A CRITICAL TIME FOR REGULATORY ACTION IN THE FACE OF IMPRUDENCE AND IMBALANCE

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

Prepared by: The Public Interest Law Centre
October 26, 2023
Manitoba Public Insurance (MPI)
2024/25 General Rate Application (GRA)

CORPORATION'S EVIDENCE DOES NOT INSPIRE CONFIDENCE

- The evidence presented in this hearing does not inspire confidence in management decisions, including budgeting and the treatment of capital, or the corporation's handle on Project Nova
  - **No control over Project Nova**: lapse in third-party governance at a critical time in the project, costs that have the potential to significantly escalate and instability in the corporation
  - **"Excessive cushions" in claims forecasting**: assumptions in claims forecasting appear to be building "excessive cushions", at the expense of ratepayers
  - **Unjustified, imprudence staffing increases**: significant increases in levels of staffing are not justified through performance measures linked to budgeting processes
  - **Over-collection and excessive reserves**: MPI does not contemplate a rebate this year, despite over-collection from ratepayers, and keeps the door open to transferring out money that should benefit Basic ratepayers

MPI RATEPAYERS PAY THE PRICE OF IMPRUDENCE AND IMBALANCE

- CAC Manitoba's position is that MPI's actions and proposals in this GRA have demonstrated imprudence and imbalance
- **As captive customers of a monopoly Crown corporation, MPI ratepayers ultimately pay the price of the corporation's actions and plans**

A CALL FOR REGULATORY ACTION TO SIGNAL IMPRUDENCE AND IMBALANCE

- MPI ratepayers look to the PUB to strike the balance between customers and the Crown corporation.
- It is in this context that CAC Manitoba will make recommendations in the public interest intended to restore confidence in the corporation, including:
  - a strong revenue requirement signal that MPI is on an unreasonable and imprudent path in terms of expenditures, specifically as it relates to:
    - Project Nova, including accepting Mr. Scott Greenlay's recommendations
    - IT expenses, including accepting Mr. Scott Greenlay's recommendations
    - Operating expenses, specifically relating to staffing
    - budgeting processes, specifically the lack of link to performance measures and objectives
  - alternative assumptions in claims forecasting that better reflects the needed balance, as proposed by the Oliver Wyman team
  - management of reserves that better reflects the balance between financial health of the corporation with the interests of ratepayers
  - improvements to MPI's investment strategy
  - a rate decrease of at least 5.45% to reflect rates that are just and reasonable, incent prudence and better balance the interests of captive ratepayers and the monopoly

ROAD MAP OF CAC MANITOBA CLOSING SUBMISSIONS

Part 1:

Part 2:

ROAD MAP OF CAC MANITOBA CLOSING SUBMISSIONS (CONT.)

PART 1

A CORPORATION IN FLUX: INSTABILITY AND CHANGE

- Significant turnover in executive office[1]
  - Former CEO, Mr. Eric Herbelin, was let go in May 2023[2]
  - Former Chief Information Technology Officer resigned in June 2023[3]
- Board turnover
  - Board Chair, Dr. Michael Sullivan resigned in May 2023[4]
  - Jim Robson, Board member with extensive IT experience, left in July 2023[5]
  - New Board just announced October 20, 2023
- High staff turnover
  - Higher than average over the last two years[6]
    - More than 6% in 2022/23[7]
    - Over 9% in current fiscal year, 2023/24, to date[8]
- Loss of institutional knowledge

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[1] October 10, 2023, Dilay, Kacher, at page 184.
[2] October 10, 2023, Dilay, Kacher, at page 184.
[3] October 10, 2023, Dilay, Kacher, at page 184.
[4] October 10, 2023, Dilay, Kacher, at page 184-185.
[5] Manitoba Order in Council 264/2023, July 25, 2023.
[6] October 10, 2023, Dilay, Kacher, at page 185; October 16, 2023, Andres, Kolaski, at page 1029; PUB (MPI) 1-49 c); PUB (MPI) 2-38.
[7] October 10, 2023, Dilay, Kacher, at page 185; PUB (MPI) 1-49 c).
[8] October 10, 2023, Dilay, Kacher, at page 185; PUB (MPI) 2-38.

A COPORATION IN FLUX: IMPACTS KEY PRIORITIES, STAFF AND RATEPAYERS

- Why is this important for the regulatory process?
  - Changing leadership impacts key priorities[9]
  - Changes in leadership and key priorities can have an impact on corporate culture and staff morale
    - High turnover rate in last two years within corporation[10]
    - MPI did not have specific insights regarding the higher-than-average turnover rate[11]
    - However, changes in leadership, culture and key priorities may be impacting staff morale and may be a factor explaining high turnover rate – Board could draw an inference
  - Staff morale can impact corporations progress of key elements
  - Success of large projects, such as Project Nova, require stability and commitment

[9] GRA, Part XIV – Reporting and Publications – AR Appendix 3: Annual Report 2022, p 4-5.
[10] October 10, 2023, Dilay, Kacher, at page 185; October 16, 2023, Andres, Kolaski, at page 1029; PUB (MPI) 1-49 c).
[11] October 16, 2023, Kolaski, Andres, at 1030-1032; October 16, 2023, Boulter, Kolaski, at 1173-1174.

CAPTIVE RATEPAYERS FACE DIFFICULT ECONOMIC CIRCUMSTANCES

- Manitoba consumers face difficult economic circumstances:[12]
  - High inflation
  - High interest rates
  - Rising cost of essentials
- Manitoba consumers must make choices regarding what they spend their money on[13]
- When it comes to auto insurance, however, MPI customers <u>have no choice</u>[14]
  - They are stuck with MPI for Basic insurance
    - Even when they are not happy with services received
    - Or decisions of the corporation regarding how ratepayers funds are used

[12] October 10, 2023, Dilay, Kacher, at page 179-180.
[13] October 10, 2023, Dilay, Kacher, at page 180
[14] October 10, 2023, Dilay, Kacher, at page 180-181.

THE IMPACT OF MPI'S RATE APPLICATION IS NOT FELT EQUALLY BY RATEPAYERS

October 04, 2023

MPI Exhibit # 50

Figure RMO- 1
Projected 2024/25 Average Premium

Line No.	Major Class	Required Average Premium	Projected Average Premium w/ no Rate Change	Required Rate Change	Selected Rate Change	Selected Average Premium	Impact From DSR Changes	Offset to Vehicle Premium for DSR Impact	Average Premium after DSR Offset but before Application of DSR	Average Premium after DSR Offset and after Application of DSR
1		[a]	[b]	[c]	[d]	[e]	[f]	[g]	[h]	[i]
2	Private Passenger	$1,194	$1,219	-2.0%	-0.4%	$1,214	-5.4%	5.3%	$1,283	$1,214
3	Commercial	$1,054	$950	10.9%	11.4%	$1,058	-0.2%	11.7%	$1,061	$1,058
4	Public	$2,581	$2,280	13.2%	10.4%	$2,517	-0.9%	11.4%	$2,540	$2,517
5	Motorcycles	$797	$882	-9.7%	-6.2%	$828	-7.3%	1.2%	$892	$828
6	Trailers	$73	$67	9.8%	11.3%	$74	0.0%	11.3%	$74	$74
7	Off Road Vehicles	$5	$6	-4.6%	-2.8%	$6	0.0%	-2.8%	$6	$6
8	Overall	$898	$912	-1.5%	0.0%	$912	-5.0%	5.2%	$960	$912

9 Notes:
10 [c] = [a]/[b] -1
11 [e] = [b] * (1 + [d])
12 [g] = (1 + [d])/(1 + [f]) - 1
13 [h] = [b] * (1 + [g])
14 [i] = [h] * (1 + [f])

REGULATING IN THE PUBLIC INTEREST

Public utilities are regulated because they provide services of "special public importance or necessity" in a monopoly or effective-monopoly environment.[15]

The PUB has two concerns when dealing with a rate application; the interests of the utility's ratepayers, and the financial health of the utility.

Together, and in the broadest interpretation, these interests represent the general public interest.[16]

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.[17]

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[15] Bonbright, Danielsen and Kamerschen, *Principles of Public Utility Rates*, first edition, 1988 at 8.

[16] *Consumers' Association of Canada (Man.) Inc et al v Manitoba Hydro, Electric Board,* 2005 MBCA 55, at para 65.

[17] *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.

THE PUB REGULATORY PROCESS PROVIDES CONTINUITY, STABILITY, ACCOUNTABILITY AND TRANSPARENCY

- The PUB establishes just and reasonable rates for MPI:[18]
  - MPI's captive ratepayers look to the PUB to regulate in the public interest[19] to play the role that the competitive marketplace would play otherwise.
- The Public Utilities Board process provides continuity, stability, accountability and transparency for MPI customers: [20]
  - Crown corporation must be accountable and transparent to all Manitobans because MPI funds are ratepayer funds.[21]
  - When continuity and stability are lacking within the corporation, the regulatory process is even more important

[18] October 10, 2023, Dilay, Kacher, at page 181-182.
[19] October 10, 2023, Dilay, Kacher, at page 183-184.
[20] October 10, 2023, Dilay, Kacher, at page 182.
[21] October 10, 2023, Dilay, Kacher, at page 182-183.

PUBLIC NATURE OF THE REGULATORY PROCESS CANNOT BE UNDERMINED

- The public nature of the regulatory process cannot be undermined
  - Demonstrates accountability and transparency for the public in general, and for MPI captive ratepayers more specifically
  - Public nature of the process is critical and is the default for this reason
- CAC Manitoba appreciates MPI's work in streamlining the confidentiality process in this year's proceeding, including the confidentiality tracker, which was a helpful tool
- While there exists a confidential process for narrow exceptions, MPI should not be able to hide behind broad and unsubstantiated claims of confidentiality from third-party vendors, especially on issues that are central to the rate-setting process[22]
  - CAC Manitoba appreciates MPI's commitment to having conversations with its vendors, going forward, regarding the public nature of the regulatory process[23]

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[22] See Exhibit CAC-9 for CAC Manitoba's written submissions regarding MPI's confidentiality motion on the Financial Condition Test Report and the IFRS 14 opinion by Deloitte.
[23] October 18, 2023, Gabor, Guerra, at 1533-1535.

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."[24]

"The Board continues to support the Corporation's cost containment efforts, including its steps taken to reduce operating expenses and optimizing staff levels."[25]

"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."[26]

[24] PUB Order 176/19 at 85-86. [emphasis added]
[25] PUB Order 159/18 at 70. [emphasis added]
[26] PUB Order 159/18 at 70-71. [emphasis added]

THE PUB TEST TO SET JUST & REASONABLE RATES

- Are actual and projected costs necessary and prudent?
- Are forecasts reasonably reliable?
- Are revenue needs reasonable in the context of the overall general health of the monopoly?
- Is there an appropriate allocation of costs between ratepayers?
- Are the proposed rates just and reasonable rates in accordance with statutory objectives?[27]

[27] PUB Order 98/14, p 28.

REGULATING IN THE PUBLIC INTEREST: ROLE OF THE PUB

- Orders and directives for MPI
- Recommendations
    - For MPI
    - For legislator
- Just and reasonable rates

THE ONUS IS ON THE CROWN CORPORATION

- The onus is on MPI, the Crown corporation, to demonstrate that its application should be approved[28]
  - MPI relies on the evidence in its GRA and the testimony of its experts in order to prove its case

[28] *The Public Utilities Board Act,* CCSM c P280, s 84(2): "The burden of proof to show that any such increases, changes, or alterations are just and reasonable is upon the owner seeking to make the increases, changes, or alterations."

THIS IS NOT STEWARDSHIP: OVERALL CHALLENGES WITH THE CREDIBILITY OF THE CORPORATION

- Credibility of the corporation must be assessed by the PUB in examining the rate application:
  - Can the evidence of the corporation be trusted and relied upon for purposes of setting just and reasonable rates?
- Overall, changes and instability at the corporation have led to a lack of continuity and stability relating to key priorities, as well as a learning curve for new employees to the corporation or employees in new/interim roles
- This is not stewardship: the evidence presented in this hearing does not inspire confidence in management decisions, including budgeting, or the corporation's handle on Project Nova
  - Recommendations made by CAC Manitoba are aimed at restoring confidence in corporation, in that the corporation must demonstrate evidence that they have the systems and measurements to prudently manage and that they are showing mastery on their own management operations and processes.

SPECIFIC CHALLENGES WITH THE CREDIBILITY OF THE CORPORATION

- MPI 2.0 – MPI distancing itself from this nebulous concept, but references remain throughout rate application
- Project Nova
  - MPI: No third party assessment since October 2022, appears to desire delivering Nova at all costs
  - Mr. Scott Greenlay: independent expert, decades of experience
- Key witnesses in leadership positions not demonstrating mastery of their portfolios
- Expenses and financial forecasting: budgeting practices, including for staffing expenses, not tied to performance measures or objectives
- Reserves: assisted in drafting legislation, no rebate, door left open to transferring funds out of Extension, despite advantage received by Extension from Basic
- Pattern of bias toward corporate interests at the expense of ratepayers

ORGANIZATIONAL REVIEW WITH NO PLANNED STAKEHODLER ENGAGEMENT

- Government-ordered organizational review currently underway, ordered in part because of concerns relating to MPI expenditures[29]
- Items being considered as part of the organizational review are core to the rate-setting process, including revenue requirement and rates for service:
  - Future growth of staff complement[30]
  - Operational expenditures[31]
  - The Corporation's processes and procedures for developing forecasts and projections[32]
- Despite the centrality of these issues to the rate-setting process, there is no external stakeholder engagement planned by MPI or Ernst & Young[33]
- Raises questions about trust and legitimacy of the organizational review, in a time where trust and legitimacy are wanting

[29] October 10, 2023, Dilay, Kacher, at page 185-186
[30] October 10, 2023, Dilay, Kacher, at page 188
[31] October 10, 2023, Dilay, Kacher, at page 189
[32] October 10, 2023, Dilay, Kacher, at page 189-190
[33] October 10, 2023, Dilay, Kacher, at page 186-187; October 10, 2023, Dilay, Kacher, at page 190-191; CAC (MPI) 2-13

RECOMMENDATIONS ON ORGANIZATIONAL REVIEW

- **In order to build trust and legitimacy, PUB should recommend that MPI engage with external stakeholders and customers on the organizational review, and that Ernst & Young engage with external stakeholders and customers as part of its work on the organizational review.**

PART 2

- Imprudent and unreasonable expenses (pages 23-77)
  - Project Nova is out of control (pages 25-43)
  - Lack of accountability in IT expenses (pages 44-55)
  - Staffing increases are not adequately justified (pages 56-62)
  - No evidence-based budgeting processes (pages 63-65)
  - Establishing value in benchmarking exercises (pages 66-72)
  - Uncertainty in cityplace reconfiguration plans (pages 73-74)
  - Regular review of road safety issue (pages 75-77)

IMPRUDENT AND UNREASONABLE EXPENSES – A NEED FOR REGULATORY ACTION

- As a Crown corporation, MPI is accountable to <u>all Manitobans</u>[34]
  - Customers should only be charged for prudently incurred costs[35]
  - PUB regulatory principle and prudent general business practice that is important to protect the public interest and ratepayer confidence in MPI's operations[36]
- There are significant concerns about the reasonableness of MPI expenditures in the 2024 GRA because of at least five elements:
  - No control over Project Nova
  - Lack of accountability in IT expenses
  - Staffing increases are too high and not adequately justified
  - No budgeting processes based on performance measures
  - Lack of value in benchmarking exercises

[34] October 16, 2023, Kolaski, Dilay, at 1100
[35] October 16, 2023, Kolaski, Dilay, at 1098-1099; http://www.pubmanitoba.ca/v1/about-pub/regulatoryprinciples.html.
[36] October 16, 2023, Kolaski, Dilay, 1099.

PUB WARNED MPI ABOUT POTENTIAL UNREASONABLE PROJECT NOVA COSTS IN 2023 GRA

- 2023 GRA:
    - *"In particular, the Board is not persuaded that the mobilization of staff devoted to delivering on Project Nova will ultimately prove to be a prudent decision on the part of the Corporation, when the project appears to remain somewhat undefined and lacking in management control."*[37]
    - *"The Corporation should be proceeding with prudence and focusing on critical business needs, while avoiding cost overruns associated with increasing the scope of Project Nova beyond the core need to modernize technologies to run the business."*[38]
    - *"If MPI cannot demonstrate that it has made prudent choices in its plans for Project Nova and is making efforts to contain costs, there is a significant risk that MPI's next rate request will be found to not be just and reasonable. The Board is aware that the 2022 re-baseline budget has been approved by Treasury Board. The Board has serious concerns about any increases to the Project Nova budget beyond what has already been approved."*[39]

[37] PUB Order 4/23 at 109.
[38] PUB Order 4/23 at 110.
[39] PUB Order 4/23 at 110; October 17, 2023, Dilay, Campbell, at 1338-1339

PUB WARNED MPI ABOUT POTENTIAL UNREASONABLE PROJECT NOVA COSTS IN 2022 GRA

- 2022 GRA:
  - *"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 <u>Order 1/21 with the budget overruns early in Project Nova</u>. The re-baselined business case has increased the project budget, but the costs outlined in the re-baseline <u>may not be a reliable indicator of future project costs</u>, given MPI's now <u>planned move towards MPI 2.0 through Supernova</u>."*[40]

[40] PUB Order 134/21 at 107.

DESPITE WARNINGS, NOVA FULL STEAM AHEAD

- Nova budget had more than doubled since initial business case in 2018-2019 and is still going up[41]
    - Initial business case was $106.8M plus contingency[42]
    - 2021 re-baseline increased budget to $128.5M including contingency[43]
    - 2022 re-baseline increased budget to $257M-289.9M including contingency[44]
        - Without contingency, one-time modernization costs were $224.1M[45]
    - In 2024 GRA, one-time modernization costs are now estimated at $240.7M, without full contingency (planned drawdown of $16.6M from contingency)[46]
- In this GRA, Net Present Value remains negative with no payback[47]
    - Net Present Value in initial business was $18.4M
    - Net Present value in 2022 re-baseline became ($188.9M)[48]

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[41] October 17, 2023, Dilay, Ramirez, at 1338; GRA, Part V – Nova, p 7
[42] October 17, 2023, Dilay, Ramirez, at 1337; GRA, Part V – Nova, p 7
[43] October 17, 2023, Dilay, Ramirez, at 1337; GRA, Part V – Nova, p 7
[44] October 17, 2023, Dilay, Ramirez, at 1337; GRA, Part V – Nova, p 7
[45] October 17, 2023, Dilay, Ramirez, at 1337; GRA, Part V – Nova, p 7
[46] October 17, 2023, Dilay, Campbell, at 1339-1340; October 17, 2023, Dilay, Campbell, at 1340-1341; October 17, 2023, Ramirez, McCandless, Guerra; Exhibit MPI-84, p 22
[47] October 17, 2023, Dilay, Campbell, at 1341
[48] October 17, 2023, Dilay, Ramirez, at 1338

DESPITE WARNINGS, NOVA FULL STEAM AHEAD (CONT.)

- Despite PUB warnings and rising costs, it appears that MPI's position is Project Nova at all costs
    - One of MPI's key business objectives, as defined by its (former) Board chair, is delivering on Project Nova[49]
- As presented in testimony by Mr. Scott Greenlay, this raises questions of **completion bias** – the tendency for one to feel compelled to finish a task once it has been started[50]
    - No evidence that vendors to date have been asked to reduce scope or look for means to reduce costs.
- The red flags that led to PUB warnings in 2022 and 2023 GRAs have only been exacerbated in the last year
    - Lapse in governance vendor and key risks not addressed
    - No confidence in constellation of costs
    - Instability in corporation
    - Scope creep

[49] October 17, 2023, Dilay, Campbell, at 1341-1342
[50] Exhibit CAC-10, p 13

LAPSE IN GOVERNANCE VENDOR AT CRITICAL TIME

- MPI made a disturbing error by allowing a lapse in critical project governance services – PwC's engagement ended mid-flight[51]
  - Lapse in project governance services for 11 months (McKinsey was not a governance vendor)[52]
    - MPI has stated from the outset that it needed a governance vendor to compensate for its own lack of skills and experience.
  - Right after concerns by the regulator were expressed about the costs of the project
  - In the midst of critical steps in the project, namely the implementation of Releases 1 and 2 and just before Release 3 Discovery
  - Unclear from the record of proceeding whether MPI could have chosen to extend PwC's contract, given the expanded timeline for the project and their familiarity with the project (including its risks which they flagged)[53]
  - MNP LLP will be acting as governance vendor for the first time and will have to familiarize themselves with materials provided by MPI and PwC regarding the project, the risks, the issues[54] – loss of continuity and knowledge

[51] Exhibit CAC-10, p 9
[52] October 17, 2023, McCandless, Mitra, at 1333-1334; October 17, 2023, Gabor, Mitra, at 1397-1398; October 17, 2023, Dilay, Mitra, at 136-1361
[53] See for example October 17, 2023, McCandless, Mitra, at 1331-1332
[54] October 17, 2023, Dilay, Mitra, at 1362

GOVERNANCE VENDOR PLAYS A KEY ROLE IN FLAGGING RISKS

- The critical role of a third party governance vendor is:
  - To provide MPI's executive team and technology committee of the Board of Directors on ongoing risks assessment of the program[55]
  - To recommend areas of focus to proactively address risks and issues to maintain program schedule and budget[56]
- Independent expert, Mr. Greenlay, questions <u>why did project continue without governance vendor</u>?

"But if that was the case, why did Project Nova and Program Nova continue without the benefit of the governance vendor?"[57]

"If I may, though, on that particular point, that's why the departure of PwC in flight on NOVA is disturbing."[58]

[55] October 17, 2023, Dilay, Mitra, at 1359-1360; CAC (MPI) 2-35
[56] October 17, 2023, Dilay, Mitra, at 1359-1360; CAC (MPI) 2-35
[57] October 23, 2023, Greenlay, at 1735
[58] October 23, 2023, McCandless, Greenlay, at 1795.

KEY RISKS FLAGGED BY PWC DO NOT APPEAR TO HAVE BEEN ADDRESSED

- Consistently throughout its engagement, MPI's former governance vendor, Price Waterhouse Cooper, candidly flagged risks for MPI, including in its last report in October 2022 – complexity, capability, capacity (**see Exhibit CAC-CI-5 for confidential portion of closing submissions)**
  - The budget increases, delays, quality issues and staff turnover are "symptoms and indicators" of this project's complexity and MPI's insufficient capability and capacity[59]
- One of the key risks identified by PwC was that MPI lacks expertise in terms of general contractor role[60]
  - MPI continues to act as general contractor[61]
- Especially for a project of this scale and given risks previously identified, not having a third party governance vendor is "disturbing"[62]

[59] October 23, 2023, Greenlay, at 1737
[60] PUB Order 4/23, page 99-100, citing minutes from MPI Board of Directors Technology Committee meeting in February 2022
[61] October 17, 2023, Dilay, Mitra at 1359
[62] October 23, 2023, McCandless, Greenlay, at 1795.

NO CONFIDENCE IN CONSTELLATION OF COSTS ESTIMATES AND TIMELINES FOR NOVA

1. No confidence in estimated one-time modernization costs or timeline:

- Deferred deliverables
  - Releases 1– in partial use because defects identified, which MPI is working through now[63]
  - Release 2 delayed and some items deferred to Release 3[64]
  - Release 3 Discovery delayed[65]
- No budget commitment pending outcome of Release 3 Discovery, the biggest, most complex and high risk of the releases[66]
  - Release 3 discovery outcomes will be the primary drivers of the budget as it will validate work effort, assumptions and schedule duration needed to successfully deliver the release, as well as how MPI will implement the requirements[67]

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[63] October 17, 2023, Campbell, at 1252; October 17, 2023, Dilay, Campbell, at 1344; October 17, 2023, Dilay, Campbell, at 1344-1345
[64] October 17, 2023, Campbell at 1252; October 17, 2023, at 1342-1343
[65] October 17, 2023, Dilay, Dessler, at 1345-1346
[66] October 10, 2023, Gabor, Kacher, at page 197-198; October 17, 2023, Dilay, Dessler, at 1352-1353; October 17, 2023, McCandless, Mitra, Dessler, at 1289-1290
[67] October 17, 2023, Dilay, Dessler, at 1347-1348; October 17, 2023, Dessler, Dilay, at 1350-1351; PUB (MPI) 1-86

NO CONFIDENCE IN CONSTELLATION OF COSTS ESTIMATES AND TIMELINES FOR NOVA (CONT.)

  - While MPI says it is under budget for Release 3, this is misleading because it is due to having paused and being late on the Discovery activities[68]
  - Both releases 1 and 2 were overbudget[69]
- If uncertainty acknowledged with Release 3 leads to changes in budget, these changes would likely be in the form of further increases in estimated budget[70]
  - Given the track record for R1 and R2, Greenlay expects R3 to be over-budget.[71]
- A key theme from the Nova panel was the additional uncertainty, primarily from labour interruption and delay with R2 go-live, that compounds the already existing uncertainty for budget and timelines, for the project overall and especially associated with Release 3[72]
  - December 2025 timeframe for Project Nova completion will likely need to be extended[73]

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[68] October 17, 2023, Ramirez, at 1269
[69] October 17, 2023, Gabor, Ramirez, at 1402-1403
[70] October 17, 2023, Dilay, Dessler at 1351
[71] October 23, 2023, Greenlay, 1755.
[72] October 17, 2023, McCandless, Mitra, at 1306-1307; October 10, 2023, Kacher, McCandless, page 170-172; October 17, 2023, Ramirez, at 1260; October 17, 2023, Gabor, Dessler, at 1398-1399; October 17, 2023, Gabor, Dessler, at 1399-1401; October 17, 2023, Ramirez, at 1260; Exhibit MPI-84, p 7
[73] October 17, 2023, Gabor, Dessler, at 1399-1401; October 17, 2023, Campbell, at 1253-1254

NO CONFIDENCE IN CONSTELLATION OF COSTS ESTIMATES AND TIMELINES FOR NOVA (CONT.)

2. "Bubble" budget: not part of one-time costs and impacted by project delays because will last until the organization is fully proficient in supporting and decommissioning those systems[74]

3. Budgets for projects depending on Nova: not part of Nova costs but may be impacted by project delays[75]

BOARD CHAIR GABOR: Sorry. Would you-- would you believe 2027 and 2028 as being overly optimistic?
MR. GARY DESSLER: No.
BOARD CHAIR GABOR: Okay.
MR. GARY DESSLER: I -- I don't. I -I -- what I'm just saying is, there's so many unknowns.
BOARD CHAIR GABOR: Right.[76]

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[74] October 17, 2023, McCandless, Ramirez at 1309; October 17, 2023, McCandless, Ramirez at 1308-1309; October 17, 2023, Dilay, Ramirez, at 1376-1377
[75] October 17, 2023, McCandless, Campbell, at 1301
[76] October 17, 2023, Gabor, Dessler, at 1399-1401

INSTABILITY IS A SYMPTOM OF COMPLEXITY AND COULD IMPACT PROJECT SUCCESS

- Board and Executive turnover – including key IT personnel – significant loss of institutional knowledge[77]
    - Leadership turnover is to the advantage of vendors[78]
- Project Nova appears to be overwhelming the corporation. A symptom of its complexity is likely high staff turnover – while not confirmed by the corporation, the Board could make an inference that turnover is related, at least partly, to staff morale
- Labour interruption implications = backlogs, delays
- IT maturity scores, as assessed in benchmarking by Gartner, are concerning in key areas, and may reflect instability in the corporation – lowest scores in Strategy & Execution and Portfolio Management
    - Strategy & Execution = 1.32, which is lower than peer benchmark and lower than the last year's number, in all functions[79]
    - Portfolio Management = 1.00, which is lower than peer benchmark and lower than the last year's number, in all functions[80]

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[77] Exhibit CAC-10, p 12
[78] October 23, 2023, Greenlay, at 1738.
[79] October 12, 2023, Dilay, Muir, at 642; October 12, 2023, Muir, Dilay, at 644-5; GRA, Part V – IT, Attachment A, p 33
[80] October 12, 2023, Dilay, Muir, at 642; October 12, 2023, Muir, Dilay at 647; GRA, Part V – IT, Attachment A, p39

PROJECT NOVA SCOPE INFLUENCED BY NEBULOUS MPI 2.0

- While MPI is now distancing itself[81] from the nebulous concept of MPI 2.0, it appears to have influenced the scope of Project Nova and the direction of the corporation
  - MPI 2.0 developed by former CEO, Eric Herbelin, with no internal stakeholder input[82]
  - In response to a PUB information request, Mr. Scott Greenlay laid out specific instances where MPI 2.0 was referred to and that indicate movement toward MPI 2.0 is underway
    - *"In closing, the most recent MPI documents show that MPI 2.0 is intended "future business state". In the realm of technology this term indicates that this is the direction that technology should be supporting. Based on the above examples, I believe it is appropriate to state that MPI is using Nova to enable elements of MPI 2.0."*[83]

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[81] CAC (MPI) 2-1
[82] PUB (MPI) 1-110
[83] PUB (CAC) 20

PROJECT NOVA AT THE COST OF OTHER MORE BENEFICIAL PROJECTS?

- MPI has discontinued IT projects that are unrelated to Project Nova or deemed not critical, saving $11.6M in current fiscal year[84]
    - "There is a chance" that some of these projects have a higher return on investment than Project Nova[85]
- Continuing with Project Nova at all costs means that other IT projects, which may have a higher return on investment that Project Nova for MPI and for ratepayers are not proceeding

[84] October 12, 2023, Dilay, Campbell, at 629-630; CAC (MPI) 2-1, p 3
[85] October 12, 2023, Campbell, Dilay at 630-631

WHY HASN'T MPI TAKEN A STEP BACK ON NOVA?

- Given all these warning signs, both within (budget increases and negative NPV, delays, instability) and outside the corporation (PwC risk identification) <u>why did MPI not take the time to attempt to reduce scope and return to a more reasonable timeline and return on investment</u>?
- Mr. Greenlay would have expected this, especially when the Net Present Value became negative – Project Nova turned from a project that paid for itself to an investment project

"And I wanted to emphasize that the change from a positive NPV to a negative, what that means, is these are very different perspectives. I've sit on Boards. I've sit on and advised executives. When a project goes from being a positive NPV to a negative NPV, it means it goes from being something that pays for itself that – to something that, now is an investment decision."[86]

- Mr. Scott Greenlay – complexity, capability, capacity risk – first to do is reduce scope

"But a project of this size and complexity and this many variables in play, it would be difficult for any organization to succeed. And, in fact, in my experience, one (1) of the reasons why consultants come in is – what we try to do is break this apart. And one (1) of the first things we often do is reduce scope."[87]

[86] October 23, 2023, Greenlay, at 1749
[87] October 23, 2023, Greenlay, at 1736.

WHY HASN'T MPI TAKEN A STEP BACK ON NOVA? (CONT.)

- Is Project Nova a Lamborghini or a Nissan – no evidence that these questions have been asked by the corporation

"Well, in my experience, in working for the public sector for almost half my career and working with the public sector organizations for the remainder of it, this significant scale of investment is unusual. I – I think it's ambitious and given the number of things that have happened to date, is – concerns me."[88]

*"And in my years and my reputation as a consultant, this project scares me. I – I really am concerned about it. It appears that it's too much and **I don't see the rigour about taking that step back to say what could we take out of scope**." (emphasis added)*[89]

- Another related question is why hasn't MPI considered breaking down Project Nova in smaller components – "project size matters"[90]

"So, I think 'better' is a very subjective word. Smaller projects tend to be more we get them done on time, we get them done more within budget, they're easier on the people side of the equation. So, to me, maybe that's better, right?"[91]

[88] October 23, 2023, Boulter, Greenlay, at 1815
[89] October 23, 2023, Boulter, Greenlay, at 1816
[90] Exhibit CAC-10, p 21
[91] October 23, 2023, McCandless, Greenlay, at 1792; see also Exhibit CAC-10, p 21

WILLFUL BLINDNESS AND A CRITICAL TIME TO ACT

- Willful blindness on risks: despite all the acknowledged risks to the budget, MPI is not committing to a re-baseline of the budget[92]

MR. SHAYON MITRA: Shayon here. So, at this point, we don't have any re-baseline activities happening. That said, I want to acknowledge that we are aware that the schedule is under strain. We know that there will be delays coming out of the labour interruption. And we have some uncertainty around when we can start Discovery for R-3. So, with all of that factored in, I think MPI will be better positioned to comment once we get to that crossroad which is complete the Discovery for R-3 to truly be able to comment on any impacts to the budget.[93]

- Now is the critical time to act on Project Nova to ensure the success of the project and value for the corporation and its ratepayers
- MPI has committed to "full transparency on this project and to provide updates on progress to the Board at our earliest opportunity."[94]
- **This is not enough for accountability. Given the risks and uncertainty and the apparent lack of control over the project, a pause and reset are needed to restore confidence in the corporation's management of this project and to demonstrate prudence of expenditures**

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[92] October 10, 2023, Kacher, McCandless, page 170-172; October 17, 2023, McCandless, Mitra, at 1293-1294
[93] October 17, 2023, McCandless, Mitra, at 1293-1294
[94] October 10, 2023, Kacher, at page 158

SCOTT GREENLAY: CREDIBLE, INDEPENDENT, SOLUTIONS-ORIENTED

- Mr. Scott Greenlay presented independent evidence to the PUB:
  - First third party review since October 2022 (PwC) and only independent evidence in this hearing on Nova
  - Decades of relevant IT experience working in and for (as consultant) public sector (governments and Crown corporation) and private sector, including relating to multiple system modernization projects[95]
  - Area of expertise: an expert in information technology strategy and project planning, project execution, project management and project rescue, including oversight of systems transformation projects and technology business cases[96]
  - Solutions-oriented recommendations for the regulator to put pressure on the monopoly Crown corporation to demonstrate rigour and prudence in its IT expenses, intended to restore confidence in MPI's management of the project and increase the likelihood of value for MPI and ratepayers

[95] Exhibit CAC-6, p 24-26; October 23, 2024, Dilay, Greenlay, at 1690-1699
[96] October 23, 2023, Dilay, at 1698-1699; October 23, 2023, Hamilton, at 1721.

SCOTT GREENLAY: MPI BARELY ENGAGED WITH THE SUBSTANCE OF MR. GREENLAY'S EVIDENCE

- MPI did not ask any Information Requests of Mr. Greenlay
- MPI did not file rebuttal evidence in response to Mr. Greenlay's evidence
- MPI attempted to limit Mr. Greenlay's expertise, then took highly unusual step of requesting that Mr. Greenlay not be qualified due to reasonable apprehension of bias
    - Implicit recognition of a credible, important witness
- Cross-examination by MPI not focused on substance of Mr. Greenlay's evidence, but rather on placement of a footnote[97]
- The lack of engagement on the substance of Mr. Greenlay's report is telling

[97] October 23, 2023, Scarfone, Greenlay, at 1769-1779

RECOMMENDATIONS ON PROJECT NOVA

Project Nova costs can only be reflected in rates if the corporation demonstrates reasonableness and prudence.

The PUB issued a strong caution to MPI last year, and it is not evident that MPI has demonstrated the reasonableness and prudence of Nova expenses.

As a result, MPI requires guidance from this Board on how to prove its costs are eligible for inclusion in rates.

CAC Manitoba recommends the adoption of Mr. Scott Greenlay's recommendation to pause, de-risk and rescope (full recommendation in Exhibit CAC-6, p 19-20):

- Stop work on Nova R3 and beyond
- Separate Legacy
- Step Back
- Break Nova into smaller components
- Reintroduce financial measures
- Consider the other 40+ projects in the work queue
- Assess and prioritize the new "smaller" components
- Source needed experience and skills
- Regularly review projects
- Adopt clear approval and accountability framework

PRUDENCE NEEDED FOR IT EXPENSES

- MPI funds are ratepayer funds – funds that MPI spends on a particular IT project are then not available to spend on another project[98]
  - Those funds are also not available to reduce premiums[99]
  - MPI must exercise prudence in how it spends ratepayers' money[100]
- At a high level, MPI agrees that comprehensive business cases should be included for significant monetary expenditure decisions.[101]
  - Including a decision-making criteria[102]

[98] October 12, 2023, Dilay, Campbell, at 622; October 17, 2023, Dilay, Campbell, at 1386
[99] October 12, 2023, Dilay, Campbell, at 622
[100] October 17, 2023, Dilay, Campbell, at 1386
[101] October 12, 2023, Dilay, Campbell at 621
[102] October 12, 2023, Dilay, Campbell, at 621

CONCERNS OF ACCOUNTABILITY FOR IT EXPENSES, ESPECIALLY DUE TO PACE OF CHANGE

- Significant change in methodology for IT projects, at the same time as it is undertaking a complex, high risk modernization project
  - This raises concerns about accountability for IT expenses, especially due to the pace and scope of change

"Given the amount of stress and the amount of sheer number of system changes in play, I don't think it was wise to also change the underlying methodology used by the internal team at the same time. That was additional pressure that wasn't needed."[103]

[103] October 23, 2023, McCandless, Greenlay, at 1794.

MPI STILL FAMILIARIZING ITSELF WITH LEAN PORTFOLIO MANAGEMENT

- MPI's methodology for IT business cases has changed to the SAFe framework and Lean Portfolio management[104]
  - MPI appears to still be familiarizing itself with the new methodology – raises concerns about accountability for IT expenses
  - Funding envelopes created, with re-allocations permitted, although not the preferred approach[105] – the usage of funding envelopes currently under review[106]
  - "Lean" business cases provided with the Epic ("high-level definition of what the business case is going to cover"),[107] as compared to "detailed business cases" provided previously[108]
- Unallocated funds "lost" and cannot be used in future years[109] - raises concerns of over-collection from ratepayers for IT expenses and projects that are not well-defined

[104] October 12, 2023, Dilay, Campbell, at 623-624
[105] October 11, 2023, McCandless, Campbell, at 600; October 12, 2023, Campbell, Dilay, at 624; PUB (MPI) 1-118
[106] October 11, 2023, McCandless, Campbell, at 590-591; October 11, 2023, McCandless, Campbell, at 589
[107] October 12, 2023, Dilay, Campbell, at 625-626
[108] October 12, 2023, Dilay, Campbell, at 623
[109] October 11, 2023, McCandless, Campbell, at 602-603

MPI IS NOT APPROPRIATELY DEFINING VITALITY PROJECTS

- When it comes to "vitality" projects, MPI has indicated there does not need to be a defined return on investment – relevant to both Project Nova and other vitality projects[110]
    - Vitality projects are replacing existing functionality in order to address risk.[111]
    - *"So most vitality projects have a negative NPV value."*[112]
- Independent expert, Mr. Scott Greenlay "couldn't disagree more"[113]
    - MPI and stakeholders, including the PUB, must ask "what can we afford, what's the investment we can make"?[114]
    - No evidence that these questions are being asked for vitality projects
    - Recommends that vitality projects must be subject to financial criteria to ensure the accountability of vitality IT projects[115]

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[110] October 12, 2023, Dilay, Cambell, at 621
[111] October 11, 2023, McCandless, Campbell, at 593-594
[112] October 11, 2023, McCandless, Campbell, at 593-594
[113] October 23, 2023, Greenlay, at 1745
[114] October 23, 2023, Greenlay, at 1746
[115] Exhibit CAC-10, p 18.

IT EXPENSES MAY BE TOO HIGH

- In IT benchmarking, Gartner found that MPI's IT expenses are a percentage of operating expenses, compared to industry peer averages, is higher than peers without Project Nova and "significantly higher" with Nova[116]
    - With Nova: 10.3% higher than peer average[117]
    - Without Nova: 0.5% higher than peer average[118]
- Independent expert, Mr. Scott Greenlay, testified that digital transformation expenses are built into the benchmarks, so MPI's IT expenses with Nova is appropriate comparator – MPI <u>significantly higher IT expenses than private sector peers</u>[119]
- Gartner benchmarking report is only based on private sector firms, no public sector organizations – private sector firms operate in very different marketplace[120]
- IT expenses as a percentage of gross premiums written, as assessed by Aon, are higher than the Canada personal auto benchmark, the Canada industry benchmark and the US personal auto benchmark.[121]

[116] October 12, 2023, Muir, Dilay, at 638-639; Part IV – Benchmarking Attachment A, page 8
[117] GRA, Part V – IT, Attachment A, p 11
[118] GRA, Part V – IT, Attachment A, p 11
[119] October 23, 2023, Greenlay, at 1742
[120] CAC (MPI) 2-38, p 5;
[121] October 10, 2023, Dilay, Kolaski, at page 290-291

MPI'S OPERATING REALITY MEANS IT SHOULD NOT BE A LEADING-EDGE INNOVATOR

MPI Operating Reality

Leading edge Innovator

Vs.

Low cost provider in protected market

- Clarity is required

UNJUSTIFIED CYBERSECURITY SCORE MAY BE DRIVING UP IT EXPENSES

- MPI's cybersecurity goal is a rating of 4.2
  - Current rating is 2.46
  - MPI currently higher than public sector average at 2.25
  - Standard for the insurance industry at 2.75[122]

"…because the reality is, I'll quote the former CEO of Shadowbox out of California, when he stated: "You could spend your entire IT budget on cyber security and still be hacked." And that is the reality. And so how does an executive and board decide what the appropriate level is."[123]

- Unclear why MPI needs to have a higher cybersecurity score than the average
  - What is the cost of this desired higher cybersecurity rating? What is the appropriate investment in cybersecurity, given MPI's situation as a monopolistic Crown?[124]

[122] Exhibit CAC-6, p 16
[123] October 23, 2023, Greenlay, at 1739-1740
[124] October 23, 2023, Greenlay, at 1740

RIGOUR REQUIRED IN IT VENDOR PROCESSES

- Vendor management is especially crucial, given the majority of Nova's costs are with vendors[125]
  - *"…if MPI's going to continue to use vendors, which they obviously are, they must be excellent in this area."*[126]
  - Gartner results show that MPI's maturity in vendor management has gone down since the previous year[127]
- On behalf of ratepayers and as a public sector organization, MPI should exercise and demonstrate rigour around defining and monitoring the work of vendors – and must be able to demonstrate the compliance with the statement of work to its regulator to demonstrate prudence of expenses[128]
- Some specific concerns relating to MPI's processes in this area have been made evident, for example in the McKinsey statement of work development, as well as variances between the Deloitte and Avasant work and MPI's actual expenses[129]

[125] October 12, 2023, Dilay, Muir, at 649
[126] October 23, 2023, Greenlay, at 1742
[127] October 12, 2023, Muir, Dilay, at 648; GRA, Part V – IT, Attachment A, p 41
[128] October 17, 2023, Dilay, Campbell, at 1386-1387; Exhibit MPI-6, p 8
[129] Exhibit CAC-6, p 17-18

RIGOUR REQUIRED IN IT VENDOR PROCESSES (CONT.)

- Processes for vendor selection must be rigourous[130]
  - Tendering process can ensure accountability of vendors to specifications and requirements from MPI[131]
  - MPI should put together set of specifications and requirements[132]
  - Public nature of tendering process introduces an element of price competition to ensure goods and services are bought at a fair price, as well as provide vendors an opportunity for innovation, including proposing alternative specifications to meet the needs of the Corporation[133]

[130] See Exhibit CAC-6, p 8-9
[131] October 17, 2023, Dilay, Campbell, at 1384-1385
[132] October 17, 2023, Dilay, Campbell, at 1384-1385
[133] October 17, 2023, Dilay, Campbell, at 1384-1386

RIGOUR REQUIRED IN IT VENDOR PROCESSES (CONT.)

- Rigour around vendor delivery monitoring[134]
  - Should include developing a well-defined statement of work including a payment schedule based on milestones[135]
  - MPI should be measuring the work performed by suppliers against the statement of work, including regular accounting of the delivered work against the statement of work and identification and deviations and measures to address those, as well as any adjustments to the statement of work[136]
  - At the end of the contract, MPI must review the final work delivered against the statement of work to ensure compliance and request remediation of the vendor where there are work quality deviations[137]

[134] Exhibit CAC-6, p 9-11
[135] October 17, 2023, Dilay, Campbell, at 1387
[136] October 17, 2023, Dilay, Campbell at 1387-1388
[137] October 17, 2023, Dilay, Campbell, at 1388

PUBLIC SECTOR AND CROWNS IN IT BENCHMARKING

- IT benchmarking is a tool that can be used to look at, overall, whether IT spending and investments are appropriate at MPI[138]
- MPI appears to derive value from IT benchmarking done by Gartner over last number of years
    - For example, this year, MPI has reviewed and accepted the detailed recommendations provided by Gartner[139]
- MPI's reality is that of a monopoly Crown corporation, which does not compete with other competitors (including Insurtech firms) for Basic insurance[140]
    - But Gartner IT benchmarking only includes private sector firms[141]
    - Gartner confirmed in responses to IR that public sector organizations could be shown as a separate benchmark upon request with an applicable scope change order from MPI[142]

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[138] October 12, 2023, Dilay, Muir, at 632
[139] October 12, 2023, Dilay, Muir, at 633-634; GRA, Part V – IT, Attachment A, p 61; PUB (MPI) 2-53
[140] October 12, 2023, Dilay, Muir, at 634-635
[141] October 12, 2023, Dilay, Muir, at 636, 637; CAC (MPI) 2-38, p 5
[142] October 12, 2023, Dilay, Muir, at 637; CAC (MPI) 2-38, p 5

RECOMMENDATIONS ON INFORMATION TECHNOLOGY

IT costs can only be reflected in rates if the corporation demonstrates reasonableness and prudence.

MPI requires guidance from this Board on how to prove its costs are eligible for inclusion in rates.

CAC Manitoba recommends the adoption of Mr. Scott Greenlay's recommendations:

- **Reframe MPI as a Public Sector Crown in the Insurance Business – for decisions relating to IT**
- **Improve processes**
  - **Governance**
    - **Project Scope**
    - **Continuity of governance**
  - **Effective use of vendors**
  - **Detailed requirements**
  - **Vendor delivery monitoring**
  - **Track large system investments**
- **IT spending: MPI should use Canadian Crowns and public sector organizations as benchmarks**
- **Cybersecurity: reconsider cybersecurity goals in light of public sector peer group**

IMPRUDENT AND UNJUSTIFIED STAFFING INCREASES

- In 2023 GRA, PUB warned MPI about too high increases to staffing:[143]
    - *"The Board is concerned with the rate at which the Corporation plans to increase its staffing complement."*[144]
- Early in 2023, Government of Manitoba warned MPI about too high increases to staffing[145]
    - Minister Goertzen indicated that 250 new FTEs for 2023/24 = too high[146]
- Despite warnings from PUB and government in and following 2023 GRA that proposed staffing increases were too high, MPI is proceeding with an increase of <u>over 270 FTEs over two years (2022/23 and 2023/24)</u>[147]
    - With associated significant increases to compensation expenses,[148] directly impacting revenue requirement

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[143] October 16, 2023, Kolaski, Dilay, at 1101-1102)
[144] PUB Order 4/23, at 109.
[145] October 16, 2023, Kolaski, Dilay, at 1102; CAC (MPI) 1-2, preamble.
[146] October 16, 2023, Kolaski, Dilay, at 1102; CAC (MPI) 1-2, preamble.
[147] October 16, 2023, Kolaski, Dilay, at 1103-1105; PUB (MPI) 1-47
[148] October 16, 2023, Kolaski, Dilay, at 1106-1107

UNCERTAINTY IN COMPENSATION EXPENSES

- Significant compensation expense increases, associated with increased FTEs for 2022/23 and 2023/24, and the possibility of even further increases[149]
  - Collective bargaining agreement currently being negotiated[150]
  - Budget forecast for compensation likely to increase[151]
- Impact of labour interruption on financial forecasts is currently unknown
  - Some savings due to not paying staff during labour interruption
  - But also additional costs relating to interim staffing, over time, addressing backlogs, project delays, claims severity, etc[152]
  - MPI was not in a position to provide an update on the costs as these will take a long time to quantify[153]
    - This information will likely be provided in 2025 GRA[154]

[149] PUB (MPI) 2-72
[150] October 16, 2023, Kolaski, Dilay, at 1107-1109
[151] October 10, 2023, Kacher, McCandless at page 174
[152] October 16, 2023, Kolaski, Dilay, at 1139-1143
[153] October 16, 2023, Kolaski, Low, Dilay at 1143; October 16, 2023, Gabor, Kolaski, Low, at 1168-1170
[154] October 16, 2023, Gabor, Low, at 1170

NOVA IS ONE DRIVER OF STAFFING INCREASES

- Project Nova is driving some of the staffing increases
    - Resourcing forms 53% of the Nova budget[155]
    - Incremental resources for 2023/24 is forecast at 62 FTEs[156]
- If project is to be put on hold, as recommended by Mr. Greenlay, this would assist in justifying also putting staffing increases on hold

[155] October 17, 2023, Dilay, Ramirez at 1372
[156] October 17, 2023, Dilay, Ramirez, at 1372-1373

CROWN BENCHMARKING CORROBORATES PROPOSED STAFFING LEVELS THAT ARE TOO HIGH

- While not determinative in and of itself, benchmarking results demonstrate that MPI has higher FTEs than SGI and ICBC and corroborate a finding that MPI's staffing levels for 2022/23 and 2023/24 are too high.
- MPI reports on FTEs per 100 million of gross premiums written in its Crown Benchmarking exercise. Lower ratio is generally preferred for this metric.[157]
- MPI has highest FTEs per 100 million of gross premiums written among the Crown comparators in 2021/2022:[158]
    - Approximately 14 more staff in this performance measurement than SGI[159]
    - And approximately 30 more staff in this performance measurement than ICBC[160]
    - In Q3 of 2022/23, MPI's result for this performance measurement has gone up by 7 FTEs[161]

[157] October 10, 2023, McCandless, Kolaski, 270-271
[158] October 10, 2023, McCandless, Kolaski, 271-172
[159] October 10, 2023, Dilay, Kolaski, 295-296; GRA, Part IV, Benchmarking, page 23
[160] October 10, 2023, Dilay, Kolaski, 295-296; GRA, Part IV, Benchmarking, page 23
[161] October 10, 2023, Dilay, Kolaski, at page 296-297; GRA, Part IV, Benchmarking, page 24

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

- Gartner findings relating to MPI IT staffing as a percentage of enterprise employees:
  - With Nova, 24.9% - "significantly higher than the peer average"[162]
  - Without Nova, 19.2% - 2% higher than peer average[163]
- While not determinative in and of themselves, these IT benchmarking staffing results corroborates other evidence of too high staffing levels, especially if Nova is paused and reset
  - Greenlay's point that comparators have completed digital transformation supports a finding that MPI's IT staffing is too high.

[162] October 12, 2023, Muir, Dilay, at 641
[163] October 12, 2023, Dilay, Muir, at 641-642

STAFF LEVELS SHOULD REFLECT FISCAL PRUDENCE

- Given that MPI executive has been in flux for the past 18 months and until MPI can demonstrate appropriate staffing levels based on business plan, performance measures and productivity metrics:
    - Staffing levels from 2021/22 would be more appropriate for rate-setting purposes
- CAC Manitoba asked for rate change scenarios in CAC (MPI) 2-12[164]
    - Unfortunately, MPI compared normal operations to total corporate staffing levels in responding to that IR, resulting in understating the compensation reduction and the resulting rate change[165]
    - Exhibit MPI-110 (response to Undertaking #21) compared corporate staffing levels, but rate change may be still underestimated.

[164] Exhibit MPI-54

[165] October 16, 2023, Kolaski, Dilay, at 1120-1121; see also discussion October 16, 2023, Dilay, Kolaski, at 1113-1120 relating to what was compared in response to CAC (MPI) 2-12

RECOMMENDATIONS ON STAFFING EXPENSES

- **MPI must demonstrate that its operating expenses are prudent and reasonable. CAC Manitoba recommends:**
  - **Reduction in expenses for rate-setting purposes of at least -0.54% to recognize maintaining 2021/22 staffing level.**
    - **Note: Exhibit MPI-110 (Undertaking 21) may not have appropriately reflected the reduction in staffing and MPI should therefore be directed to adequately reflect this change in their compliance filing with the Board[166]**
  - **Adjustment to reduction in expenses to recognize a 1% increase to MPI's current forecast for salaries, given uncertainty with collective bargaining process: + 0.15%[167]**

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[166] Exhibit MPI-110, Figure 3 compared to PF-1 in Part IX – Pro-formas filed with the GRA shows that the only change MPI made to costs in preparing the undertaking adjusted premiums written for 2024/25F. No changes were made to any expenses (i.e. claims expenses or operating expenses where compensation expenses would be located) on the operating statement filed with Undertaking 21.

[167] Based on MPI's FTEs per Figure 1 of MPI Exhibit 110, Undertaking 021 for 2024/25F and 2025/26F the average compensation is $172.9 M and $175.8 M respectively or average of $174.4M. 1% of $174.4M is $1.7M. Basic premiums written relating to the rating year of 1% is $11.3M. So, the rate increase would be about 0.15% ($1.7M/$11.3M). (Order of magnitude). Part IX-Expenses, Figure EXP 4-Summary Table of Assumptions, page 12 line 17 to 19— for 2024/25 it is 1.88% and 2025/26 it is 2.00% for in-scope employees. Economic Increases are further described in Part IX -Expenses page 19 to 20 and specifically in Figure EXP -10.

NO EVIDENCE- BASED, PERFORMANCE-BASED BUDGETING PROCESS

- Key Performance Indicators or other performance measures can be used to set objectives or targets for a corporation and allow the organization to track progress[168]
- PUB found that:
    - *"The Board accepts CAC's position that MPI should be using key performance indicators to establish performance measures and targets across all aspects of the business, including IT."*[169]
- MPI confirmed it currently does not have performance measures (Key Performance Indicators, Objectives and Key Results or others) <u>integrated into budgeting practices</u>[170]
- This lack of evidence-based budgeting process raises significant concerns about the reasonableness of changes in the operating budget, especially as it relates to staffing, where MPI is proposing a large increase over two years

[168] October 16, 2023, Kolaski, Dilay, at 1123-1124
[169] PUB Order 4/23 at 111.
[170] October 16, 2023, Kolaski, Dilay, at 1125, 1131-1132; CAC (MPI) 1-92

STRETCH TARGETS AND ANALYTIC SUPPORT FOR EXPENDITURES

- In the Hydro context, the PUB:
  - has encouraged the use of stretch targets to mitigate inflationary pressures,[171] and
  - emphasized the need for evidence based information to support operating expenditure decisions.[172]

[171] PUB Order 69/19 at 23-24.
[172] *Ibid.*

RECOMMENDATIONS ON BUDGETING PROCESS

- **In the 2025 GRA, MPI should be directed to demonstrate progress in tying performance measures (i.e. Key Performance Indicators, Objectives and Key Results, or other performance measures) to budgeting practices in order to justify changes to its operating expenses on an evidence-based basis**

BENCHMARKING EXERCISES CAN BRING VALUE

- Benchmarking exercises can bring value to corporation and its ratepayers by providing a sense of how well a company is doing and identifying opportunities for improvement:

MS. KATRINE DILAY: And you'll agree that one (1) purpose of benchmarking can be to get a comprehensive understanding of a company's overall operational efficiency, effectiveness, and competitiveness in various domains within the industry?
MR. RYAN KOLASKI: Correct.
MS. KATRINE DILAY: And another purpose can be to identify opportunities for improvement?
MR. RYAN KOLASKI: Potentially, yes[173]

- For MPI, as a monopoly Crown corporation for Basic, which does not operate in the competitive marketplace for Basic, benchmarking can assist its regulator, the PUB, in examining whether MPI's expenses are reasonable[174]
  - The PUB has previously found that it "views benchmarking as an essential exercise undertaken as a matter of course in a well-run corporation.[175]

[173] October 10, 2023, Dilay, Kolaski, at 282
[174] October 10, 2023, Dilay, Kolaski at 283-284
[175] October 10, 2023, Dilay, Kolaski, at 285-287; PUB Order 134/21, p 107.

BENCHMARKING EXERCISES CAN BRING VALUE (CONT.)

- Operational efficiency benchmarking:
  - Relates to the capacity of MPI to deliver products and services to Manitobans in the most cost-effective manner possible[176]
  - While ensuring the high quality of MPI's products, services and support.[177]
- MPI has previously acknowledged the value of operational efficiency benchmarking[178]
  - As a method to understand and quantify the performance of its core business
  - As well as being an avenue to identify opportunities for further improvement.[179]

[176] GRA, Part IV – Benchmarking, page 21
[177] October 10, 2023, Dilay, Kolaski, at 287-288
[178] GRA, Part IV – Benchmarking, page 21
[179] October 10, 2023, Dilay, Kolaski, at 287-288

BENCHMARKING EXERCISES CAN BRING VALUE (CONT.)

- In order to bring value, benchmarking should:
    - Be data driven and include items that are relevant, unambiguous and measurable[180]
    - Provide measurement against a group of appropriate peers, in that they should have relatively similar characteristics[181]
    - Measure performance over time[182]

[180] October 10, 2023, Dilay, Kolaski, at 282-283
[181] October 10, 2023, Dilay, Kolaski, at 283
[182] October 10, 2023, Dilay, Kolaski, at 283

LACK OF VALUE IN CURRENT OPERATIONAL EFFICIENCY BENCHMARKING

- Currently, however, MPI does not appear to be getting much value from its benchmarking exercises:
    - MPI states Crown benchmarking does not provide it with insight into actions that it can take to improve its own metrics and that it cannot be easily compared to peers – no objectives established in Crown benchmarking[183]
    - AON report – no recommendations or action from report, so no implementation plan from MPI[184]
    - Inconsistency in operational efficiency benchmarking so no ability to measure performance over time
    - MPI is still figuring out best way to get value from benchmarking[185]

[183] CAC (MPI) 1-3
[184] October 10, 2023, Dilay, Kolaski, at page 291-292
[185] GRA, Part IV, Benchmarking, page 22

BENCHMARKING EXERCISES: NOT JUST A CHECK BOX ON A CHECKLIST

- Benchmarking should not just be an activity undertaken to check a box on a checklist[186]
- MPI should demonstrate value and consistency from the benchmarking exercises it undertakes:
  - Become a strategic and useful took for MPI, the regulatory process and Manitobans[187]
  - Lead to recommendations and actions for improvement[188]
  - Look at comparable performance measures over time in order to track process[189]
- The last few years of IT benchmarking by Gartner is an example of good benchmarking appearing to bring value to the corporation and the regulatory process.
- Value and consistency from benchmarking exercises should be demonstrated before discussion of removing benchmarking from issues reviewed every year in the GRA

[186] October 10, 2023, Dilay, Kolaski, at page 293-294
[187] October 10, 2023, Kolaski, Dilay, at page 294
[188] October 10, 2023, Kolaski, Dilay, at page 294
[189] October 10, 2023, Kolaski, Dilay, at page 294

BENCHMARKING COULD CONTRIBUTE TO EVIDENCE-BASED BUDGETING PROCESS

- Benchmarking compares MPI's performance on certain activities to other comparable entities[190]
- Key performance indicators are a set of quantifiable measurements used to gauge a company's overall long term and short term performance[191]
- Certain of the activities that MPI tracks in its benchmarking activities are effectively gauging the Company's overall short-term and long-term performance[192]

[190] October 10, 2023, Dilay, Kolaski, at page 294-295
[191] October 10, 2023, Dilay, Kolaski, at page 294-295
[192] October 10, 2023, Dilay, Kolaski, at page 294-295

RECOMMENDATIONS ON BENCHMARKING

- **Given the value that can be obtained from benchmarking exercises, including for the regulatory process, and the inconsistent way these exercises have been undertaken by MPI for operational efficiency, MPI should be directed to:**
    - **Continue to undertake the Crown benchmarking exercise;**
    - **Continue to retain a third-party vendor to conduct operational efficiency benchmarking and request that public sector organizations continue to be included in the peer group. Third-party or MPI to identify areas of improvement and prepare an implementation plan;**
    - **Consider using some of its benchmarking performance measures as part of its work on linking KPIs and OKRs to budgeting practices, including to set objectives and stretch targets;**
    - **Track and monitor progress consistently and report to the PUB; and**
- **Once consistent operational efficiency benchmarking is being undertaken by MPI which brings value to the regulatory process, discussion around whether issue should be moved to every 2 or 3 years could be had.**

UNCERTAINTY IN CITYPLACE RECONFIGURATION AND ASSOCIATED BUDGET

- Significant uncertainty flagged by MPI regarding Cityplace renovations and associated expenses[193]
    - Expenses relating to buildings and Cityplace are one of the key inputs in the 2023/24 capital budget[194]
    - Possibility that more staff will attend in office, which would be a material shift in occupancy requirements from the current design[195]
    - MPI is still determining specific direction for how often staff will be required to attend in-office[196]
    - Significant uncertainty associated with Cityplace renovation costs (currently estimated at $1.5M – costs could potentially be higher[197]

[193] PUB (MPI) CI 2-1, public response; see also Exhibit MPI-85
[194] October 12, 2023, Dilay, Campbell at 652; PUB (MPI) 2-1, Appendix 2, page 5
[195] PUB (MPI) CI 2-1 d); October 12, 2023, Dilay, Campbell, at 655-656
[196] PUB (MPI) CI 2-1 e); Exhibit MPI-85
[197] PUB (MPI) CI 2-1 e); October 12, 2023, Dilay, Campbell at 658

RECOMMENDATIONS ON CITYPLACE

- **Given the impact of expenses on ratepayers and the current uncertainty, MPI should be directed to report back on its final work-from-home / hybrid strategy and associated expenses regarding Cityplace reconfiguration, for purposes of assessing the reasonableness of the revenue requirement**

THE IMPORTANCE OF ROAD SAFETY

- The importance of Road Safety in Manitoba cannot be overstated.[198]
    - Lives saved, injuries prevented
    - For the rate-setting process, claims (collision and injury) avoided, resulting in lower claims incurred costs
- MPI is uniquely positioned in Manitoba to leverage stakeholder partnerships for improved road safety outcomes for Manitobans and Manitoba ratepayers.

[198] October 16, 2023, Klassen, Kolaski, 1153-1154.

REASONABLE EXPENSES AND NEED FOR REGULAR MEANINGFUL ENGAGEMENT

- For purposes of this GRA, road safety expenses appear to be reasonable
  - No more placeholder for “ideas”, with support for data processing capacity
- Ongoing engagement is necessary to achieve safety outcomes and to optimize investment for ratesetting.
- Technical Conferences:
  - offer in-depth mutual learning on initiatives and outcomes, and
  - facilitate collaboration and information sharing between Road Safety practitioners

RECOMMENDATIONS ON ROAD SAFETY

- **Road safety expenses for purposes of 2024 GRA should be considered reasonable**
- **Technical Conferences should continue to occur every two years, followed by detailed analysis in the GRA.**[199]

[199] CAC Manitoba notes that Directive 12.25 of Order 4/23 directed MPI to seek input on the frequency of Road Safety technical conferences.

PART 3

- "Excessive cushions" and imbalance in management of reserves (pages 78-95)
- An investment strategy that comes with a cost to ratepayers (pages 96-100)
- "Excessive cushions" in claims forecasting (pages 101-122)

ASSESSMENT OF FINANCIAL HEALTH – INTEGRAL PART OF RATE-SETTING ROLE REMOVED FROM PUB AUTHORITY

- The financial health of the corporation is an integral element of rate-setting for the Public Utilities Board[200]
    - Historically, for MPI, this has included the setting of appropriate reserves.
- With the legislative changes to the *Manitoba Public Insurance Act* in November 2022, this integral element of rate-setting was removed from the Public Utilities Board authority
    - Legislative changes came into effect November 2022 – this is the first opportunity to see the impacts of these changes on the rate-setting process and MPI's proposed approach to managing capital

[200] PUB Order 98/14 as it relates to MPI. PUB Order 5/12 as it relates to Manitoba Hydro's overall general health.

PURPOSE OF THE RSR: PROTECTION FROM RATE SHOCK

You'll agree that the RSR purpose is to protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from nonrecurring events or factors?

MS. CARA LOW: Correct.

MS. KATRINE DILAY: And so, in other words, the intent of the RSR is to act as a cushion against a bad year or series of bad years, correct?

MS. CARA LOW: Correct, yes.[201]

- RSR acts as a cushion against:
    - bad weather (subject to reinsurance),
    - high inflation and resulting sharp drop in value of bond portfolio,
    - imprudent management such as drastic increase in operation expenses[202]

[201] October 18, 2023, Dilay, Low, at 1447-1448
[202] October 18, 2023, Dilay, Low, at 1449

INTERGENERATIONAL EQUITY RELEVANT TO RSR LEVEL DETERMINATION

- Excessive reserves are unfair to past ratepayers, to the benefit of future ratepayers

  MS. KATRINE DILAY: You would agree that, to the extent that amounts held in reserves may be excessive, this would raise concerns of intergenerational equity?

  MS. CARA LOW: Yes, because the capital reserve came from the past, so the past ratepayers, not the future ratepayers.[203]

- This represents an **opportunity cost to ratepayers** who may use their share of excess reserves for other purposes, such as paying down credit card debt or mitigating the rising price of food[204]

[203] October 18, 2023, Dilay, Low, at 1449-1450
[204] October 18, 2023, Dilay, Low, at 1450-1451

RSR LEVEL HAS BEEN DETERMINED BY THE PUB THROUGH A VARIETY OF METHODS

- The PUB has considered a variety of approaches to determining the appropriate level of reserves, including percent of premiums, value at risk, or risk analysis method, and Dynamic Capital Adequacy Testing[205]
- Goal of the PUB has been to set the RSR at a level that balances:
  - Interests of the corporation in having a financial cushion to protect ratepayers from rate shock; and
  - Interests of ratepayers to have that extra money in their pockets to address other needs, such as paying down credit card debt or dealing with rising prices of essentials.
- It is of note that 120% MCT has never been found appropriate for rate-setting purposes by the PUB[206]
  - When PUB approved MCT in the 2020 GRA as part of the Capital Management Plan, it was on a trial basis (extended one year in 2021)[207]

[205] October 18, 2023, Dilay, Low at 1451; PUB Order 135/14 at 48-49; PUB Order 130/17 at p 71
[206] October 18, 2023, Dilay, Low, at 1452-1453
[207] PUB Order 176/19, p 61-63; see also PUB Order 134/21, p 69.

CAPITAL LEVELS NOW SET IN LEGISLATION

- Changes to *Manitoba Public Insurance Act:*[208]
  - Basic: 100% MCT (no rebate until at least 120%)
  - Extension: 200% MCT
  - Special Risk Extension: 300% MCT
- Removing an integral element of rate setting from the Public Utilities Board authority
- Minimum Capital Test (MCT) is a tool used by OSFI to ensure a property and casualty company maintains adequate capital and adequate forms of liquidity[209]
  - It is also one of several indicators to assess an insurer's financial condition[210]
  - MPI first followed Minimum Capital Test (MCT) by choice and now it is in legislation
  - It appears that MPI assisted in drafting legislation[211]

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[208] *Manitoba Public Insurance Act,* CCSM c P215, s 18(3) and 18(4)
[209] October 18, 2023, Dilay, Low, at 1446-1447
[210] October 18, 2023, Dilay, Low, at 1447
[211] October 16, 2023, Dilay, Kolaski, Low, at 1151

MPI IS NOT REGULATED BY OSFI

- MPI is not regulated by OSFI, as a monopoly Crown corporation
- OSFI is a federal agency with a mandate to oversee the safety and soundness of Canadian financial institutions – ensures these companies have sufficient reserves to weather an adverse year and a loss of ratepayers and still meet the obligations to their insured[212]
- For companies in a competitive environment, they must be mindful of the impact of their rates on whether customers will stay with them or switch to competitors[213]
  - These companies do not have the implicit backing of the Province of Manitoba in the event of a bad year[214]
- The same considerations do not apply to MPI as a monopoly Crown corporation, regulated by the PUB: customers have no choice but to purchase Basic insurance from MPI – they cannot go somewhere else if they are unhappy with MPI's service or management or rates[215]

[212] October 18, 2023, Dilay, Low, at 1443, 1446
[213] October 18, 2023, Dilay, Low, at 1443-1444
[214] October 18, 2023, Dilay, Low, at 1445-1446
[215] October 18, 2023, Dilay, Low, at 1442-1443

PROPOSED CMP REQUIRES RATEPAYERS TO TRUST MPI

- Under the proposed Capital Management Plan and the legislation, the PUB cannot order a rebate unless MPI applies for one[216]
- This is in stark contrast to the PUB's authority to set just and reasonable rates, where the PUB can order a rate increase or decrease even if MPI seeks no rate change[217]
- The proposed Capital Management Plan requires customers to trust that MPI will apply to the PUB for a rebate when the Basic MCT ratio exceeds 120%[218]
  - **As a result, the PUB essentially no longer has any jurisdiction over MPI's capital reserves, despite the financial health of the corporation being an integral element of rate-setting**

[216] *Manitoba Public Insurance Act,* CCSM c P215, s 18(4); October 18, 2023, Dilay, Low, at 1459-1460
[217] October 18, 2023, Dilay, Low, at 1459-1460
[218] October 18, 2023, Dilay, Low at 1460

EXTENSION RECEIVES A BENEFIT FROM BASIC

- 95% of Basic customers also purchase at least one Extension product, translating to about 80% of eligible policies with an Extension product[219]
- Basic and Extension customers are substantially the same individuals[220]
- Extension receives a benefit from its relationship with Basic:
  - Seamless, shared service delivery between the two lines of business[221]
  - Extension has the same access to customer information as Basic, with no structural separation between the two lines of business.
  - It is probably the case that many Extension customers are not aware that they have competitive options[222]

[219] October 18, 2023, Dilay, Low, at 1456-1457; PUB (MPI) 2-15
[220] October 18, 2023, Dilay, Low, at 1456-1457
[221] October 18, 2023, Dilay, Low, at 1456-1457
[222] October 18, 2023, Dilay, Low, at 1456-1457

SIGNIFICANT RISK TO EXTENSION RESERVES TRANSFERRED TO OTHER LINES OF BUSINESS

- Despite the benefit that Extension receives from Basic, MPI confirmed <u>multiple times on the record of this proceeding</u> it is under no obligation to transfer Extension excess reserves to Basic, and can instead transfer to other lines of business, thus removing potential rebates to Basic customers[223]
    - MPI has a history of transferring funds from Extension to Driver and Vehicle Administration, including $117M in 2020/21 and 2021/22[224]

[223] October 18, 2023, Dilay, Low, at 1461-1462; October 18, 2023, Meek, Low, at 1497-1498; October 16, 2023, Kolaski, Scarfone, at 1206-1207;
[224] October 18, 2023, Dilay, Low at 1462; GRA, Part X – Rate Stabilization Reserve, p 9

NO LONG-TERM FUNDING SOLUTION FOR OTHER LINES OF BUSINESS

- Driver and Vehicle Administration
  - While the government of Manitoba directed MPI not to transfer funds from Extension to DVA in 2022/23 and 2023/24, this directive does not apply to future years. Current DVA capital will not last forever.[225]
  - Government has neither provided any guidance to the self-sufficiency of DVA to MPI, nor has it indicated when such guidance will be provided[226]
  - Over the long-term, the existing capital available cannot in and of itself sustain the DVA line of business as it is currently operating[227]
  - It is clear that DVA will require additional funding – Extension reserves, which should benefit Basic ratepayers under CMP, are at risk[228]
- There is no official policy for funding capital shortfalls for Extension and for Special Risk Extension[229] - representing another potential risk to Basic ratepayer funds

[225] October 18, 2023, Dilay, Low, at 1463-1464; October 18, 2023, Dilay, Kolaski, at 1466-1467; GRA, RSR – Appendix 3
[226] October 18, 2023, Dilay, Low, at 1464; October 16, 2023, Kolaski, Andres, at 1052-1053; CAC (MPI) 2-4, page 2
[227] October 18, 2023, Dilay, Low, at 1465
[228] October 18, 2023, Dilay, Kolaski, at 1467; October 18, 2023, Dilay, Kolaski, at 1467-1468
[229] October 18, 2023, Dilay, Low, at 1465; CAC (MPI) 2-7, page 2

RSR LEVEL IS AT 135.5% MCT… BUT NO REBATE APPLICATION

- The October update (Exhibit MPI-50) shows a 135.5% MCT at fiscal year end 2022/23, restated under IFRS 17[230]
  - MPI has not applied for a rebate citing the lack of audited financial statements and specifically, uncertainty relating to the MCT calculation and whether certain items will end up in the liability for remaining coverage or the liability for incurred claims[231]
  - This could have an up to 10% swing in the MCT[232]

[230] Exhibit MPI-50, PF-3, page 7.
[231] October 16, 2023, Low, Andres, at 1097; October 10, 2023, Kacher, McCandless, at 167-168
[232] October 16, 2023, Low, Andres, at 1097

MPI'S FINANCIAL STRENGTH IS "CONSIDERABLE" AND "SIGNIFICANT"

- Despite MPI's evidence that it is still finalizing its MCT calculation under IFRS 17, the independent Financial Condition Test report signals that MPI's financial strength is "considerable" and "significant"

*"**The company's financial strength remains considerable** as evidenced by the results of the MCT. This measure continues to strengthen over the 2023/24-2027/28 period, remaining at a level above both the regulators supervisory requirement and the company's target level by substantial margins stressing the **significant financial strength of the organization.**" (emphasis added)*[233]

- Financial Condition Test report tested various scenarios and the results are reported under IFRS 17 for future years (not for 2022/23)[234]
- The FCT report states that the MCT is forecasted to remain above the Company's target level of 100% MCT by substantial margins[235]

[233] Exhibit MPI-82, p 20
[234] October 18, 2023, Dilay, Low, at 1481; Exhibit MPI-82, p 20
[235] October 18, 2023, Dilay, Low, at 1484; October 18, 2023, Dilay, Low, at 1485; Exhibit MPI-82, p 20

BUT IS A REBATE DESIRABLE?

- Yes, because:
  - MPI's evidence that it expects the MCT at fiscal year-end 2022/23 to be higher than the 111% under IFRS 4[236]
  - That the MCT ratio put forth by the corporation under IFRS 17, while not finalized, is 135.5%
  - The considerable and significant financial health of the corporation, as discussed in FCT
  - No legislative requirement that rebate be based on audited statements
- However, it may be prudent not to apply for a rebate going down to 100% MCT
  - A rebate going down to between 110-120% MCT would better balance the financial health of the corporation with the needs of ratepayers
    - This would mean a rebate somewhere between $52.678M (120% MCT rebate) and 121.034M (100% MCT rebate)[237]
  - There is no legislative rule that a rebate must rebate down to 100% MCT[238]

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[236] October 18, 2023, Dilay, Low, at 1476-1477; October 16, 2023, McCandless, Low, Kolaski, at 1226-1228; October 18, 2023, Nelko, Low at 1503
[237] October 18, 2023, Dilay, Low, at 1471-1471; MPI Exhibit 77, PF-3, p 7
[238] October 18, 2023, Nelko, Low at 1507-1509

MCT OVERSTATES MARKET RISK & INFLATES RESERVES

"The MCT guidelines do not reflect the benefits of asset class diversification"[239]

- Due to the mechanistic MCT, MPI's steps to reduce portfolio risk cost customers <u>more</u> to maintain capital adequacy.
- The capital charges associated with new Basic Claims asset classes increase market risk component of MCT by 65%.[240]
- "There are some asset classes that help to reduce risk and surplus volatility…but their…capital charges don't reflect that."[241]

Capital requirements add to customer burden, delay capital rebates, and inaccurately reflect risk.

[239] CAC(MPI)1-86(a).
[240] October 18, 2023 Transcript, Klassen, Low at 1493-1494.
[241] October 24, 2023 Transcript, McCandless, Bunston at 1870.

RECOMMENDATIONS ON CAPITAL MANAGEMENT PLAN

- **Recommendations for 2024 GRA:**
  - **The PUB should recommend that MPI apply for a rebate to bring MCT down to between 110-120%, recognizing both some uncertainty with the 135.5% MCT and the considerable financial strength of the corporation.**
  - **PUB should not approve CMP because:**
    - **MPI has failed to provide a satisfactory plan for the long-term funding of the DVA line of business, therefore jeopardizing Extension reserves and prospective Basic capital rebates, and**
    - **It is premised on the statutory removal of an integral element of the PUB's rate setting authority.**

RECOMMENDATIONS ON CAPITAL MANAGEMENT PLAN (CONT.)

- **Recommendations for government of Manitoba:**
  - **The full independence of the PUB should be restored including:**
    - **Capital targets should be removed from legislation to recognize the integral role of capital requirements in rate-setting. The appropriate level of reserves and methodology for determining capital adequacy are central to the Board's assessment of the financial health of the corporation.**
    - **The requirement for MPI to apply for a rebate should be removed from legislation to recognize the integral rate-setting role of the PUB. The PUB's authority to vary the relief sought by MPI should apply equally to capital as to rates.**
  - **Government and MPI should work on a long-term self-sustaining funding strategy for DVA, including updating the 2004 Master Agreement. This long-term strategy should be reviewed every year and should reflect the responsibility of taxpayers to pay for DVA as opposed to MPI ratepayers.**

RECOMMENDATIONS ON CAPITAL MANAGEMENT PLAN (CONT.)

- **Recommendations for MPI:**
  - **MPI should develop a long-term strategy to ensure that Extension and SRE remain capitalized without any reliance on Basic ratepayers.**

INVESTMENTS

- Lessons learned and missed opportunities, all at customers' expense

The Board recognizes that its role is one of ***oversight*** *and does not extend to directing the Corporation on the particulars of its portfolio management. Nevertheless, the review of MPI's investment portfolios is* ***critical to the Board's examination of MPI's overall financial position*** *and for the Board to* ***assess the reasonableness of the rate request****.*[242]

[242] PUB Order 4/23 at 121.

INVESTMENTS: LESSONS LEARNED

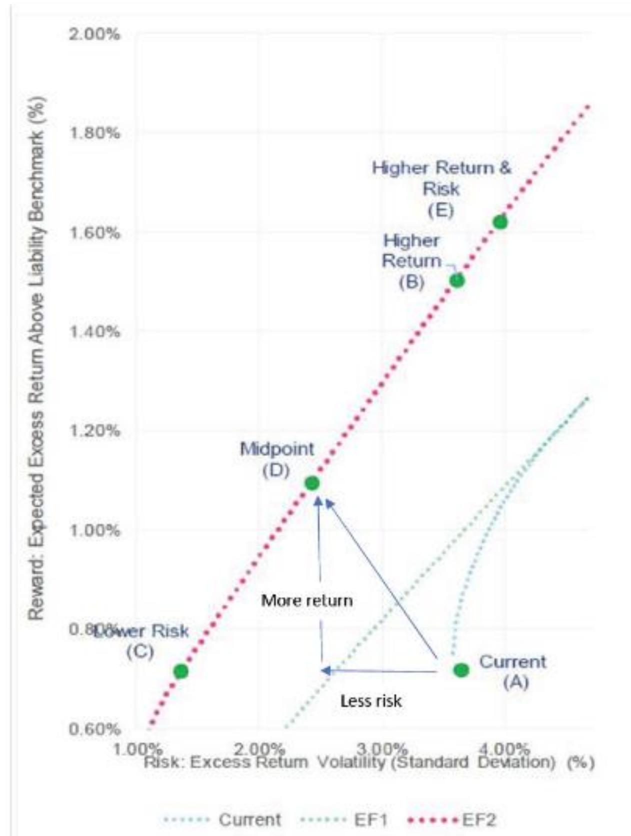
- Reactionary adoption of a real liability benchmark led to the implementation of an inflation hedge in Basic Claims, but not before significant losses in 2021/22 and 2022/23.[243]
- CAC Manitoba first recommended use of a real, rather than nominal liability benchmark in 2018 to mitigate inflation risk.[244]
- MPI Investment Committee decision to mitigate inflation risk with inflation-linked bonds came in March 2023, after two years of concerning performance.[245]
- Lack of inflation hedge in Basic Claims persists and continues to cost ratepayers.[246]

MPI's inflation assumption caused hundreds of millions and counting in bond portfolio losses across three fiscal years.

243 MPI experienced bond portfolio losses of approximately $127 million in 2021/22 and $115 million in 2022/23. October 24, 2023 Transcript, Klassen, Bunston, 1910.
244 PUB Order 159/18 at 84.
245 Part XI – INV Appendix 1 at 1. MPI's revised Investment Policy Statement calling for the inclusion of Real Return Bonds in Basic Claims was approved on March 23, 2023.
246 October 24, 2023 Transcript, Klassen, Bunston, 1916-1917.

INVESTMENTS: MISSED OPPORTUNITIES

247



- MPI's investment risk tolerance materially unchanged through two most recent ALM studies.[248]
- Consistent choices to reduce risk see material reduction in surplus volatility from 2017 to 2024.[249]
- Reducing risk has an opportunity cost, and MPI's actions are at odds with its risk tolerance and customers' interests in reasonable returns.

[247] COM Appendix 3, p 13.
[248] October 24, 2023 Transcript, Klassen, Low, Bunston, 1924-1925.
[249] CAC(MPI) 2-31(e); October 24, 2023 Transcript, Klassen, Bunston, 1923-1924.

INVESTMENTS: MISSED OPPORTUNITIES

- MPI's Investment Policy Statement continues to prohibit Equities in Basic Claims.[250]
- MPI confirmed in cross examination that small amounts of equities can be added to a portfolio with immaterial impact on risk.[251]
- IR responses confirm that many of MPI's cited risks, including liquidity, foreign exchange, and idiosyncratic risks, can be at least partly mitigated.[252]

MPI's continued reluctance to meaningfully consider high-earning asset classes is a missed opportunity with a cost to its customers.

250 COM Appendix 3 at 16.
251 October 24, 2023 Transcript at 1929.
252 CAC(MPI)1-88

INVESTMENTS: RECOMMENDATIONS

- **The PUB find that MPI's continual reduction of risk in the absence of heightened risk sensitivity is not prudent and has a cost to customers.**
- **The PUB recommend that MPI's continued development of its asset/liability management program should more closely reflect the recommendations of Mr. Viola, adopted by the Board in Order 162/16[253]**

[253] PUB Order 162/16 at Directive 10.13; Appendix E Recommendation 7, "Avoiding Costly Constraints"

CLAIMS FORECASTING – MOST CRITICAL ASSUMPTION IN RATING PROCESS

- Claims forecasting trends are the most critical assumption in the entire rating process – one small change in claims trends can have a significant shift in the indicated rates and what MPI needs to charge to customers[254]
- Claims costs are the largest component of premiums[255]
- Different coverages form a bigger or smaller share of the total claims costs
  - With collision being the largest percentage of claims costs at 59.17%[256]
  - Depending on the coverage's share of claims costs, small adjustments can make a big or small difference[257]

[254] October 12, 2023, Low, at page 687
[255] Exhibit CAC-11, p 8
[256] Exhibit CAC-11, p 9
[257] October 25, 2023, Sahasrabuddhe, at 1987-1988.

ENHANCEMENTS HAVE IMPROVED MPI'S CLAIMS FORECASTING SINCE 2023 GRA

- New actuarial group Business Insights Analytics Team – monitoring, reviewing and projecting claims trends[258]
- Oliver Wyman looks favourably upon methodology enhancements made by MPI, as it reflects what they have seen in other provinces:[259]
  - Increased use of statistical analyses – Improves separation of signal and noise from the data
  - Revised coverage groupings – Providing more credibility to the data
  - Use of accident year weighting in estimating loss costs – Increased robustness in the "starting point"
  - Application of a COVID-19 work from home adjustment – Transparent consideration of assumed driving behaviour underlying 2024/25 loss cost estimate
  - Use of the 2022 appointed actuary report for frequency and severity estimates
  - Hail Loading – Improved modelling of random weather events.
  - PIPP Indexation –Wage inflation implicit in claims severity

[258] October 12, 2023, Low, at page 687
[259] Exhibit CAC-11, p 10; October 25, 2023, Sahasrabuddge, at 1992-1993.

IMPROVEMENTS TO LOSS TREND METHODOLOGY

- MPI has introduced improvements to loss trend methodology:

  "MPI has adopted a methodology very similar to the approach we use in other Provinces for the 2024 GRA.

  MPI's prior trend analysis relied more heavily on judgment,

  We view the 2024 approach as an improvement as it is more robust and leverages a statistical model"[260]

  - But makes it more difficult to compare to prior years[261]

[260] Exhibit CAC-11, p 23
[261] Exhibit CAC-11, p 23

ACTUARIAL JUDGMENT CAN BE APPROPRIATE – BUT CONSERVATISM COMES AT THE EXPENSE OF RATEPAYERS

- Claims forecasting is "truly an art and a science"[262]
  - *"The science is the math that goes into the modelling, and the art is understanding and interpreting the data and making correct selections."*[263]
- When it comes to the balance between ratepayers and the corporation, judgment that is too conservative comes at the expense of ratepayers
  - *"And then forecasting to the best estimates. When we look at our claims forecast, we're looking at what we think is our best estimate. We're not adding a lot of conservatism, nor are we adding a lot of optimism. Conservatism isn't good for the ratepayers; optimism can lessen a rate deficit, but you gain -- it gets away from rate stability."*[264]
- In some cases, actuarial judgment is applied to select the most appropriate future trend rate for the forecast period[265]

[262] October 12, 2023, Low, at page 688
[263] October 12, 2023, Low, at page 688, lines 9-12
[264] October 12, 2023, Low, at page 690
[265] October 12, 2023, Dilay, Zhou, at page 758-759

SOME ASSUMPTIONS IN 2024 GRA ARE NOT BEST ESTIMATE

- Some, but not all, of the assumptions in MPI's claims forecasting in the 2024 GRA are not best estimate, leading to an "excessive cushion" for MPI, at the expense of ratepayers
- High-level issues:
    - Premiums should not be increased based on uncertainty[266] – that is not a best estimate
    - Frequency and severity should be based on the same time periods, by default, because these are not independent variables[267]
    - A single model is preferrable to two different models, which results in a disjointed model[268]

[266] October 25, 2023, Guerra, Sahasrabuddhe, at 2115
[267] October 25, 2023, Sahasrabuddhe, at 2017-2018.
[268] October 25, 2023, Sahasrabuddhe, at 2018

OLIVER WYMAN: CREDIBLE, EXPERIENCED, EVIDENCE-BASED

- Oliver Wyman experts provided written evidence and Mr. Rajesh Sahasrabuddhe testified before the PUB
  - Experience in almost all Canadian provinces reviewing rate filings
  - Estimate their team reviews 75 Canadian rate filings per year, in addition to US rate filings[269]
  - Duty to be fair, objective, non-partisan[270]
- No rebuttal evidence filed by MPI
- While Oliver Wyman has acknowledged favourable enhancements implemented by MPI in their claims forecasting methodology, they have identified an issue with accident year weightings and alternative trends that would be more reasonable and appropriate[271]
  - While multiple approaches can be reasonable, only one premium can be charged to ratepayers
  - The Oliver Wyman recommendations are more reasonable and appropriate and, as a result, better balance the interests of the corporation and ratepayers

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[269] PUB (CAC) 2, a)
[270] Exhibit CAC-11, p 5
[271] October 25, 2023, Sahasrabuddhe, at 2008-2015, 2018.

ACCIDENT YEAR WEIGHTS

- For coverages where the impact of the change in mobility during the COVID-19 pandemic is significant, MPI proposes to assign no weight to 2020 and 20% weight to all other years from 2017-2020[272]
  - *MS. CHRISTINE ZHOU: Accident year weighting traditionally for pricing actuaries is a judgment call. And we tend to stick to consistent weighting. Based on my experience, other regulators in other jurisdictions in Canada, they prefer consistent accident year weighting, as well.*[273]
- MPI's proposal does not recognize:
  - (1) actual experience relating to snowfall with 2020 being a good year and 2021 being a bad year,
  - (2) best practice relating to experience periods (6 years being too long) and
  - (3) the uniqueness of both the 2020 and 2021 years for claims incurred due to the Covid-19 pandemic

[272] Exhibit CAC-11, p 15
[273] October 12, 2023, Zhou, Scarfone, at page 803-804

ACCIDENT YEAR WEIGHTS (CONT.)

- Snowfall: MPI's frequency regression models overpredict the 2020 observation and underpredict the 2021 observation. MPI states that most of this unexplained variance may be explained by snow fall levels.[274]
  - MPI's approach only includes the bad year and not the good year – loss cost should represent the average, not unusually good or bad years if we want protection to be equitable[275]
  - Oliver Wyman: "*We find the longer-term claims experience does not indicate that 2021 represents a 1 in 5-year outcome, as implied by the MPI weights. We find including both 2020 and 2021 better reflects the average snowfall levels that would be expected in a "normal" year."*[276]
- Experience Period: MPI assigns 20% weight to 2017, effectively using a 6-year experience period
  - Oliver Wyman: *"Rate filings that we review, particularly those for insurers with higher premium volumes such as MPI, consider the most recent three-to-five-year as the experience period to which weights are assigned."*[277]
  - *"We find the older 2017 experience may be less reflective of the more recent emerging data."*[278]

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[274] Exhibit CAC-11, p 16
[275] October 25, 2023, Sahasrabuddhe, at 2004-2005.
[276] Exhibit CAC-11, p 16
[277] Exhibit CAC-11, p 16
[278] Exhibit CAC-11, p 16

ACCIDENT YEAR WEIGHTS (CONT.)

- WFH Adjustment Uncertainty: MPI indicates that it excluded 2020 for coverages "where COVID-19 impacted frequency"[279]
    - Oliver Wyman: *"We recognize that the predictive value of experience for both 2020 and 2021 may be subject to additional uncertainty, not only the 2020 experience. We do not find MPI's rationale for excluding 2020 but including 2021 to be compelling."*[280]
    - *"We find it more reasonable to consider appropriate weights for both the 2020 and 2021 accident years"*
    - While there is more uncertainty in 2020 and 2021, giving the full weight to 2021 and no weight to 2020 (which was a better year) does not seem fair[281]
- This proposal does not recognize MPI's own evidence that more people worked from home in both 2020 and 2021 and the adjustments that they have made to those two years elsewhere in their assumptions
    - *"On the other hand, more people worked from home in 2020 and 2021 compared to 2022; that is why those two (2) years loss cost were lifted upwards."*[282]

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[279] Exhibit CAC-11, p 16
[280] Exhibit CAC-11, p 16
[281] October 25, 2023, Sahasrabuddhe, at 2016
[282] October 12, 2023, Zhou, at page 699

ACCIDENT YEAR WEIGHTS – A NOVEL APPROACH FOR NOVEL CIRCUMSTANCES

- Oliver Wyman proposes a novel approach to unique and novel circumstances (Covid-19 pandemic)[283]
    - Not inconsistent with other approaches taken in unusual circumstances[284]
- Oliver Wyman's proposal attempts to more reasonably recognize the relative likelihood of those observations, given the observations for all other years
- Oliver Wyman alternatives are preferrable for best estimates that balance the interests of the corporation and ratepayers
- MPI's approach is not preferred:
    - *"That set of facts is unreasonable."*[285] – as it relates to MPI's proposal for accident year weightings
    - In the other rate filings the Oliver Wyman team has reviewed, the treatment of pandemic years has been all over the place, but they have not seen a situation where one pandemic year was removed and the other was left in[286]

[283] October 25, 2023, Sahasrabuddhe, at 2125
[284] October 25, 2023, Sahasrabuddhe, at 2010-2011
[285] October 25, 2023, Sahasrabuddhe, at 2123
[286] October 25, 2023, Sahasrabuddhe, at 2138-2141

ACCIDENT BENEFITS - WEEKLY INDEMNITY TREND

- For past trend, MPI uses different time periods[287]
- Oliver Wyman:[288]

ACCIDENT BENEFITS – WEEKLY INDEMNITY TREND FINDINGS AND CONCLUSIONS

Oliver Wyman Recommendation: The frequency and severity models should be fit to the same time periods

It is our view that, absent compelling reasons, frequency and severity models should be fit to the same time period.

- We note that MPI's frequency model consider observations from 2009 through 2022; whereas the severity model considers 2012 through 2022.
- This difference is more concerning as 2012 is a "low point" in the severity data and a "high point" in the frequency data.
- We appreciate the additional volatility (and resulting lower R^2) introduced by the additional data points. However, we don't consider this a compelling rationale for exclusion of those data points

This results in a loss cost trend reduction of 0.98 percentage points, from +1.97% to +0.99%.

[287] Exhibit CAC-11, p 29; October 12, 2023, Dilay, Zhou, at page 765; GRA, Part VI, Claims Forecasting, CF Appendix 3, page 2, 4
[288] Exhibit CAC-11, p 29

ACCIDENT BENEFITS - OTHER (INDEXED) TREND

- For past trend, MPI uses different time periods[289]
- Oliver Wyman:[290]

ACCIDENT BENEFITS – OTHER (INDEXED) TREND FINDINGS AND CONCLUSIONS

Oliver Wyman Recommendation: The frequency and severity models should be fit to the same time periods

It is our view that, absent compelling reasons, frequency and severity models should consider the same time period.

- We note that MPI's frequency model consider observations from 2009 through 2022; whereas the severity model considers 2012 through 2022.
- We recognize the changing pattern in the severity data before and after 2012. Therefore, we find it more reasonable that both models consider data between 2012 and 2022.

This results in a loss cost trend reduction of 0.87 percentage points, from +2.29% to +1.42%.

[289] October 13, 2023, Dilay, Zhou, at page 766-7; GRA, Part VI – Claims Forecasting, CF Appendix 3, page 6, 8
[290] Exhibit CAC-11, p 34

ACCIDENT BENEFITS – OTHER (NON-INDEXED) TREND

- MPI's proposal to increase frequency future trend from -4.9% to 0% (selected judgmentally)[291] is too significant
- This big jump is not usually done in the industry, as acknowledged by MPI:
  - *"We don't believe tempering the past trend by half to two point four seven (2.47), it's reasonable in the sense of,* ***in our profession, we don't usually jump from minus four point nine (4.9) to zero. I acknowledge that. And we acknowledge the concern. And 50 percent is a reasonable approach,*** *but then we will look at the loss cost, and when we look at the recent actual year-over-year volatility and frequency and then we look at our loss cost regression analysis, we don't believe minus two point five (2.5) frequency assumption to be used in the next five (5) years is reasonable."*[292]
- Oliver Wyman: the long-term trend is compelling evidence that costs are decreasing – to not recognize that does not result in fair and reasonable premiums[293]
  - The jump from -4.9% o 0% is too significant, too extreme
  - More modest tempering is more appropriate

[291] GRA, Part VI – Claims Forecasting, page 56, 57
[292] October 12, 2023, Zhou, at page 725-726
[293] October 25, 2023, Sahasrabuddhe, p 2029

ACCIDENT BENEFITS – OTHER (NON-INDEXED) TREND

- Oliver Wyman recommendation better reflects the -4.9% past trend (and the at least 8 out of 14 years where there is an actual decrease in experience) and the agreement that there is a need for some tempering[294]

ACCIDENT BENEFITS – OTHER (NON-INDEXED) TREND FINDINGS AND CONCLUSIONS

Oliver Wyman Recommendation: Temper the change between past and future frequency trend

- We have no issues with MPI's ABI-O(NI) past frequency and severity trends
- For future trend, we appreciate MPI's view of flatter recent frequency experience. However, the severity experience in that same period is also somewhat flatter.
- We find that the increase in frequency trend for the future relative to the past from -4.90% to 0.0% to be too significant. We accept that some tempering may be appropriate and suggest a 50% tempering from -4.90% to -2.45%.

A 50% tempering trend reduces the future frequency trend from -4.90% to -2.45%, rather than from -4.90% to 0.00%.

[294] Exhibit CAC-11, p 39; GRA, Part VI – Claims Forecasting, page 55, Figure CF-35

COLLISION TREND

- MPI selects a different severity trend between 2020 and 2022 based on a two-parameter model fit to three data points[295]
    - This is unusual and severely limits the predictive power of the regression[296]
    - MPI does not typically rely on a trend established based on only three data points due to lack of credibility[297]
    - MPI did not consider using a single model that considers additional parameters to isolate the impact of inflation[298]
    - MPI's approach results in a disjointed model[299]

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[295] GRA, Part VI – Claims Forecasting, p 80, lines 9-14
[296] Exhibit CAC-11, p 47
[297] October 12, 2023, Zhou, Dilay, at page 770
[298] October 12, 2023, Zhou, Dilay, at page 772-773
[299] Exhibit CAC-11, p 45

COLLISION TREND (CONT.)

- Oliver Wyman proposal is a more reasonable approach than using three data points for the severity trend for 2020-2022[300]

COLLISION TREND FINDINGS AND CONCLUSIONS

Oliver Wyman Recommendation: Use single model with an additional time parameter for severity trend

- We have no issues with MPI's collision frequency models.
- MPI selects a different severity trend between 2020 to 2022 based on a two-parameter model fit to three data points. This is unusual and severely limits the predictive power of the regression.
- MPI recognizes the limitations associated with this model, however, finds this approach reasonable given the recent macroeconomic environment (i.e., high inflation). We find a single model that considers *additional* parameters to isolate the impact of inflation to be a more reasonable approach.
- MPI estimates a model with a separate trend parameter would result in a slightly lower loss trend rate of +9.38% (corrected) rather than the +10.68% trend selected. We suggest this alternative, which we present in Figure 16, to be more reasonable.
- MPI recognizes the future severity trend is highly dependent upon the future macro-economic environment and therefore does not project the recent (inflated) trend rate forward into the future. We find this to be reasonable given the government's efforts to curb inflation and the most recent CPI data available.

This results in a reduction in the pre-2020 loss cost trend from +3.92% to +3.91% and a reduction in the post-2020 loss cost trend from +8.85% to +7.57%.

[300] Exhibit CAC-11, p 47

COMPREHENSIVE TREND

- Oliver Wyman proposal more reasonable as it utilizes more data and includes a parameter for 2017 management actions[301]

COMPREHENSIVE TREND FINDINGS AND CONCLUSIONS

Oliver Wyman Recommendation: Recognize longer-term severity trends using model a model with a 2017 scalar

- MPI's severity model has an insignificant *p*-value for time despite the low 2017 observation and high 2022 observation, which may result in an overstated trend rate.
- The historical comprehensive severity appears flat, excluding a large decrease in 2017 due to noted management actions, and recent increases which are likely associated with the rise of inflation.
- We suggest that accounting for the 2017 decrease through an additional scalar parameter in the model is more reasonable as it utilizes more data and includes a parameter to for the management actions.
- Similar to the approach we suggest for collision, we suggest a separate "time" variable to model the recent rise in severity for the 2020 through 2022 period.
- Recognizing the future severity trend is highly dependent upon the future macro-economic environment, we find MPI's future trend selections to be reasonable in the circumstance.

This results in a reduction in the pre-2020 loss cost trend from +7.90% to +4.46% and an increase in the post-2020 loss cost trend from +7.90% to +13.61%.

[301] Exhibit CAC-11, p 52

PROPERTY DAMAGE (THIRD PARTY LOSS OF USE) TREND

- Like collision trend, Oliver Wyman proposal is a more reasonable approach than MPI's approach of using three data points for the severity trend for 2020-2022 and recognizes more negative trend from 2013-2020, that is not recognized by MPI[302]

PROPERTY DAMAGE (THIRD PARTY LOSS OF USE) TREND FINDINGS AND CONCLUSIONS

Oliver Wyman Recommendation: Use single model with an additional time parameter for severity trend. Fit frequency and severity models to data from 2013 and subsequent.

- MPI selects a different severity trend between 2020 to 2022 based on a model fit to three data points; and this is different than the model fit between 2010 to 2020. Use of only three data points is unusual and severely limits the predictive power of the regression.
- MPI recognizes the limitations associated with this model, however, finds this approach reasonable given the recent macroeconomic environment (i.e., high inflation).
- We find a single model over 2010 to 2022 that considers *additional* parameters to isolate the impact of inflation to be a more reasonable approach.
- Furthermore, MPI's approach to its selected regression model time periods (2010 to 2020 and 2020 to 2022) does not recognize the change in trend beginning in 2013. We observe a more negative trend emerging between 2013 and 2020 for both frequency and severity that is not recognized by MPI.
- Our alternative model results in higher adjusted R-squared values for both frequency and severity models, and a more significant p-value for the severity time parameter. For these reasons, we find our model to be more reasonable.

This results in a reduction in the pre-2020 past loss cost trend from -2.90% to -7.04%, a reduction in the post-2020 past loss cost trend from +22.12% to +22.02%, and a reduction in the future loss cost trend from +0.74% to +0.06%.

[302] Exhibit CAC-11, p 57; October 12, 2023, Zhou, Dilay, Page 777-778; GRA, Part VI – Claims Forecasting, p 108

PROPERTY DAMAGE (THIRD PARTY DEDUCTIBLE TRANSFER) TREND

- Oliver Wyman recommendation better reflects flatter trend beginning 2014[303]

PROPERTY DAMAGE (THIRD PARTY DEDUCTIBLE TRANSFER) TREND FINDINGS AND CONCLUSIONS

Oliver Wyman Recommendation: Fit frequency and severity models to 2014 and subsequent

- MPI's approach to its selected regression model time periods (2010 to 2022 for frequency and 2009 to 2022 for severity) does not recognize the change in trend beginning in 2014, as shown in Figure 23.
- We observe a flatter trend emerging between 2014 and 2020 for both frequency and severity.
- In Figure 25, we present our alternative frequency and severity trend models for property damage third party deductible transfer which excludes the 2009 through 2013 accident years to recognize the flatter trend beginning in 2014.

This results in a loss cost trend increase of 1.72 percentage points, from -1.72% to 0%.

[303] Exhibit CAC-11, p 62; October 12, 2023, Zhou, Dilay, at page 779; GRA, Part VI – Claims Forecasting, p 113, Figure CF-97

PROPERTY DAMAGE (OTHER) TREND

- For past trend, MPI uses different time periods[304]
- Oliver Wyman:[305]

PROPERTY DAMAGE (OTHER) TREND FINDINGS AND CONCLUSIONS

Oliver Wyman Recommendation: Fit frequency and severity models to 2009 through 2022

- We have no issues with MPI's property damage (other) severity model and do not discuss this model further.
- MPI's selected regression models consider different time periods for frequency and severity. We recommend MPI use the same time period for both frequency and severity models to reduce bias and maintain consistency.
- In Figure 28, we present our alternative model for frequency which is fit to accident years 2009 to 2022, which results in a -1.29% frequency trend

This results in a loss cost trend increase of 0.72 percentage points, from +2.22% to 2.94%.

[304] October 13, 2023, Zhou, Dilay, at page 78—781; GRA, Part VI – CF Appendix 3, page 43, 45
[305] Exhibit CAC-11, p 67

MONITORING VEHICLE COUNT (HTA) UNITS

- While MPI is aware of the government's plan relating to immigration, it did not adjust HTA unit growth forecast[306]
- For each major class MPI based its selections on averages, excluding the 2021/'22 accident year and, in some cases, the 2022/'23 accident year, which were heavily impacted by the COVID-19 pandemic[307]
- Oliver Wyman agrees the resulting forecasting total HTA unit growth is reasonable[308]
- But MPI and Oliver Wyman agree that MPI should continue to monitor the HTA unit growth forecast to account for updated information post COVID-19 pandemic and for changes in immigration in the future[309]

[306] CAC (MPI) 1-65
[307] October 12, 2023, Masud, Dilay at 879-880
[308] Exhibit CAC-11, p 70-71
[309] October 12, 2023, Dilay, Massud, at 880-881; Exhibit CAC-11, p 70-71

RECOMMENDATIONS ON CLAIMS FORECASTING

- **For rate setting, the PUB should accept the Oliver Wyman recommendations relating to:**
  - **Accident year weights**
  - **Trends for:**
    - **Accident benefits weekly indemnity trend**
    - **Accident benefits other (indexed) trend**
    - **Accident benefits other (non-indexed) trend**
    - **Collision trend**
    - **Comprehensive trend**
    - **Property damage trend**
  - **Monitoring the HTA unit growth forecast to account for updated information post COVID-19 pandemic and for changes in immigration in the future**

PART 4

- Fair allocation of costs to customers (pages 123-136)
    - IFRS 14 and deferral of initiative implementation expenses (pages 124-125)
    - Amortization period for Nova costs (pages 126-128)
    - Consumer engagement and fairness in Driver Safety Rating (pages 129-135)
    - Vehicle for Hire framework (pages 136)

RECOGNIZING THE DEFERRAL OF INITIATIVE IMPLEMENTATION EXPENSES

- In the 2023 GRA, the PUB ordered the deferral of expenses associated with the implementation of initiatives to recognize that these are costs for systems that do not benefit current ratepayers[310]
    - Intergenerational equity: current customers should not be paying for something they do not have the benefit of[311]
- MPI's position is that it has complied with the PUB's order for rate-setting purposes, but cannot do so in its financial statements because it is not eligible to apply IFRS 14[312]
    - External opinion from Deloitte agrees with MPI[313]
- This is likely to be a short-term (a few years) issue given that an Exposure Draft likely to make MPI eligible to apply rate regulation in its financial statements is likely to become a standard in the next few years[314]

[310] October 16, 2023, Dilay, Low, at 1145-1146
[311] October 16, 2023, Dilay, Low, at 1145-1146
[312] October 16, 2023, Andres, Kolaski, 1055-1056; CAC (MPI) 1-1, page 4
[313] October 16, 2023, at 1150
[314] October 16, 2023, Kolaski, Dilay at 1147-1148; CAC (MPI) 1-1, page 4

RECOGNIZING THE DEFERRAL OF INITIATIVE IMPLEMENTATION EXPENSES

- Some questions arise from the record of this proceeding:
    - It is unclear from the record of this proceeding whether all the expenses for initiatives implementation are appropriate to be deferred
        - Are these expenses a deferred cost or are they more properly operating expenses?
    - For assets with costs that can appropriately be deferred, the amortization period for these expenses should match the useful life of the assets
        - Unclear from the record of this proceeding what is the useful life of initiative assets

INTERGENERATION EQUITY IN THE AMORTIZATION OF NOVA COSTS

- Matching principle:
    - *"This principle requires that a regulated entity's costs be matched to the period that benefits from the costs being incurred, and should be recovered from customers in that period. In other words, the customers in each period should pay for the costs of providing them with service in that period. The matching principle follows from the cost of service standard and the principle of intergenerational equity. Consistent with the cost of service standard, all of a regulated entity's costs should be recovered from customers. Consistent with the principle of inter-generational equity, only customers in the period that benefit from the cost being incurred should pay for the cost."*[315]

[315] Public Utilities Board website, Regulatory Principles: http://www.pubmanitoba.ca/v1/about-pub/regulatoryprinciples.html.

INTERGENERATION EQUITY IN THE AMORTIZATION OF NOVA COSTS

- In this GRA, MPI has indicated it changed the amortization period for Nova costs to 10 years instead of 5, based on PwC (financial auditor) guidance[316]
  - MPI's rationale is that MPI customers will benefit from these assets for 10 years[317]
- Amortization period for Nova costs should match the useful life of the assets, under the "matching principle"
  - Given the rapid rate at which technology evolves, there is material ground for concern that the proposed amortization period of 10 years is excessive
    - *"… the minute you install technology, it starts to get dated."*[318]
  - It is unclear from the record of this proceeding what is the useful life of the assets in Project Nova
  - Given that it is unlikely to be impacting Basic rates for the 24/25 year, MPI should be directed to come back with a study detailing the useful life of the assets and the proposed amortization period, including the proposed treatment of impaired projects, if any, following a Project Nova pause and reset

[316] October 17, 2023, Dilay, Campbell, at 1391
[317] October 17, 2023, Dilay, Campbell, at 1391
[318] October 23, 2023, Greenlay, at 1743

RECOMMENDATIONS ON DEFERRAL ACCOUNT AND AMORTIZATION PERIOD FOR NOVA EXPENSES

- **MPI should be directed to:**
  - **Undertake and provide to the PUB in the 2025 GRA a study detailing the useful life of Project Nova assets and the proposed resulting amortization period, including impaired projects, if any, following the Project Nova pause and reset**
  - **In the 2025 GRA, provide further details of the implementation expenses being deferred including whether these expenses are properly deferred or whether they are operating expenses**

CONTINUED CROSS-SUBSIDIZATION IN THE DRIVER SAFETY RATING

- MPI has been directed to gradually move DSR vehicle premium discounts to their actuarial indications over a 5-year period.[319] MPI has complied with this directive in the present GRA.[320]
- Some cross-subsidization is inevitable as insurance is pooled risk.[321]

[319] PUB Order 4/23 at Directive 15.
[320] Report of Oliver Wyman Ltd., Exhibit CAC-5, at p 37-38.
[321] October 12, 2023 Transcript, Low, 813.

CONTINUED CROSS-SUBSIDIZATION IN THE DRIVER SAFETY RATING

[322]

- However, there remains significant cross-subsidization at the upper levels of the DSR.
- MPI's safest customers continue to over-pay, relative to risk.

Figure 1 **Current Versus Indicated Rates by DSR Level**

Line No.	DSR	Current Discount	Indicated Discount	Current Discounted Prem	Indicated Discounted Prem	$ Difference	% Difference
1	20			--	--	--	--
2	19			--	--	--	--
3	18	-	66%	--	--	--	--
4	17	40%	62%	--	--	--	--
5	16	40%	58%	$889.20	$622.44	-$266.76	-30.00%
6	15	40%	55%	$897.52	$673.14	-$224.38	-25.00%
7	14	34%	51%	$1,034.98	$768.40	-$266.59	-25.76%
8	13	33%	48%	$1,048.65	$813.88	-$234.77	-22.39%
9	12	32%	44%	$1,080.58	$889.89	-$190.69	-17.65%
10	11	31%	40%	$1,100.73	$957.15	-$143.57	-13.04%
11	10	29%	37%	$1,136.67	$1,008.59	-$128.08	-11.27%
12	9	27%	33%	$1,190.78	$1,092.91	-$97.87	-8.22%

[322] PUB(MPI) 1-72, Figure 1. (emphasis added)

BASIC INSURANCE MODEL

- It is well understood that the Registered Owner model does not accurately reflect risk.[323]
- CAC Manitoba has not endorsed an alternative Basic Insurance Model and does not do so in this proceeding. CAC Manitoba's position will be informed by both the pricing data collected by MPI and consumer engagement results.

[323] October 11, 2023, Klassen, Prystupa, at 414. See also PUB Order 134/21 at 90-91.

BASIC INSURANCE MODEL: CRITICAL NEXT STEP OF DATA COLLECTION

- Driver information required for detailed, accurate pricing analysis.[324]
- MPI has the authority to collect the necessary data.
  - The corporation's legal position has been the subject of skepticism from both the PUB[325] and the Manitoba Court of Appeal[326] and breaks down in the present application.
- MPI acknowledges that section 6(2)(c) & (d) "could" MPI to create a form and collect the necessary information.[327]
  - Reluctance to make progress boils down to concern that providing and completing the form would be "onerous" for customers and brokers.[328]
- MPI contemplates data collection methods that do not rely on regulatory change.[329]

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[324] October 11, 2023 Transcript, Klassen, Prystupa, at 430.
[325] PUB Order 335/23 at 25.
[326] *Manitoba Public Insurance Corp v Manitoba (Public Utilities Board) et al*, 2022 MBCA 86 at para 59.
[327] October 11, 2023 Transcript, Klassen, Prystupa, at 441
[328] October 11, 2023 Transcript, Klassen, Prystupa at 442. See also October 11, 2023 Transcript, Guerra, Prystupa at 551-554.
[329] October 11, 2023 Transcript, Klassen, Prystupa, at 431-432

BASIC INSURANCE MODEL: GAPS IN CONSUMER ENGAGEMENT PLAN

- MPI's consumer engagement plans are sparse and scant.
- Limited engagement in 2023:[330]
  - No digital or media promotional campaign
  - No accompanying phone survey
  - No written input from stakeholders
  - No target sample size
  - No plans for near-term follow-up

[330] October 11, 2023 Transcript, Klassen, Prystupa, at 425-429.

BASIC INSURANCE MODEL: GAPS IN CONSUMER ENGAGEMENT PLAN

- 2023 engagement will be the most recent engagement available to MPI when it begins developing its recommendation in 2026.
- 2026 engagement results will barely be ready before the recommendation is finalized.[331]
- No follow-up with consumers after decision to seek input on implementation, and no follow-up after implementation to learn about customer experience.[332]

[331] October 11, 2023 Transcript, Klassen, Prystupa, at 427-428, 429
[332] RC Appendix 1.

RECOMMENDATION: DSR & BIM

- **Regarding Actuarially Indicated Discounts:**
  - **Considering the totality of circumstances facing customers today, CAC Manitoba recommends moving DSR discounts one third of the way toward actuarially indicated rates, rounded down to the nearest whole number, in the 2025 GRA.**
  - **CAC Manitoba also recommends the adoption of the Oliver Wyman recommendation that MPI "consider DSR level an ordered categorical variable rather than a continuous numeric variable."[333]**
- **Regarding the Basic Insurance Model:**
  - **MPI be directed to increase the frequency, depth and detail of its planned consumer engagement to ensure that informed customer input is sought prior to decision-making, and again prior to and after implementation.**
  - **MPI be directed to begin driver data collection.**

[333] Oliver Wyman Presentation, exhibit CAC-11, at 81.

VECHILES FOR HIRE: NO CROSS-SUBSIDIZATION

- CAC Manitoba takes no position on the proposed Vehicle for Hire Blanket Policy Framework at this time.
- Following a review of proposed pricing, CAC Manitoba will advocate to ensure:
    - The VFH Blanket Policy is truly revenue-neutral, and
    - That MPI will collect the data necessary to verify that Phase I drivers' claims experience is consistent with the larger pool of Basic insureds such that Phase I should not be covered by the Blanket Policy.

PART 5

JUST AND REASONABLE RATES: THE PUB PREROGATIVE

- Ministerial Directive to MPI not to seek any rate change for 2024/25, pending the independent organizational review
- PUB has confirmed it is not bound by Ministerial Directive
  - *"The Board recognizes that the Ministerial Directive has no impact on its jurisdiction to make any order as to rates that it finds just and reasonable on the basis of the evidence."*[334]
- MPI confirms its understanding PUB is not bound by government directive[335]
- MPI seeks 0% rate change despite an Actuarial Accepted Practice in Canada rate indication of -1.48%, as per the October update
  - MPI pointed to some uncertainties in forecasts and so Corporation "comfortable with the zero percent applied for rate, given the uncertainties."[336] MPI continues to justify rate application for 0%, despite the change from -0.13% to -1.48% between June and October.
  - The 0% rate change does not reflect best estimate and should be rejected.

[334] PUB Order 64/23, p 11.
[335] October 12, 2023, Low, Dilay, at pages 875-876
[336] October 12, 2023, Scarfone, Low, at page 825

AAP RATE INDICATION IS BEST ESTIMATE

- For the better part of a decade, the PUB has found that the AAP rate indication is the best estimate, going back to PUB Order 162/16[337]

[337] October 12, 2023, Dilay, Low, at page 874-875; PUB Order 4/23, p 39

RECOMMENDATIONS ON JUST AND REASONABLE RATES: MPI'S PROPOSAL SHOULD BE REJECTED

- MPI proposal: 0% as per Ministerial Directive
    - This does not represent a best estimate and should be rejected

RECOMMENDATIONS ON JUST AND REASONABLE RATES

- **CAC Manitoba recommendation on just and reasonable rates: <u>at least -5.45%</u>**
  - **AAP rate indication: -1.48%**[338]
  - **Oliver Wyman alternative assumptions for claims forecasting: -3.58%**[339]
  - **Rate change based on staffing recommendations:**
    - **Reduction in expenses for rate-setting purposes of at least -0.54% to recognize maintaining 2021/22 staffing level.**
      - **Note: Exhibit MPI-110 may not have appropriately reflected the reduction in staffing and MPI should therefore be directed to adequately reflect this change in their compliance filing with the Board**[340]
    - **Adjustment to reduction in expenses to recognize a 1% increase to MPI's current forecast for salaries, given uncertainty with collective bargaining process: + 0.15%**[341]

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[338] Exhibit MPI-50

[339] Exhibit CAC-11, p 13

[340] Exhibit MPI-110, Figure 3 compared to PF-1 in Part IX – Pro-formas filed with the GRA shows that the only change MPI made to costs in preparing the undertaking adjusted premiums written for 2024/25F. No changes were made to any expenses (i.e. claims expenses or operating expenses where compensation expenses would be located) on the operating statement filed with Undertaking 21.

[341] Based on MPI's FTEs per Figure 1 of MPI Exhibit 110, Undertaking 021 for 2024/25F and 2025/26F the average compensation is $172.9 M and $175.8 M respectively or average of $174.4M. 1% of $174.4M is $1.7M. Basic premiums written relating to the rating year of 1% is $11.3M. So, the rate increase would be about 0.15% ($1.7M/$11.3M). (Order of magnitude). Part IX-Expenses, Figure EXP 4-Summary Table of Assumptions, page 12 line 17 to 19—

CONCLUSION: A CRITICAL TIME FOR REGULATORY ACTION

- This GRA represents a critical time for regulatory action, in the face of imprudence and imbalance in MPI's 2024 General Rate Application.
- The MPI evidence on key issues in this hearing does not inspire confidence:
  - Prior risks associated with Project Nova have been exacerbated over the last year with a lapse in third-party governance and significant risks to the budget and timeline
  - "Excessive cushions" built into claims forecasting and into the corporation's management of capital, leading to an imbalance between the corporation and ratepayers
  - Significant levels of staffing increases over the last two years that are not adequately justified
  - Investment strategy and decisions that have costs to ratepayers.
- MPI ratepayers look to the PUB to strike the balance between customers and the Crown corporation
- **Now is the time for regulatory action** – in the face of the evidence presented in this proceeding, regulatory pressure is required for this corporation to demonstrate prudence and balance

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for 2024/25 it is 1.88% and 2025/26 it is 2.00% for in-scope employees. Economic Increases are further described in Part IX -Expenses page 19 to 20 and specifically in Figure EXP -10.

THANK YOU

CAC Manitoba

PUBLIC INTEREST LAW CENTRE
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