEAR TO BE "LATE TO THE TABLE" IN ASSUMING OWNERSHIP OF PROJECT NOVA

Sponsor Steering Committee includes the CEO, the COO, the CIO was announced June 30, 2022 and first met on July 21 and 26, 2022.[63]

Given the dramatic escalation of costs, decline in benefits and NPV, and challenges with scheduling, we would have expected senior executive ownership of this project sooner in the process.

[63] Exhibit MPI-106. See also October 31, 2022 Transcript at 1874-1876 (Williams-Mitra).

THE UNTENDERED CONTRACT TO MCKINSEY OF FEBRUARY, 2022 WAS UNREASONABLE

Tendering is a practice to ensure value for money for public entities, as well as to provide fairness in the competitive market.[64]

- Multimillion dollar untendered contract for McKinsey issued Feb 2022 to serve as project General Contractor[65]

- MPI has defended this untendered contract on the grounds that it could not afford the delay involved with initiating a tender process.

[64] October 31, 2022 Transcript at 1887-1888 (Williams-Mitra).
[65] October 31, 2022 Transcript at 1918-1920 (Williams-Mitra).

MPI AND BOARD'S TECH COMMITTEE WAS AWARE OF CONCERNS THAT MPI COULD NOT FULFIL THE GENERAL CONTRACTOR ROLE BY THE SUMMER OF 2021

"But in mid-2021, MPI was coming to grips with the fact that the complexity and scale of Project Nova was greater than anticipated…"[66]

"…having concerns in terms of both the timing and the budget for Project Nova in the summer of 2021…"[67]

"By summer of 2021, Manitoba Public Insurance was -- was concerned that it was not competent to fulfil the entirety of that role."[68]

Technical Committee of the Manitoba Public Insurance board was advised that Manitoba Public Insurance was struggling in its role as general contractor in August – September 2021.[69]

[66] October 31, 2022 Transcript at 1891-1897 (Williams-Mitra).
[67] *Ibid.*
[68] *Ibid.*
[69] *Ibid.*

MPI IS AWARE OF BUT DID NOT EXPLORE ACCELERATED TENDER PROCESS

DR. BYRON WILLIAMS: Would it be fair to say that, in the time period between the summer of 2021, when concerns about the general contractor role first emerged, and February 2022, that Manitoba Public Insurance did not contemplate an accelerated purchasing proj -- process, that would have allowed for an expedited review of tenders?

(BRIEF PAUSE)

MR. SHAYON MITRA: Subject to check, but I don't believe we evaluated that option.[70]

[70] October 31, 2022 at 1918-1920 (Williams-Mitra).

THERE WERE ELITE FIRMS WHO COULD HAVE PARTICIPATED IN THE TENDER PROCESS FOR GENERAL CONTRACTOR

DR. BYRON WILLIAMS: And, both [Deloitte and PricewaterhouseCoopers] would be world class consulting organizations, with significant experience in both systems integration and insurance? […] And Deloitte was the firm that undertook the original project scoping and business planning for the LSM or Legacy System Modernization, back in 2018, sir? […]

MR. SHAYON MITRA: Correct. Yes.

DR. BYRON WILLIAMS: And by the summer of 2021, PwC had been on-site, with Project NOVA, for a couple of years by that time. Agreed?

MR. SHAYON MITRA: Agreed. Yes.

DR. BYRON WILLIAMS: And both PwC and Deloitte would have significant familiarity with Project Nova. Agreed?

MR. SHAYON MITRA: Agreed.[71]

---

[71] October 31, 2022 Transcript at 1916-1918 (Williams-Mitra)

THE ACHIEVEMENT OF CURRENT EXPECTATIONS OF PROJECT NOVA CONTINUES TO BE AT HIGH RISK

See CAC Manitoba Confidential Closing Argument at slides 49 – 56.[72]

Among the key factors driving the ongoing high risk of Nova are:

- Enhanced complexity of R3 compared to R 1 or 2[73]
- Uncertainty in brokers negotiations[74]
- Pre-discovery/discovery not yet done for largest release[75]
- There is a risk of further schedule slippage that would impact costs[76]

Appropriate to ask if an IT project ever got less expensive during pre-discovery and discovery. Great uncertainty continues in terms of ability to meet deadlines, to control costs and to achieve promised benefits.

[72] See also October 19, 2022 Transcript at 298 (Gabor-Herbelin)); October 31, 2022 Transcript at 1883-1884 (Williams-Mitra).
[73] October 31, 2022 Transcript at 1879-1880 (Williams-Dessler).
[74] October 20, 2022 Transcript at 424-429 (McCandless-Gandhi).
[75] October 31, 2022 at 1787 (Mitra).
[76] October 31, 2022 at 1848-1851 (McCandless-Ramirez).

ADDITIONAL COST PRESSURES ON PROJECT NOVA MAY ARISE FROM CORPORATE MESSAGING

MPI has abandoned its objective achieving positive or neutral NPV for Project Nova

In Dec 2020 the tech committee was only prepared to approve budget increases up to $0.00 NPV.[77]

Nova now has a NPV of negative $189M.[78]

[77] October 31, 2022 Transcript at 1857-1858 (McCandless-Ramirez). See also the December 18, 2022 Technology Committee meeting minutes.
[78] October 31, 2022 Transcript at 1912 (Williams-Mitra).

MPI MAY BE INADVERTENTLY SIGNALLING THAT COST IS NO OBJECT WHEN IT COMES TO PROJECT NOVA

> BOARD CHAIR GABOR: Okay. But is there -- it sounds like there -- you know, looking at the summit, it looks like you have to go for it no matter what. There isn't pulling back from this.
>
> MR. ERIC HERBELIN: Yeah, I mean, if1 you take the analogy of the summit, we are entering the dead zone and we have to go through.
>
> BOARD CHAIR GABOR: Yeah.
>
> MR. ERIC HERBELIN: Yeah.[79]

This type of messaging may be like a moth to a consultant's flame.

It reinforces the necessity of independent governance oversight and rigorous PUB review.

[79] October 19, 2022 Transcript at 309-311 (Gabor-Herbelin).

THE DIVERSE PRESSURES ON NOVA SUCCESS

DR. BYRON WILLIAMS: And would it be fair to characterize this project given its size, and its financial challenges, and its timing challenges as a high-risk project, Mr. Mitra?

(BRIEF PAUSE)

MR. SHAYON MITRA: Yes, agreed.[80]

[80] October 31, 2022 Transcript at 1931 (Williams-Mitra).

PUB SHOULD DEFER DETERMINATION OF COST ALLOCATION AND REQUEST INDEPENDENT REVIEW OF COST ALLOCATION METHODOLOGY

- Cost allocation methodology changed; less allocated to Basic[81]
- No external validation of the appropriateness of changing this cost allocation[82]

"…current state of the cost allocation approach, Mr. Mitra, that the billion dollar Basic line of business is currently allocated less than 20 percent of Project Nova's costs?"[83]

- Allocation made January/February of 2022.[84]

[81] October 31, 2022 Transcript at 1921-1926 (Williams-Mitra).
[82] October 31, 2022 Transcript at 1923-1926 (Williams-Mitra).
[83] October 31, 2022 Transcript at 1921-1926 (Williams-Mitra).
[84] October 31, 2022 Transcript at 1923-1926 (Williams-Mitra).

PUB SHOULD DEFER DETERMINATION OF COST ALLOCATION AND REQUEST INDEPENDENT REVIEW OF COST ALLOCATION METHODOLOGY

While Basic ratepayers enjoy an evidence based break, there is an important principle of fairness.

Timing of decision is somewhat propitious coming just at the same moment as the deterioration of the Project Nova business case was becoming readily apparent.

In the absence of external validation, this allocation should be looked at with care.

RECOMMENDED FINDINGS

- Project Nova is a high risk project by virtue of its complexity, financial challenges and timing challenges.
- The ability of Project Nova to meet critical deadlines has been put at risk by competing pressures on capacity from a multitude of corporate projects.
- The capacity of Project Nova to meet critical deadlines has been put at risk by challenges in engaging senior non-Nova executives.
- MPI Tech Committee was aware of concerns that MPI could not fulfil the general contractor role by the summer of 2021
- MPI is aware of but did not explore accelerated tendering process.
- It was imprudent to issue an untendered contract for McKinsey in February, 2022.
- There is uncertainty whether the project can be delivered on the existing re-baselined budget, timeline and NPV.

RECOMMENDED FINDINGS CONT'D

- That the PUB should seek confirmation by MPI of whether it has retained an Independent Governance Advisor (IGA) and if it has, the PUB should ask that the IGA appear as a witness at the next GRA.
- If no IGA is retained, the PUB should request an independent assessment of the risks and business case for Project Nova for the next GRA.[85]
- PUB should recommend to MPI board that it direct MPI to contain costs within the 2022 re-baseline.
- PUB should defer determination of cost allocation and request independent review of cost allocation methodology.

[85] See, for example PUB Order 128/15 at 5

THE PDR PRECEDENT

The Board is also concerned about the impact of the delay in full implementation of the Physical Damage Re-engineering (PDR) Project to 2019/20, including the risks to the Corporation should further difficulties be encountered. It orders MPI to file in next year's GRA an independent assessment on the development and roll-out of the PDR Project.[86]

Over the last number of years MPI has pursued IT projects targeted towards modernizing its IT footprint, including the following initiatives: Data Centre Optimization, IT Optimization, Driving Ahead in Real Time (DART), Information Security Strategy, Broker Refresh, PDR, Human Resource Management System (HRMS) as well as other initiatives. This year MPI reported to the Board with respect to the following projects: PDR Project, Information Technology Optimization Application High Availability Project, Information Security Strategy and Roadmap Program, HRMS Phases 3 & 4, Enterprise Data Masking Project, Legal Management Project, Predictive Analytics Project, Corporate Learning Management System Project and High School Driver Education Redevelopment Project.[87]

[86] PUB Order 128/15 at 5.
[87] PUB Order 128/15 at 27.

THE PDR PRECEDENT

Given the significant budgeted PDR project cost ($65 million), the Board is concerned about the impact of the delay in full implementation to 2019/20, including the risks to the Corporation should further difficulties be encountered. The Board orders that MPI file with the Board at next year's GRA an independent assessment on the development and roll-out of the PDR Project, including the progress of the pilots, the timing of full implementation, the costs of the project and the anticipated savings to be derived from the project. Prior to proceeding with this independent assessment, the Board orders MPI to file with the Board the proposed Terms of Reference of the assessment for approval by the Board.

The Board understands MPI's reluctance to share information that may impact its negotiations with the industry and will proceed with an in-camera briefing as requested by CAC, relative to the results of the distributed estimating pilot project prior to the next GRA, and no later than May 31, 2016. The Board makes this order because of the significant expected PDR Project cost and the delay disclosed by the Corporation.[88]

[88] PUB Order 128/15 at 37.

INVESTMENT - HIGH RISK CHOICES – LOW RETURN CONSTRAINTS

- Contrary to the submissions of MPI, the critical issue with investments is not about who can predict inflation better.
- At issue in terms of reasonableness and prudence are high risk choices and low return constraints adopted by MPI in terms of its existing investment policy.
- Ratepayers are currently paying a price for these unreasonable choices in terms of unreasonable risk and constrained returns.
- While some of the high risk choices reflected in the existing investment policy appear likely to be eliminated in the next investment policy, MPI continues to impose certain constraints that undermine portfolio optimization.
- The mechanistic MCT calculation may deter portfolio optimization at the expense of portfolio optimization, risk reduction and return opportunities.

THE HIGH RISK CHOICE UNDERLYING THE CURRENT MPI INVESTMENT POLICY - INFLATION

Of all the MPI lines of business, Basic insurance has the greatest exposure to inflation risk.[89]

> MR. ERIC HERBELIN: Inflation has an impact on a number of aspects of the Corporation, one being our operating expenses and our wages; one being on the cost of physical damage claims that are short- tail, you know, rather shor -- immediate in nature. More importantly, inflation really has an impact on those PIPP benefits that are being subject to indexation.[90]

As Mr. Bunston confirmed a significant amount of the long-term liabilities of Manitoba Public Insurance are impacted by inflation:

> MR. GLENN BUNSTON: Yes. So 3 percent are directly indexed to Manitoba CPI and the remaining 16 percent not directly tied to increases in CPI, but impacted by increases in healthcare inflation, which is different than Manitoba CPI. Often higher than Manitoba CPI.[91]

[89] October 24, 2022 Transcript at 981-982 (Williams-Bunston). [emphasis added]
[90] October 19, 2022 Transcript at 250-251 (Williams-Herbelin).
[91] October 24, 2022 at 979-981 (Williams-Bunston)

THE LIABILITY PORTFOLIO IS THE FIRST STEP IN MODERN ALM

The core first step in modern asset/liabilities studies developing a benchmark liability portfolio.

> MR. GLENN BUNSTON: Yes, the first step is to -- to model the liabilities and then develop a asset mix that responds to the risks and -- and manages the risks associated with those liabilities.[92]

> MR. GLENN BUNSTON: Yes, the liability benchmark again should reflect the characteristics of the underlying liabilities, in this case, or liabilities that are long in duration and inflation sensitive, so yes.[93]

[92] October 24, 2022 Transcript at 984-986 (Bunston).
[93] *Ibid*.

MPI PREFERRED THE NOMINAL WORLD TO THE REAL WORLD IN DESIGNING ITS CURRENT INVESTMENT PORTFOLIO

In determining its 2018 Policy,

- MPI could look at a liability benchmark that was focused on interest rate and inflation sensitivities, i.e., a re -- real liability benchmark.
- Or focus just focus on interest rate sensitivity, a nominal liability benchmark.
- MPI chose to model a nominal liability portfolio rather than one reflective of real interest rate risk (ie after inflation).[94]
- The nominal liability portfolio did not appropriately match the risk of basic liabilities including their vulnerability to long term inflation.[95]

[94] October 24, 2022 Transcript at 984-986 (Bunston).
[95] October 24, 2022 Transcript at 990-991 (Williams-Bunston).

SELECTION OF THE LIABILITY PORTFOLIO – IS CRITICAL TO THE OUTCOME OF PORTFOLIO OPTIMIZATION

DR. BYRON WILLIAMS: Mr. Bunston, it would be fair that the asset allocations that flow from an optimizing process depend materially on whether a nominal or real liability benchmark is selected.

MR. GLENN BUNSTON: Yes, that'd fair.

DR. BYRON WILLIAMS: So, the choice of a nominal liability benchmark would lead to different optimization choices, than the choice of a real liability benchmark.

MR. GLENN BUNSTON: Yes.[96]

[96] October 24, 2022 Transcript at 986-987 (Williams-Bunston).

THE 2018 BENCHMARK LIABILITY DID NOT REFLECT ITS REAL WORLD RISKS

- Not a case of predicting inflation
- It is a fundamental principle of good practice portfolio design that your starting point has to be a liabilities portfolio that reflects risks.
- MPI broke Asset Liability Matching Good Practice Rule # 1
- This fundamental design flaw – exposed MPI to undue risk

MPI SUFFERED SHARP LOSSES IN ITS NOMINAL BOND PORTFOLIO IN THE HIGH INFLATION ENVIRONMENT OF 21/22

- $127 million loss in marketable bonds in 21/22[97]

[97] October 24, 2022 Transcript at 967-970 (Williams-Bunston).

THE OPPORTUNITY COST TO CURRENT CONSUMERS BY THE CHOICES UNDERLYING THE 2018 POLICY

- The selection of the nominal liability portfolio led to an optimization process that excluded RRBs
- The MPI Board also made a policy choice to constrain the Basic investment portfolio and exclude equities
- In the current year, the impact of these choices may be as much as 25 million (comparison of D portfolio of similar risk but higher return than current portfolio of MPI)[98]
- In effect, the 2018 Policy accepted undue risk but also denied MPI ratepayers important opportunities.

[98] October 24, 2022 Transcript at 1009-1010 (Williams-Bunston).

MPI NOW ACKNOWLEDGES THE IMPORTANCE OF REAL INFLATION RISK

DR. BYRON WILLIAMS: And, of course, that's why, going forward, when you're looking at the design of your investment portfolio, you want to be alive to -- to the real risks of inflation. Agreed?

MR. ERIC HERBELIN: Yeah. We -- we have been alive and we want to continue on that for sure.[99]

2022 ALM study used real liability benchmark.[100] (Oct 24, 2022; Bunston, 847)

[99] October 19, 2022 Transcript at 250-251 (Williams-Herbelin).
[100] October 24, 2022 Transcript at 847 (Williams-Bunston).

IMPROVEMENTS TO MPI PORTFOLIO GOING FORWARD

As compared to the 2018 policy, it appears MPI will be taking an approach that allows for materially lower risks with some prospect for improved returns

MPI has:

- Accepted the need to better match the benchmark liability portfolio to its actual risks (inflation and interest)
- This will lead to optimizations based upon real (after inflation) interest rates and the inclusion of Real Return Bonds
- MPI has eliminated the constraint that the portfolio should be 100% bonds
- With better optimization due to the elimination of this inefficient constraint, MPI appears to have accepted lower risk with the opportunity for somewhat higher returns

BUT INEFFICIENT CONSTRAINTS APPEAR TO REMAIN IN THE GOING FORWARD MPI PORTFOLIO

Mercer's 2022 analysis demonstrated an opportunity for MPI to achieve high returns at comparable or lower risks to its current portfolio including by diversifying its portfolio to include equities, alternatives or levered bonds.[101]

MPI Board continues to adopt inefficient constraint of no equities – no levered bonds.[102]

---

[101] November 2, 2022 Transcript at 2171-2174 (Williams-Bunston).
[102] October 24, 2022 Transcript at 934-935 (Watchman-Bunston) ; 1001 (Williams-Bunston).

THE OPPORTUNITY COST FOR MB RATEPAYERS IS DEMONSTRATED BY PEER REVIEW

From 2015 to 2019, in terms of investment gross returns of ICBC, Saskatchewan Government Insurance, Workers Compensation Board of Manitoba, the Civil Service Superannuation Board, and the Teachers' Retirement Allowance Fund against returns of Manitoba Public Insurance

… for the asset mixes with higher allocations to fixed income generated, on average, lower return…

MPI, of the six (6) companies compared, had the largest allocation towards fixed income, compared to its peers. All but ICBC outperformed MPI.[103]

Based on updated information, in the fiscal year '21/'22, MPI investment portfolio underperformed SGI by 2.9 percent.

[103] October 24, 2022 Transcript at 992-996 (Williams-Lloyd-Bunston).

THE MERCER ANALYSIS ALSO REVEALED A POTENTIALLY PERVERSE IMPACT OF THE ADOPTION OF THE MCT AS A FINANCIAL TARGET FOR MPI

DR. BYRON WILLIAMS: In terms of your assessment of the market risk of the two (2) portfolios, portfolio C had significantly less surplus volatility than portfolio A?
MR. NEIL LLOYD: That's correct.
DR. BYRON WILLIAMS: Mathematically, Mr. Lloyd, when we go down to the minimum capital required, you'll see that the minimum capital required for the lower risk is 65.4 million. You see that, sir?
MR. NEIL LLOYD: That's correct.
DR. BYRON WILLIAMS: And you'll see that the minimum capital required for the current portfolio is 16.8 million?
MR. NEIL LLOYD: That's correct.
DR. BYRON WILLIAMS: And so, that would be a function of the mechanics of the MCT analysis?
MR. NEIL LLOYD: That's correct, yes.
DR. BYRON WILLIAMS: Okay. But in terms of the Mercer analysis of risk, portfolio C brings significantly less surplus volatility than -- than portfolio A?
MR. NEIL LLOYD: That's correct.[104]

Prudent and reasonable investment decisions might be deterred.

[104] October 24, 2022 Transcript at 1011-1013 (Williams-Lloyd).

AN EXTREME EXAMPLE OF THE MCT LIMITATIONS

DR. BYRON WILLIAMS: A hundred percent 'T' bills into your portfolio.

MR. GLENN BUNSTON (by TEAMS): Yes, the risk wouldn't change based on the weight.

Treasury Bills have no risk, even if 100% weighted in the portfolio.[105]

[105] November 2, 2022 Transcript at 2179-2180 (Williams-Bunston).

THE MCT MEASURES ACTUAL CAPITAL USING ACCOUNTING STANDARDS

DR. BYRON WILLIAMS: And so, the risk metric used for establishing the MCT capital requirements is based on the OSFI guidelines, correct?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: And the MCT capital requirements focus on reserves on the balance sheet, agreed?

MS. CARA LOW: The requirements? Yes. Yeah.

DR. BYRON WILLIAMS: In essence, actual capital is measured using accounting standards?

MS. CARA LOW: Yes.[106]

[106] Exhibit 73 OSFI Guidelines as inputs to MCT calculation. See also November 2, 2022 Transcript at 2174-2179 (Williams-Low).

CAC MANITOBA INVESTMENT RECOMMENDATIONS

Long Standing Recommendations

Management

1. Manage long-term sustainability (return/surplus risk), not short-term earnings volatility.

Constraints

2. Constraints should be reviewed and relaxed, to avoid lower risk-adjusted returns.
   (Constraints never increase expected risk-adjusted returns.)
3. Rationale for constraints should be explicit.

CAC MANITOBA INVESTMENT RECOMMENDATIONS

New Recommendations

Portfolio Management Constraints

1. Remove "no equities" constraint in Basic Portfolio optimizations and the decision-making process, given the cost of this constraint (i.e., lower returns for the same surplus risk).
2. Relax the "no leverage" constraint, as the A/L Study supports its use; explore ways to manage any additional risks associated with the prudent use of leverage (e.g., counterparty risk and liquidity risk).*

   * *The Investment Policy Statement states that leverage associated with real estate and infrastructure investments is acceptable; however, leverage has not been allowed to finance RRBs or other fixed income assets.*

CAC MANITOBA INVESTMENT RECOMMENDATIONS

Portfolio Management Constraints continued

3. Remove/relax other costly constraints, where cost is measured as the foregone returns at MPI's tolerance for surplus risk. (Expectations and recent experiences show that this cost is high.)
4. Be more transparent regarding the rationale for imposing various constraints, which should be supported by appropriate evidence (e.g., empirical research).

CAC MANITOBA INVESTMENT RECOMMENDATIONS

Risk Management

5. Evolve the understanding of other portfolio risks (e.g., liquidity risk and counterparty risk).

   It appears that MPI's justification for imposing certain constraints (e.g., "no leverage") relates to these other types of risk, yet MPI has not provided any evidence related to either: a) the materiality of these risks (adverse impact and probability of occurrence); or b) the compensating controls for managing these risks at acceptable levels – as many other funds have successfully done.

CAC MANITOBA INVESTMENT RECOMMENDATIONS

Risk Management continued

6. Adopt a decision-making process that is based primarily on economic considerations (i.e., market values and cash flows), rather than accounting ones.

   Mercer acknowledged that accounting changes (e.g., IFRS 17) were not a material consideration in the A/L Study, given the basis for optimizing the portfolio (i.e., market risks, not accounting risks).

   In the case of the Pension Plan, however, MPI is seeking to change the funding from "payment funding" to "pre-funding", stating that MPI's primary motivation for seeking this change is the reduction of financial statement volatility. MPI noted in the GRA (INV.10.2 Pension Expense) that there may be an accounting gain (or loss) that will impact the total equity position of MPI (and Basic), but MPI did not provide any economic analysis related to this decision (e.g., net present value analysis).

CAC MANITOBA INVESTMENT RECOMMENDATIONS

Integration of Capital Management with Portfolio Management

7. Adopt risk metrics and methodologies for capital reserve management (RSR) that are more consistent with the metrics and methodologies used in A/L Studies.

Capital Management

8. Heed OSFI's advice by a) conducting MPI's Own Risk and Solvency Assessment (ORSA); and b) setting capital (RSR) targets without undue reliance on regulatory capital measures, such as MPI's use of OSFI's Standard Approach (i.e., MCT).

MODERNIZING CLAIMS FREQUENCY – IMPORTANT ADMISSIONS BY MPI

> DR. BYRON WILLIAMS: And when we see those brackets, that's telling us that, in hindsight, at least one (1) of those assumptions was probably too conservative, agreed?
>
> MS. CARA LOW: I would agree. But these are longtail claims. There's a lot of uncertainty. The more mature the block of claims get, the less uncertainty there is. **So, you always build in a little ounce of conservatism because we don't know how the claims are going to play out.**[107]

An important admission by MPI which asks:

- Is "a little ounce of conservatism" consistent with the obligation to provide a best estimate and one that is without bias?

This helps to explain the ultimate conclusions of independent expert, Oliver Wyman.

[107] October 21, 2022 Transcript at 772 (Williams-Low). [emphasis added]

OTHER IMPORTANT ADMISSIONS BY MPI DURING CROSS EXAMINATION

- MPI uses linear trend for weekly indemnity frequency and assumed that frequency decreased at a rate that is constant in amount.[108]
- MPI did not calculate regression statistics for weekly indemnity frequency.[109]
- Collision severity – MPI uses a simple average for trend and relies on one data point.[110]

[108] October 21, 2022 Transcript at 774-778 (Williams-Low).
[109] October 21, 2022 Transcript at 781-782 (Williams-Low).
[110] October 21, 2022 Transcript at 782-792 (Williams-Low).

MODERNIZING CLAIMS INCURRED FORECASTING – THE INDEPENDENT INSIGHTS OF OLIVER WYMAN

The just and reasonable rates analysis also requires us to ask, "Are forecasts reasonably reliable?"[111]

To assist in this analysis, CAC Manitoba retained internationally recognized actuarial firm Oliver Wyman to assist.

Oliver Wyman brings to this endeavour the insight garnered by its advisory work in every Canadian province except Quebec.

Oliver Wyman offers its Canadian services both to independent rate regulators in jurisdictions such as Ontario and Saskatchewan as well as other public organizations such as CAC MB.

Its outstanding advisory and teaching skills are recognized by organizations such as The Canadian Automobile Insurance Rate Regulators Association where they appeared just prior to appearing at the MPI GRA.

[111] PUB Order 98/14 at 28.

OLIVER WYMAN OVERVIEW – THERE ARE OPPORTUNITIES TO MODERNIZE THE MPI APPROACH TO CLAIMS INCURRED FORECASTING

The MPI approach to claims incurred forecasting requires modernization especially in light of the significance of claims incurred to the ultimate rate.

The MPI approach would benefit from a more rigorous and transparent analytic approach.

There appears to be common ground with MPI and with the Canadian auto insurance experience more broadly that claims frequency is trending downward due to variety of factors including better vehicle safety technology, road safety investments and persons working more frequently at home.

KEY MESSAGES FROM OLIVER WYMAN – ON 32 OF 40 CASES – NO MATERIAL DIFFERENCE IN CLAIMS INCURRED EXPECTATIONS EXISTS

Oliver Wyman examined 40 claims incurred forecasts of MPI with a view to circumstances where their views on projected claims incurred differed materially from those of MPI.

In 32 cases, Oliver Wyman did not identify a materially different view on projected claims incurred than MPI – this does not imply an endorsement of the MPI forecasting approach in all 32 cases.

In some of the 32 cases, Oliver Wyman may have estimated a lower result in terms of claims incurred. In others, a higher result but based either on statistical analysis or visualization, the differences in projected claims incurred was not expected to be material.[112]

[112] November 3, 2022 Transcript at 2396-2397 (Sahasrabuddhe).

KEY MESSAGES FROM OLIVER WYMAN – THERE ARE 8 FORECASTS OF CLAIMS INCURRED PERILS – WHERE THE METHODOLOGY OF MPI APPEARS UNREASONABLE AND THE OUTCOME FOR CLAIMS INCURRED IS MATERIAL

There are 8 perils where the MPI forecast of claims incurred appears excessive and material.

Assuming the PUB accepts the Oliver Wyman proposed methodology in all 8 cases, the claims incurred forecast would be reduced by about 5%.

COLLISON FREQUENCY

MS. KARA MOORE: And what effect would that reduction have, if any, on the findings -- or on Oliver Wyman's findings that MPI's frequency projection is overstated for 2023/'24 and 2024/'25?

MR. RAJESH SAHASRABUDDHE: If we look back at -- at our table for total loss frequency, probably just estimate it based on that. So, here, so we are at, again, different, presumably a different normalizing factor here, but the observed is around nineteen (19), that's the current projection for 2022/'23. If -- if I -- if I convert the scale, I -- I -- I think that's how -- I think that's how that works. The 1.9 would convert to -- to nineteen (19) in this -- in this table. So, if I'm doing that correctly, I -- I think, again, it argues for the idea that observed frequency is -- is coming in less hot than they had projected.[113]

[113] November 3, 2022 Transcript at 2446-2448 (Moore-Sahasrabuddhe).

OLIVER WYMAN'S CONCLUSIONS ARE SUPPORTED BY ADMISSIONS BY MPI DURING THIS HEARING

> MS. CARA LOW: Yeah. We know the frequency continues to be lower than the 5 percent adjustment, but we were still uncertain terms -- times, I should say. Even coming into work most days there's more traffic. We do know that ICBC and SGI are seeing very similar decreases in their collision frequency. And they're also being very conservative in dropping the collision frequency.[114]

> MS. CARA LOW: Overstated. Like, we're assuming collision frequency is 5 percent lower because people working from home. It could actually be even -- it could go lower than that if we were to base it on today's claims.[115]

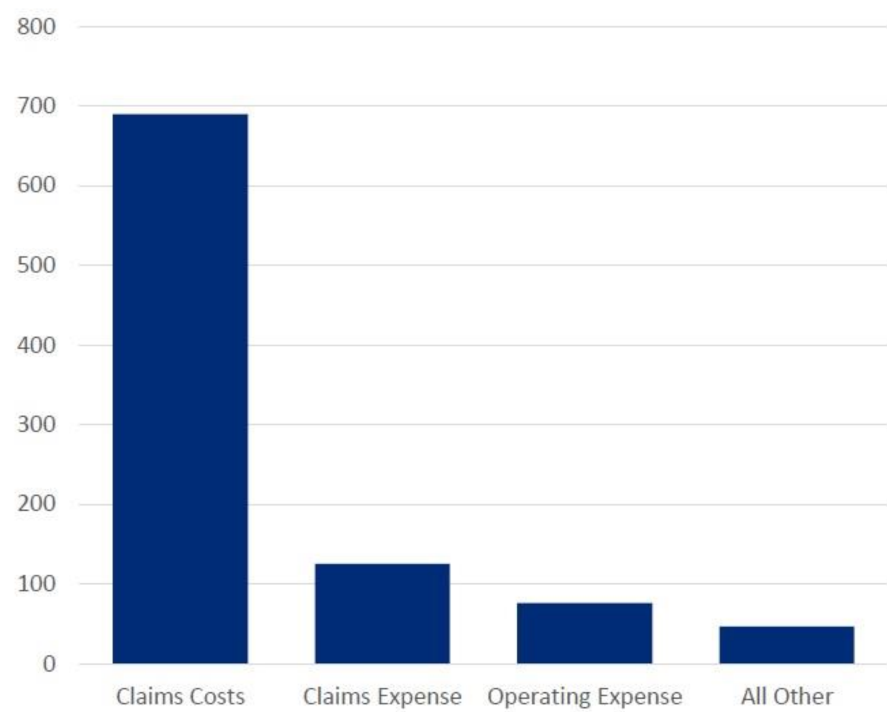
As a result, savings are underestimated.[116]

---

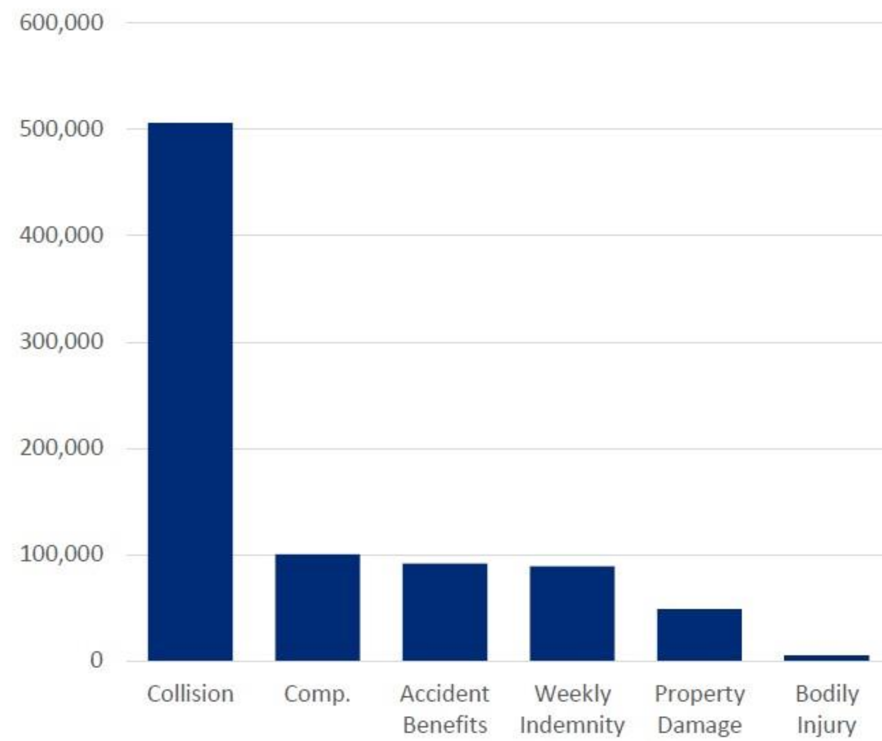
[114] October 21, 2022 Transcript at 750-752 (McCandless-Low).
[115] October 21, 2022 Transcript at 750-752 (McCandless-Low).
[116] October 21, 2022 Transcript at 759 (McCandless-Low).

2023 MPI RATE APPLICATION

Forecast Rating Year Expenditures per Unit



Rating Year 2023/24 Discounted Claims Costs (000)



© Oliver Wyman

IMPROVING MPI PROJECTION OF CLAIMS INCURRED

1

Data Visualization

See it to understand it

- Visualization of data supports the understanding of trends
- Plot on a log-axis to consider change on a percentage basis

2

Modeling

Explain Relationships

- Dependent Variables
- Independent Variables
  - Time
  - Mobility (COVID)
  - Seasonality

3

Testing

Evaluate Fit Metrics

- *p*-value
- R-squared
- Adjusted R-squared
- Test for outliers
- Visualize model against data

4

Reporting

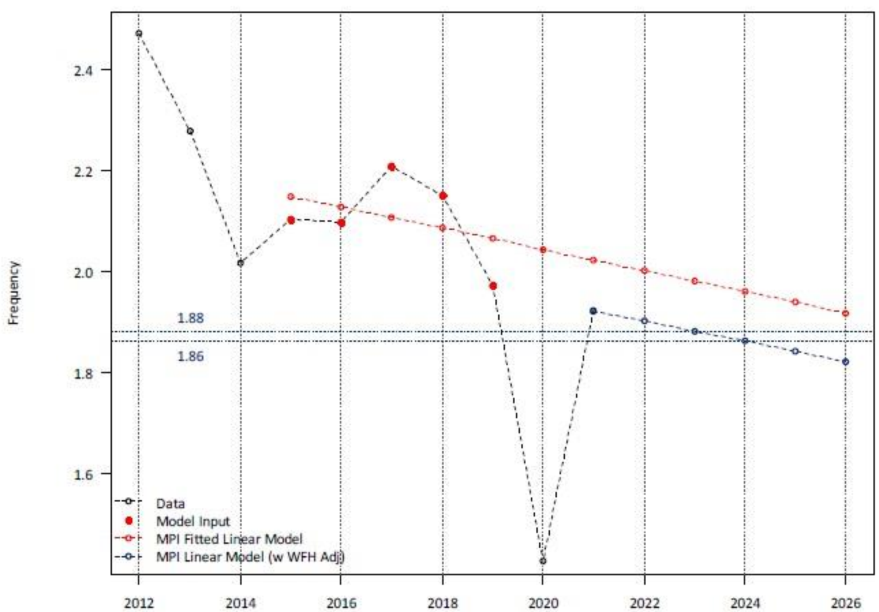
Support

- Confidence to stakeholders
- Explain the predictive value

© Oliver Wyman

WEEKLY INDEMNITY

MPI Frequency Model



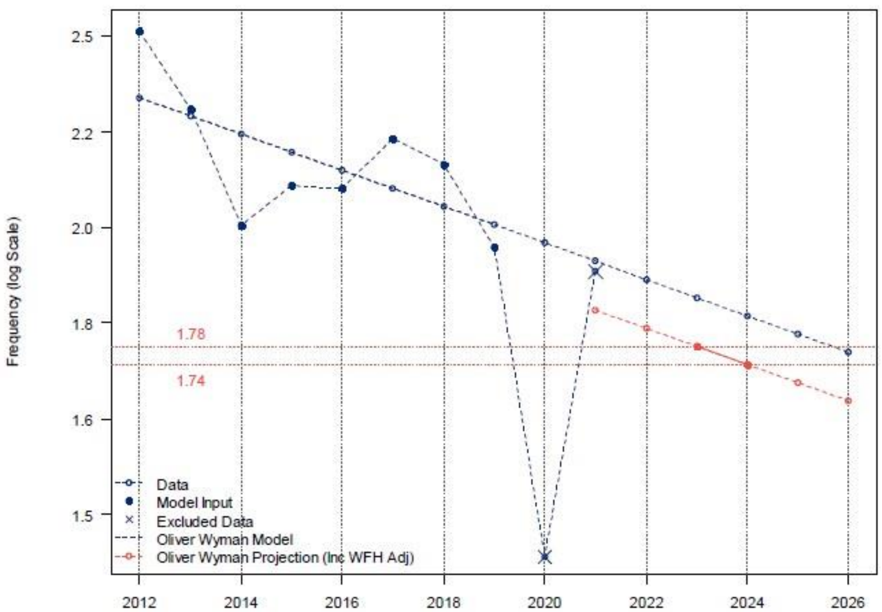
Concerns

- **Model form –** It is more common to fit log-linear models as frequency changes tend to occur on a *percentage* basis rather than an amount basis. A linear model could potentially produce a negative frequency in a limiting case.
- **Poor Fit –** The model has extremely weak R-squared statistics, and the *p*-value for accident year is well above the common 5% upper-bound threshold for statistical significance.

© Oliver Wyman

WEEKLY INDEMNITY

Oliver Wyman Frequency Model



Benefits

- Although we acknowledge that the p-value of our model is slightly greater than the 5% upper bound threshold, we note that our model explains a significantly higher percentage of the variation in the data.
- In addition, unlike the linear form used by MPI, the log-linear form is consistent with the common assumption that year over year changes will impact weekly indemnity frequency on a percentage basis.

© Oliver Wyman

QUESTIONS RAISED OF OLIVER WYMAN BY THE PUB

The PUB dived right into a technical analysis of the Oliver Wyman report focusing its attention on two of the eight recommendations.

Importantly, the PUB did not meaningfully test six of the eight recommendations. In the case of one other recommendation, collision frequency, its inquiries reinforced the Oliver Wyman observations.

In terms of hail comprehensive and collision severity, the PUB approach raised meaningful questions deserving of response:

- For comprehensive hail frequency, Oliver Wyman observed that the projection "is substantially above four (4) of the last five (5) years, and you had one (1) year that was higher, but -- but certainly you have years that are significantly lower."[117]

[117] November 3, 2022 Transcript at 2345-2346 (Sahasrabuddhe).

QUESTIONS RAISED OF OLIVER WYMAN BY THE PUB

- For Comprehensive Hail frequency, it might be noted that Oliver Wyman took the average of the log values, which is lower than the average. This represents the median – which is reasonable and appropriate for a distribution that includes extreme values.[118]
- Collision Total Loss severity – While it might be suggested that it's reasonable to use only the most recent value due to the number of underlying claims – that is, the most recent year is "fully credible" – it should be noted that all the points are fully credible – but that is not the same as being *fully predictive* of the future, and a view that considers all of those points is more appropriate. The 2021/22 point is also the most uncertain, as it will contain the highest percentage of open claims.

---

[118] November 3, 2022 Transcript at 2344-2345 (Sahasrabuddhe).

QUESTIONS RAISED OF OLIVER WYMAN BY MPI

By contrast, MPI conducted a classic "smoke and mirrors", "divert and distract" cross while never meaningfully engaging in the substance of the Oliver Wyman analysis.

Notably, in its oral closing argument, the only technical arguments advanced by MPI relied on the PUB's questions.

MPI never dared explore the analytic credibility of the Oliver Wyman evidence in this year's proceeding.

To the MPI concern that all of Oliver Wyman's recommendations lead to lower revenue, reference should be made to Ms Low's "ounce of conservatism" estimate. If a best estimate does not form the underlying analysis, its not surprising that recommendations all lead to lower estimates.

MPI assertions that Oliver Wyman lacks independence and displays bias would no doubt come as a surprize to the independent rate regulators in Canada that rely on its advice as well as the Canadian Association of Automobile Regulators.

Such arguments smack of desperation.

RECOMMENDATION

That the PUB accept 7/8 recommendations of Oliver Wyman in terms of claims incurred (with the exception of comprehensive hail frequency) on the grounds that they better fit the claims incurred data.

THE GLACIAL PACE OF CHANGE IN THE DSR

- Cross-subsidization has plagued the DSR since the program's inception
- MPI has shown little commitment to change and little concern for those being overcharged.

COMPLIANCE WITH PUB ORDER 134/21 DIRECTIVE 11.15

- PUB has impressed upon MPI the gravity of unfairness for safest drivers and requested a proactive plan for correction
- MPI proposed marginal changes to discounts and deferred meaningful progress on cross-subsidization years into the future.

A CASE FOR FASTER CHANGE

- Potential future changes to the rating model should not be allowed to perpetuate unfairness today.
- There is room for MPI to make faster progress to correcting cross-subsidization before the projected transition to Generalized Linear Modeling.

CAPPING RULES AND UNIQUE CIRCUMSTANCES IN 2022

- In CAC Manitoba's view, MPI's proposal to merely allocate future rate decreases to the DSR levels most acutely over-paying is inadequate.
- CAC Manitoba recommends that in future years, the 'base rate' be increased by up to 5% to allow for more substantial adjustments to DSR discounts.
- However, CAC Manitoba also feels strongly that the pressures of the current year's inflation environment have already wrought significant challenges on Manitoba households such that increases to the base rate in excess of 1-2% are not appropriate this year.

PRIMARY DRIVER MODEL

- CAC Manitoba has not endorsed a transition to the Primary Driver Model
- MPI's 5-year plan is not sufficiently detailed for informed decision-making
- CAC Manitoba recommends that the steps outlined in the early stages of the 5-year plan to collect necessary data be taken to inform future decision-making

ROAD SAFETY

- Road safety has taken a "back seat" through the pandemic:
  - postponing of the Technical Conference
  - cancellation of certain Road Safety Programs
- The Road Safety strategy and MPI's commitment to data-driven decision making show promise:
  - "if they implement this plan as described, they will see many reductions in fatalities and injuries in the years following." (Mavis Johnston, internationally-recognized road safety expert and CAC Manitoba consultant)
- CAC Manitoba looks forward to reviewing progress on implementation of the Strategy

ROAD SAFETY

- MPI should remember that it is uniquely positioned to add value to Road Safety initiatives province-wide, but that its mandate is narrow.
- MPI should continue to pursue road safety interventions with real impacts on claims costs, while also developing partnerships which provide the wide range of road safety stakeholders with access to MPI's datasets and expertise.

A LOST BALANCE: THE RATE STABILIZATION RESERVE AND CAPITAL MANAGEMENT PLAN

Courtesy prevents us from offering comment on the views of our client on whether MPI has honoured its prior commitments under the existing Capital Management Plan.

CAC Manitoba accepts that the transfers to DVA have taken place and that the PUB lacks the lawful authority to directly remediate these actions. CAC Manitoba does not accept the premise that the DVA were authorized under the governing legislation of MPI.

With regard to BITSA, CAC Manitoba accepts that the legislature has spoken both in eliminating the Reserve Regulation and in entrenching basic financial targets into law. Important legal questions regarding the provision remain, but it is clear that PUB has lost its authority to initiate rate rebates absent an application by MPI.

CAC Manitoba appreciates the efforts of the PUB over the past two decades to bring evidentiary rigour and public interest balance to the determination of financial targets for rate setting purposes. The independent, evidence-based approach has served Manitobans well.

ABIDING CONCERNS WITH THE MCT TARGET AND RANGE

- CAC Manitoba has abiding concerns about the appropriateness of the MCT formula in a rate setting context as well as the vulnerabilities of the calculation to discretion and to error.

- CAC Manitoba also has concerns that the additional cushion provided to MPI by virtue of BITSA may incent further unreasonable and imprudent spending behaviour.

MCT IS NOT A GOOD FIT FOR THE PURPOSE OF THE RSR

Despite now being in legislation, 100% MCT has never been formally approved by Board except on a trial basis.

> DR. BYRON WILLIAMS: And federally regulated property and casualty insurances -- insurers are under the oversight of OSFI?
>
> MS. CARA LOW: Yes, that is correct.
>
> DR. BYRON WILLIAMS: And many of the companies regulated by OSFI operate in a competitive marketplace.
>
> MS. CARA LOW: True.
>
> DR. BYRON WILLIAMS: And in the event of a bad financial year, a company in a competitive marketplace you'll agree has to be mindful of excessive rate increases that may lead to its customers fleeing to its...
>
> MS. CARA LOW: True enough. When you're in a competitive market, one (1) of the considerations is your market share. You're doing your pricing...[119]

[119] November 2, 2022 Transcript at 2091-2093 (Williams-Low).

MCT IS NOT A GOOD FIT FOR THE PURPOSE OF THE RSR

DR. BYRON WILLIAMS: To the extent that it's a privately-owned company, it wouldn't have the backing of a province like MPI does.

MS. CARA LOW: That would be true.

DR. BYRON WILLIAMS: And you'll agree that one (1) of the objectives of OSFI in its general regulatory role is to make sure that federal regu -- federally regulated property and casualty insurers have sufficient reserves to weather an adverse year and -- and a loss of -- of ratepayers.

MS. CARA LOW: OSFI is there to ensure that the insurance companies are financially sound.[120]

[120] November 2, 2022 Transcript at 2091-2093 (Williams-Low).

THE EXERCISE OF DISCRETION WITH REGARD TO THE MCT MAY HARM THE INTERESTS OF RATE PAYERS

- Combined, IFRS selections have $83.9M adverse impact on the RSR.[121]
- Absent gov direction, MPI takes the position that it can use Extension reserves within corporation as it sees fit.[122]
- MPI admits that it will be under no obligation to issue rebates at or above 120% MCT.[123]

[121] November 3, 2022 Transcript at 2050-2051 (McCandless-Low).
[122] November 2, 2022 Transcript at 2102-2103 (Williams-Giesbrecht).
[123] November 1, 2022 Transcript at 2024 (Scarfone-Low); November 1, 2022 Transcript at 2058-2059 (McCandless-Low).

A CUSHION FOR BAD MANAGEMENT

DR. BYRON WILLIAMS: So, the Basic RSR can act as a cushion against bad weather?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: It can also act as a cushion for bad -- bad management or imprudent investments?

MS. CARA LOW: Agreed. Again, we do live in Winnipeg, so we do have bad weather factored in our expectations, so it has to be worse than expected.[124]

[124] November 2, 2022 Transcript at 2094-2096 (Williams-Low).

A SMOOTH AND TRANSPARENT GRA PROCESS

Recognizing the hard work of MPI staff, the many revised filings, the multitude of unconsolidated documents, and the complexity of so many confidentiality agreements has made this process challenging.

CAC Manitoba also acknowledges the important recommendations of the University of Manitoba Faculty of Law's Rights Clinic respecting accessibility of information, including calls for a table of contents and plain-language summaries.

CAC Manitoba recommends that care be taken in future years to improve information accessibility both for hearing participants and the general public.

A JUST AND REASONABLE SIGNAL FOR THE REVENUE REQUIREMENT

Our clients respectfully seek:

- a strong revenue requirement signal that MPI is on an unreasonable and imprudent path in terms of expenditure control;
- recognition of the "ounce of conservatism in the MPI claims incurred forecast" and the need to forecast best estimates; and
- a time sensitive path to address enduring inequities in DSR while recognizing the extraordinary times we live.

A JUST AND REASONABLE SIGNAL FOR THE REVENUE REQUIREMENT

Taking into account:

- the unreasonable increases in FTEs and operating expenses,
- the unsubstantiated room in placeholder budgets
- the lost opportunity and undue risk in the current investment portfolio
- as well as challenges with certain claims incurred forecasts,

our clients are of the view that a rate reduction of between 5 and 6 percent as compared to the current indication would be appropriate.

A JUST AND REASONABLE SIGNAL FOR THE REVENUE REQUIREMENT

With regard to the DSR, our client is torn.

If the approved decrease is <u>greater</u> than the capital release, they would suggest that additional amount be allocated to correcting cross-subsidization at the high-end of the DSR scale.

However, it feels strongly that due to current inflationary pressures, increases to the amounts charged by MPI should be minimized as much as possible.

If the approved decrease is <u>less than</u> the amount of the capital release, increases to the base rate of more than 1-2% in order to improve the DSR discounts would not be appropriate.