MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2018/2019 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Robert Gabor, Q.C. - Board Chairperson

Michael Watson - Board Member

Carol Hainsworth - Board Member

Allan Morin - Board Member

Robert Vandewater - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

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Pages 1 to 168

APPEARANCES

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Robert Watchman	)Board Counsel
Roger Cathcart	)Consultant
Alex McQuarrie	)Consultant
Steven Scarfone	)Manitoba Public
Matthew Ghikas	)Insurance
Byron Williams	)CAC (Manitoba)
Katrine Dilay	)
Raymond Oakes	)CMMG
Erika Miller (NP)	) CAA Manitoba
Christian Monnin	) Bike Winnipeg

TABLE OF CONTENTS

TABLE OF CONTENTS

LIST OF EXHIBITS

EXHIBIT NO.	DESCRIPTION	PAGE NO.
PUB-1	Notice of Public Hearing and Pre-Hearing Conference, dated June 16, 2017 (filed during PHC)	
PUB-2	Board's Rules of Practice and Procedure. (filed during PHC)	
PUB-3	Proposed Hearing Timetable (filed during PHC)	
PUB-4	Letter from the Board's secretary, Mr. Christle, to MPI and all prospective Intervenors, dated June 19, 2017, with attachments.	
PUB-5	Letter from Mr. Christle to MPI and all perspective Intervenors dated June 19, 2017.	
PUB-6	Transcripts of Pre-Hearing Conference	19
PUB-7	PUB Order 73/17 - Manitoba Public Insurance Corporation (MPI or the Corporation): Procedural Order (2018/19 Rates and Premiums for Compulsory Driver and Vehicle Insurance), timetable for a Public Hearing, Approval of Intervenors and Approval of	

LIST OF EXHIBITS (Cont'd)

EXHIBIT NO.	DESCRIPTION	PAGE NO.
	issues.	20
PUB-8 (1-78)	PUB to MPI Round 1 IRs	20
PUB-9	Reminder Notice of Public Hearing and Public Invitation	20
PUB-10 (1-44)	PUB to MPI Round 2 IRs	20
PUB-11 (1-3)	PUB to CAC IRs	20
PUB-MPI-1	MPI 2018 General Rate Application	
PUB-MPI-2	Summary of 2018 MPI GRA Workshop (filed during PHC)	
BW-1 (1-9)	Bike Winnipeg to MPI Round 1 IRs	
BW-2 (1)	Bike Winnipeg to MPI Round 2 IRs	
CAC-1	Outline of Important Unfinished Business from the 2017/'18 General Rate Application (filed during PHC)	
CAC-2 (1-95)	CAC to MPI Round 1 IRs	
CAC-3 (1-36)	CAC to MPI Round 2 IRs	
CAC-4	Actuarially Indicated Rates for MPI - Investment Return on RSR by Ms. Andrea Sherry	
CAC-5	"Does the RSR Need to be so Large?" - By Dr. Wayne Simpson and Ms. Andrea Sherry	

LIST OF EXHIBITS

--- Upon commencing at 9:04 a.m.

THE CHAIRPERSON: Good morning, everyone. I am Robert Gabor, Chair of the Public Utilities Board.

Before I start the following proceedings, I'd like to make a few comments. While many of us were making final preparations for these hearings over the weekend, terrible things happened in the world.

A terrorist attack occurred in Edmonton where a police officer was stabbed and four (4) pedestrians were struck by a fleeing U-Haul truck in Edmonton.

Two (2) women waiting for a train were stabbed to death by a terrorist at the train station in Marseille.

And then last night our neighbours to the south experienced the largest mass shooting in American history. A gunman opened fire with an automatic weapon from a hotel room in Las Vegas. His targets were the tens of thousands of people below and across the street attending an open-air concert. At least fifty (50) people are dead and more than two hundred (200) people were wounded.

We offer our thoughts and prayers to all of the innocent victims and their families, and I'd ask for a moment of silence.

(MOMENT OF SILENCE

THE CHAIRPERSON: Thank you. I now call this 2018 Manitoba Public Insurance Corporation General Rate Application hearing to order.

MPI has applied to the Public Utilities Board for approval of its premiums to take effect on March 1st, 2018. In its application, MPI is seeking an overall 2.7 percent rate increase for compulsory vehicle insurance for the 2018/2019 insurance year, as well as changes to driver premiums through the driver safety rating system, which are expected to increase driver premium revenue by $17.5 million.

I am joined by four (4) other Board members at this hearing. Board members Michael Watson on my immediate right; Robert Vandewater on my immediate left; Al Morin on my far right; and Carol Hainsworth on our far left.

Also with us today is Darren Christle who is secretary of the Board, and Ms. Diana Villegas who will manage our electronic document system.

Cheryl Lavigne will act as our reporter. Transcripts of this hearing will be recorded by Digi-Tran and made available on our website.

This hearing will be conducted in accordance with the provisions of the Crown Corporations Governance and Accountability Act, the Public Utilities Board Act and the Board's Rules of Practice and Procedure. These rules are available for review on the Board's website. We will begin the hearing on each day at 9:00 a.m, and adjourn at approximately 4:00 p.m. Each day will include a mid-morning lunch -- a midmorning lunch, and mid-afternoon break.

The Public Utilities Board mandate is to set just and reasonable rates that are in the public interest. The public interest has been defined by the Manitoba Court of Appeal as balancing the impacts of rate increases on consumers with the fiscal health of the Utility. In order to set just and reasonable rates that are in the public interest, the Board will need to hear and consider all of the evidence that is adduced on the record of this proceeding and hear submissions from Manitoba Public Insurance and all approved Intervenors.

Following closing arguments, the panel

will sequester itself and deliberate to make our final determinations on the matters before us. In the end, we may accept, deny, or vary MPI's application.

In reaching our decision, we will be guided by the evidence, written and oral, and our determination of what represents the public interest. The Board takes its obligation and mandate of protecting the public interest very seriously. We are concerned not only with the short-term economic impact of MPI's operations on both ratepayers and MPI itself, but also the fairness of that impact on MPI's long-term fiscal and operational well-being.

In addition, the Board views this process as one which should ensure transparency in terms of the Corporation's operations and financial position. In particular, the Board looks forward to hearing evidence and submissions from the parties with respect to the following issues which are before the Board, among others, the rate sought by MPI, namely, an overall 2.7 percent rate increase, no RSR rebuilding fee and no changes to other fees and discounts. The requested 1.8 percent increase in overall revenue through changes to the driver site -- safety rating and the implementation of those changes.

MPI's final -- sorry, MPI's financial

position, including its financial forecasting accuracy and projected financial results; the dynamic capital adequacy test methodology utilized by MPI, together with the appropriate target capital range for MPI's rate stabilization reserve, or RSR and total equity; MPI's investment portfolio performance and the composition of the portfolio; MPI's efforts with respect to road safety and loss prevention and related expenditures; MPI's operating costs and cost-containment efforts; MPI's claims forecasting and runoff of prior year's claims; benchmarking conducted by MPI; MPI's capital expenditures; and finally, MPI's IT strategy and projects, including the physical damage re-engineering project.

We trust the participants at this hearing will be mindful of cost effectiveness and will employ a co-operative approach, the common goal being to put forward useful evidence to assist the panel in reaching sound decisions on the matters before it.

We have significant and complex issues before us, and I am confident that we will approach this process with a view to benefitting the public interest.

The Manitoba ombudsman has issued privacy guidelines for administrative tribunals. The

Public Utilities Board is mindful of its obligations under those guidelines. Its decisions in respect of the application being considered will be sensitive to the guidelines. Personal information will not be disclosed unless it is appropriate and necessary to do so. However, the Board advises participants that these proceedings are public and that as a result personal information protections are reduced.

In addition two (2) matters of housekeeping, please -- sorry, first, please ensure that all cellular phones are off or mute throughout the hearing.

Secondly, all parties and their representatives and consultants should be aware that the Board hearings are now being live streamed through a link accessible on the Board's website. The camera is there and there.

I'd like to acknowledge that this is the first jurisdiction in Man -- in Canada that is live streaming it's hearings. This is the first hearing where it's being done and regulators from across the country may be watching this hearing; if so, we welcome them.

As such, for the benefit of the public, the use of acronyms is to be discouraged. It will assist in the public's understate -- understanding of the issues and evidence if acronyms -- acronyms are avoided.

I will now call on Ms. McCandless for introductions, followed by the introductions by MPI and the Intervenors. Ms. McCandless will then give her introductory remarks, after which I will call on MPI and the Intervenors to provide their opening remarks. We will then proceed with the swearing in of the MPI panel and commence the evidentiary portion of the hearing.

Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you, Mr. Chair. Good morning. Good Morning to members of the panel. I am Kathleen McCandless, Board counsel. To my left is my co-counsel, Rob Watchman also of Pitblado LLP. To my right is Brian Pelly of Eckler partners, the actuarial advisor to the Board. And to my far left is Roger Cathcart, the accounting advisor to the Board.

MR. STEVEN SCARFONE: Good morning, Mr. Chairperson, panel members, and My Learned Friends. I'm Steve's Scarfone, counsel for MPIC and beside me is Matthew Ghikas. He's co-counsel for Manitoba Public Insurance. To my right is Peter Yien.

He's the acting chief financial officer for Manitoba Public Insurance and beside him is Luke Johnston, our chief actuary. Behind me is Danielle Robinson she's legal counsel for MPIC. And I have with us Jeff Crozier, he's director of regulatory affairs. And Jenna Christoph, our rate application coordinator.

THE CHAIRPERSON: Thank you.

MR. BYRON WILLIAMS: Byron Williams, Public Interest Law Centre with my colleague Ms. Katrine Dilay appearing on behalf of the Consumers Association of Canada, the Manitoba branch, and if I might be permitted, my colleague will be doing the -- the opening presentation. I just did want to acknowledge the -- the retirement as Ms. Reichert, who was a witness for Manitoba Public Insurance and served as the vice-president and -- and did a lot of work to improve the quality of the presentation of their applications and was a good witness here for a number of years. So, we would like to that on behalf of our clients.

THE CHAIRPERSON: Thank you. Mr. Monnin...?

MR. CHRISTIAN MONNIN: Good morning, Mr. Chair --

MR. RAYMOND OAKES: Good morning, Mr.

Chairman.

THE CHAIRPERSON: Mr. Oakes...?

MR. CHRISTIAN MONNIN: Sorry.

THE CHAIRPERSON: Mr. Oakes...?

MR. RAYMOND OAKES: Thank you, Mr. Chairman. Members of the Board, ladies and gentlemen, good morning. My name is Raymond Oakes, law firm of Booth Dennehy and I'm here representing the CMMG.

THE CHAIRPERSON: Thank you.

MR. CHRISTIAN MONNIN: Good morning, Mr. Chair. Christian Monnin. I am here for Bike Winnipeg. I'm here with Mr. Jason Carter as well on behalf of Bike Winnipeg. Thank you.

THE CHAIRPERSON: Thank you.

OPENING REMARKS BY BOARD COUNSEL:

MR. KATHLEEN MCCANDLESS: Thank you. And just one (1) note for the panel, Ms. Miller on behalf of CAA cannot be with us today or tomorrow. She sends her regrets and I will be reading in the opening statement from CAA on their behalf.

THE CHAIRPERSON: Thank you.

MR. KATHLEEN MCCANDLESS: Manitoba Public Insurance is applying to the Public Utilities Board for approval of premiums to be charged with respect to compulsory vehicle insurance for the insurance year of 2018/19. The rates would take effect on March 1st, 2018 and are based on an overall 2.7 percent rate increase, as well as increases to driver premiums through the demerit side of the scale on the driver safety rating system, which are expected to increase driver premium by seven -- revenue by $17.5 million.

The adjustments in revenue for each major -- major class, as applied for by MPI, excluding the increases to driver premiums based on changes to the driver safety rating scale are as follows after application of capping rules:

For private passenger vehicles an overall 2.6 rate increase.

For commercial vehicles an overall 1.4 increase -- 1.4 percent increase.

For public serv -- service vehicles an overall 1.1 percent increase.

For motorcycles an overall 2.8 percent increase.

For trailers an overall 16.8 percent increase.

And for off-road vehicles an overall 43.9 percent decrease.

Actual vehicle premiums will vary depending on claim experience, driving record, insurance use, territory and vehicle rate group.

There are no proposed changes to vehicle premium discounts, fleet rebates, fleet surcharges, service and transaction fees or permit and certificate fees.

With respect to the evidence filed in this proceeding, I note that there were five (5) PUB exhibits entered on the record at the prehearing conference, which took place on June 28, 2017. Those were Exhibit PUB-1, the Notice of Public Hearing and Prehearing Conference, which was dated June 16, 2017.

Exhibit PUB-2, the Board's Rules of Practice and Procedure.

Exhibit PUB-3, the proposed hearing timetable for this General Rate Application.

Exhibit PUB-4, a letter from Mr. Christle to MPI and all perspective Intervenors dated June 9, 2017, with attachments.

Exhibit PUB-5, a letter from Mr. Christle to MPI and all perspective Intervenors dated June 19, 2017.

In addition, I would now ask to enter the following exhibits:

As Exhibit PUB-6, the transcript of the prehearing conference held on June 18, 2017 -- sorry, June 28, 2017.

As Exhibit 7, the Board's procedural Order, that's 73/17, dated July 7, 2017, with appendices.

Exhibits PUB-8-1 to 8-78 are the Public Utilities Board first round Information Requests and MPI's responses to those requests.

Exhibit PUB-9 is the reminder notice of the public hearing issued by the Board dated August 15, 2017.

Exhibits PUB-10-1 to 10-44 are the Public Utilities Board second round Information Requests and MPI's responses to those requests.

Exhibits 11-1 to 11-3 are the PUB Information Requests to CAC and CAC's responses to those requests.

Lastly, I circulated this morning copies of books of documents of PUB counsel, and I would ask that the book of documents be entered as Exhibit PUB-12.

--- EXHIBIT PUB-6: Transcript of the pre-hearing conference held on

June 28, 2017.

--- EXHIBIT PUB-7: The Board's procedural Order 73/17, dated July 7, 2017, with appendices.

--- EXHIBIT PUB-8-1 TO 8-78: Public Utilities Board first round Information Requests and MPI's responses to those requests.

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--- EXHIBIT PUB-12: Books of documents of PUB counsel

MR. KATHLEEN MCCANDLESS: And with respect to the cross-examination to be conducted on behalf of the Public Utilities Board over the next number of days, the following major issues will be addressed:

The background to the rate increase applied for.

The proposed changes to the driver safety rating program scale and the requested 1.8 percent revenue increase as a result.

Financial forecasting and MPI's financial results.

Interest rate forecasting.

Claims forecasting.

MPI's investment portfolio and investment income.

Operating expenses and cost containment efforts.

Capital expenditures, including IT strategy and projects.

The dynamic capital adequacy test and the rate stabilization reserve.

Target capital range.

Road safety, as well as a number of topics that may arise.

I would now refer to the procedural outline, which was distributed this morning. Just to note at the bottom of the first page, running to the second page, in particular, where the order matters to be heard is addressed. And I would just point out that items 5 and 6, we have two (2) outside witnesses testifying on those days, October 10 and 11. Their testimony may not take the full day. And as such, if there is extra time, then we will use that time to finish up any MPI cross as needed to use the time, if possible, and if not needed, then we may finish early as the Board may direct.

In addition, there is opportunity for members of the public to present to this hearing and then that will happen this afternoon at 1:15 p.m. We are expecting two (2) in-person presentations this day and I will have one (1) to read into the record as well.

And for the record, we expect that the hearing will proceed over eleven (11) days as follows: The Monday to Friday of this week, so October 2-6. Then next week, we expect that it will be October 10 and 11th and 12th and the following week, October 17-19 for closing submissions. As the hearing proceeds, there may be changes needed to the schedule but we'll do our best to follow what is anticipated.

One notable change to the order of proceedings this year would be at 'D' on the procedural outline, which is closing remarks. This is a change from previous GRAs. Counsel will note that MPI counsel will proceed with -- with his closing submission after Board counsel, which is a reverse from previous years where the Intervenors were presenting first. MPI will be permitted a right of reply, as well.

Those are my opening remarks, Mr. Chairman. Thank you.

THE CHAIRPERSON: Thank you. Mr. Scarfone...?

MR. STEVEN SCARFONE: Yes, thank you, Board counsel, just to clarify, did Ms. McCandless say that closing arguments are the 17th and the 19th?

MS. KATHLEEN MCCANDLESS: Seventeenth through to the 19th.

MR. STEVEN SCARFONE: Oh, through to the 19th.

MS. KATHLEEN MCCANDLESS: Yes.

OPENING REMARKS BY MPI:

MR. STEVEN SCARFONE: Okay, thank you. Mr. Chairperson, panel members I'd like to make some brief introductory remarks, following which I'll address MPI's witness panels and the subjects that they will cover at the 2018 General Rate Application hearing, and then my co-counsel, Mr. Ghikas will address any housekeeping matters before we proceed with viva voce evidence.

A "prudent fiscal management," Mr. Chairperson, those words will be familiar to you; that is the theme of the 2018 General Rate Application. You will hear those three (3) words throughout this hearing; that's not to say that prudent fiscal management is something new to MPI. I'm certain it's always been an underlying theme.

I just wanted to say that, of course, but this is my first GRA, and it seems to me that prudent fiscal management is front and centre this year for two (2) reasons: One (1), the new Board of Directors appointed last summer oversees MPIC to ensure that prudent fiscal management is achieved in the Corporation's administration of the Manitoba Public Insurance Corporation Act; that's the first reason.

The second reason, it seems to me, is that the Board will recognize that the initial rate indication due to significant financial challenges over the past three (3) years was 7.7 percent. We're here before you today asking for 2.7 percent. MPI management recognized that an increase of that magnitude, the 7.7 was unacceptable. Unacceptable to MPIC, unacceptable to the Board of Directors and, most importantly, unacceptable to Manitoba Public Insurance customers.

Management then put prudent fiscal management into action by reducing the rate indication by 5 percent. It's a modest but necessary increase in all the circumstances. This management action to reduce the number from 7.7 to 2.7 included the following:

A rodent claim strategy that served to reduce the ask by 1 percent. So that may sound funny to you, but it saved the Corporation $10 million. They identified savings on how to handle rodent claims and reduced the ask by 1 percent.

There's physical damage claims stretch targets, resulting in a further reduction of .9 percent by management. This was largely due to savings identified in the way that claims are estimated.

There's an increased allocation to corporate bonds in the portfolio; that proposed change further reduced the ask by .8 percent.

The Corporation has identified as further yields that may be available and the increase that is sought will have corporate bonds increased from 2.5 or 3 percent to 18 percent by March 1st, 2018.

As we've heard there's changes proposed to the driver premiums under the driver safety rating. That further reduced the ask by 1.8 percent. Drivers on the demerit side of the scale will be paying more if the Board accepts MPIC's proposal.

And lastly, the incidental reduction of expenses from these management actions further reduced the ask by half a percent. So in total, those management actions comprise 5 percent.

So the Corporation is not sitting idly by waiting for the annual rate application each October to request whatever number the chief actuary says is required to keep Basic in good financial stead for next year. The Corporation is not sitting idly by.

These management actions are indicative

of the effective and efficient operations in place at MPIC. This, the Corporation says in its application, is one (1) of three (3) tenets of prudent fiscal management or referred to as pillars in the application. The first being effective and efficient operations.

Other operational measures that were taken by the Board of Directors in step with the mandate of the new Conservative government a 15 percent reduction management. Everybody here is aware of that.

No wage or step increases for management. Elimination of one (1) management level entirely. There's no longer any executive directors at MPIC. It had been eliminated, a flattening of -- of the hierarchy.

A zero percent increase in the 2017/18 operational budget. What that means is, every business unit had to present a budget that showed zero growth and it had to be vetted through management and approved by the executive. Zero percent increase in the operational budgets.

There has been reductions in sponsorships. You won't see MPIC advertising at Jets games or Bombers games anymore. And there's been a reduction in the low-return road safety messaging.

And lastly, the physical damage re-engineering project, Mr. Chairperson mentioned that in his opening remarks, this will result, you will hear, in significant staff reductions over the next several years. It's a transformative project that will streamline operations and make our customers' cars get fixed easier; directly to the repair shops.

So that we say is the effective and efficient operations in place at MPIC. And with all due respect, Mr. Chairperson, the application itself and the evidence you will hear will satisfy the Board that it need not worry about whether MPIC can deliver effective and efficient operations. The Corporation, in other words, has it covered. I'm confident of that.

And I know this, and that's a bold statement, I appreciate that, Mr. Chairperson, I know this because I work for MPIC and I have for ten (10) years. I've seen the effects of the streamlining that is taking place. And sometimes, quite frankly, they aren't great ideas, but they do them nonetheless.

So I'll give you a quick example. I don't have a phone. I mean I have a phone, I have a Blackberry; but I don't have a phone in my office because the Corporation has an idea's committee that look at ways to cost contain, save money, and they decided why do people need two (2) phones. They've got a Blackberry, they don't need a land line, do they? The problem with that, of course, is they give you a Blackberry because they want you to be available after hours, so you take your phone home. And then if you have three (3) small children like I do, you might be about halfway down Grant Avenue and realize I forgot my phone.

So he can do one (1) of two (2) things; you can turn around and be late for work and school and daycare, or you can carry on and not be able to call anybody all day, and nobody called me.

And so these are the ideas that the Corporation has put in place, some of them are good, some of them aren't, but they're always looking to cost contain and save money.

And so Mr. Chairperson, you may say, well, just remember your phone, Mr. Scarfone. But that's easier said than done, and I'm sure everybody can relate that sometimes you forget your phone and then nobody can call you because I don't have a land line. So that's just one example.

But I do say that management has the

pillar covered effective and efficient operations. But the Corporation does need the Board's assistance. We need it with respect two (2) areas: we need adequate capital reserves. And we need, of course, the appropriate premiums to run Basic.

Quite simply from my client's perspective, that's what the MPIC 2008 (sic) General Rate Application is all about. Adequate capital reserves and the 2.7 percent rate increase needed to achieve fair and appropriate premiums.

At the end of the hearing there will be a plethora of evidence before you concerning the rate stabilization reserve. It's a huge issue here this year. The Corporation wants to build the rate stabilization reserve by using investment income from the reserve without any offset in favour of reduced rates.

Let me repeat that, they want to take their investment income. And they don't want it offset when -- when the chief actuary sets rates in the future. Investment income from the rate stabilization reserve should not be factored into the rate-making process; that MPI's position at this rate application.

The Corporation wants the Board to

order an appropriate range for the rate stabilization reserve whereby it would be sheltered from rebuilding fees and rebates, provided it remains above 200 million, 201 million and below 438 million. That's the range whereby that money is protected at the low ran -- at the low end and at the high-end. And this is why over the past three (3) years $176 million has been transferred from MPI's Extension line of business, that's its competitive line, into Basic; $176 million.

It has become abundantly clear that Basic without sufficient capital is not able to sustain itself. Almost all the money in the rate stabilization reserve is from the Extension line of business. And to say that the Corporation is opposed to the continued subsidization of Basic from the Extension line of business it's like saying Donald Trump sends the occasional tweet.

My client is ve -- vehemently opposed to the continued subsidization of Basic from its competitive lines of business. Having said that, the Corporation fully recognizes that premium deficiencies of 163 million resulted from forecasted interest rates that didn't. The forecast was off and resulted in substantial loss, 163 million.

So MPIC would like the Board to order that the Corporation be allowed to use a new methodology to mitigate the risk associated with for -- forecasting where interest rates may go; that is, they'd like the Board to order that MPIC make use of what's called the naive model and the naive model, as I understand it, and you're going to hear from gentlemen that are a lot more familiar with the topic than I am, it projects the level to be the same at the end of the forecast period as when the forecast is made. It is also called the no-change model.

And when used in conjunction with the proposed compliance filing on November 30th, interest rates have just three (3) months to fluctuate before March 1. So we could -- we stil -- we would do a -- do a compliance filing, in three (3) months if there's any fluctuation we say that risk is mitigated.

Now, in the next few days, we might expect to hear some criticism of this new approach, given that MPI said last year that the 50-50 approach should be used to obtain the best estimate of interest rates and the 50-50 approach, again, as I understand it, is a midway between the standard interest rate forecasts and the naive, the no-change model.

However, notwithstanding this criticism

that I expect will come, the Board should bear in mind when this issue is addressed that there will always be interest rate uncertainty. And in the absence of the Corporation hiring a clairvoyant, the Corporation reiterates its need for more capital, capital protected from rebate orders.

The Corporation is confident and the evidence will show that a sufficiently funded rate stabilization reserve will ensure rate stability by protecting ratepayers against unforeseen and uncontrollable events, including interest rate fluctuation, but also hailstorms and long-tail complex injury claims, which are trending. That's what the capital is designed to do, to protect the ratepayers against these events.

Rate stability. Indeed, with the natural growth of 4 percent, which was identified in the overview section of the rate application and that's to the fleet growth and people upgrading their vehicles. There's a natural 4 percent growth, the Corporation says. As long as costs can be contained below this same threshold, the Corporation could be here every October asking for zero. With sufficient capital and the natural growth that the Corporation has we could be looking at a zero percent increase every year except in exceptional circumstances.

So, MPIC has made, as Board counsel indicated, the following requests in the Application, an increase of 2.7 percent in vehicle premium revenue; the changes proposed to the DSR -- or sorry, the driver safety rating system, which are expected to increase driver premiums by $17.5 million; a lower rate stabilization reserve target, a minimum total equity of $201 million determined by use of the dynamic capital adequacy test. The lower threshold would use the dynamic capital adequacy test.

The upper threshold of the rate stabilization reserve target, $438 million is the target identified by the chief actuary, and that determined by use of 100 percent minimum capital test. So two (2) different tests; one for the lower, one for the upper.

And as Mr. Chairperson indicated, no rate stabilization reserve rebuilding fee. And this, we submit, is due to the top-up of 28 million from the Extension line of business in February of this year; almost another $30 million went into the -- into the rate stabilization reserve in 2017.

The MPI requests are set out in volume 1 of the Application filed here as MPI Exhibit Number

1. Behind the application tab if any of the panel members want to see exactly what the Corporation is asking for here today.

These requests which speak to appropriate premiums and adequate capital reserves are the two (2) other pillars that I spoke of earlier needed to achieve prudent fiscal management. Effective and efficient operations, that's MPIC's job; appropriate premiums and adequate capital that, we say, is the job of the Public Utilities Board.

At the conclusion of the hearing, MPI will be asking the PUB panel to find that MPI's requested relief reflects a reasonable forecast of the revenue it needs to provide Manitobans with fair and affordable insurance coverage. There's a figure, Diana, at -- in the rate-making section of the application, Figure RM-12, which shows the 2.7 percent increase; modest, but necessary, as indicated.

And I was reviewing my notes from the pre-hearing conference in June, and I noted that Intervenor counsel said that consumers would feel the pain if the proposed rate increase is approved, and that financial pain was inferred, of course. And I suppose, Mr. Chairperson, that may be true, depending, on court -- of course, on how one defines 'pain'.

At figure RM-12, it shows that a 2.7 percent --

THE CHAIRPERSON: Sorry, Mr. Scarfone. Sorry. Did you want that brought up on the screen?

MR. STEVEN SCARFONE: It -- it would be helpful, but it doesn't -- it doesn't --

THE CHAIRPERSON: Can -- can you find that?

MR. DARREN CHRISTLE: Can you identify the page --

MR. STEVEN SCARFONE: In the application?

MR. DARREN CHRISTLE: -- that you're referring to?

MR. STEVEN SCARFONE: No. I can only identify the figure.

THE CHAIRPERSON: Oh, just hold on. Let's see if we can find it.

MR. STEVEN SCARFONE: She's got it. Thank you very much.

THE CHAIRPERSON: Thank you.

MR. STEVEN SCARFONE: So that is a rate-meeting figure -- rate-making figure RM-12, which shows that a 2.7 percent increase. And I was reviewing my notes, and as I've said, one (1) of intervenor counsel said financial pain would be felt. And I suppose again, that depends on how you define 'pain', because if you look at this figure, it shows that the average vehicle owner will be paying an additional twenty-nine dollars ($29) per year.

The private passenger vehicle holder, their rate would increase from 1,057 to 1,086; that's twenty-nine dollars ($29) per year. That's two dollars and forty-two cents ($2.42) per month. People spend that money on their daily coffee. And I'm not trying to be facetious, but it's true.

And I -- by owning a vehicle is expensive. There's car payments. There's insurance, maintenance. There's gas. And if you can afford these, I submit, you can afford the increase of two dollars and forty-two cents ($2.42) per month. People love their cars. Not many people, in my submission, will be complaining about that -- that type of increase.

Other intervenor counsel at the pre-hearing said MPI's proposed rate increase is significant. Those were his words, and I suppose that too may be true, depending, of course, on how you define 'significant'. Motorcyclists are looking at twenty-one dollars ($21) per year, a dollar seventyfive ($1.75) per month. That's what 2.7 percent means to them.

MPIC will be asking the PUB to make a number of findings that support our request here this morning:

First, MPI's rate request reflects the responsible and commendable actions taken by management to reduce the initial rate indication by 5 percent.

Second, MPI's rate request reflects the PUB-approved methodologies for forecasting premiums and claims costs.

Third, that MPI continues to make significant investments in road safety and loss prevention, while at the same time prioritizing these investments to avoid investment in low return road safety messaging. Those are the messages you will hear from Mr. Ward Keith.

Fourth, MPI compares well against its benchmark groups for both financial and service standards.

Fifth, the corporate bond strategy being implemented by MPIC is a prudent and effective method of increasing investment income to reduce vehicle premiums. That is its purpose.

Sixth, a best estimate of interest rates when used in conjunction with the compliance filing, is the naive model of forecasting.

Seventh, and this is the important one, here, the rate stabilization reserve, to be effective, must have a range of sufficient bandwidth, and it must be able to absorb unforeseen events without resort to rebuilding fees or premature rebates. The rate stabilization reserve should not be used to subsidize ratepayers today at the expense of rate shock tomorrow and the long-term financial strength of Basic.

And finally, with respect to the lower and upper rate stabilization reserve targets, the proposed minimum target of 201 million reflects the dynamic capital adequacy test indicated amount consistent with what the Public Utility Board previously approved, and the proposed maximum target of 438 million reflects 100 percent minimum capital test at the same level that the Public Utilities Board approved on a provisional basis in the 2016 General Rate Application.

MPIC will present four (4) witnesses seated in three (3) panels. The first and main panel to my right consists of Mr. Peter Yien, acting vice president of finance and chief financial officer, and

Luke Johnston, MPI's road act -- or its chief actuary. They will speak to all matters apart from road safety, road safety being addressed by the third panel. As such, their responsibility includes investments, asset liability matching, forecasting, cost control, the dynam -- dynamic capital adeq -- adequacy test, and the rate stabilization reserve.

The second panel is the Road Safety and Loss Prevention Panel. You'll hear from Mr. Ward Keith on Thursday, October 5th. Mr. Keith is MPI's vice president business development and communications, and chief administrative officer, and his responsibilities include MPIC's Road Safety and Loss Prevention Programs. He is familiar to many of you from last year and previous hearings.

And the third panel will be Mr. Geffen, Martin Geffen of the Gartner Group. In compliance with Board order 162/'16, MPIC filed an independent assessment on the development and roll-up of the Physical Damage Re-engineering Project. Mr. Geffen is scheduled to appear on Tuesday, October 10, and last year, he testified with respect to the Physical Damage Re-engineering Project and will return to provide an update.

At the risk of stealing his thunder,

you will hear, among other things, that progress has picked up; will remain below the overall program budget. And he's here to speak on the Physical Damage Re-engineering Project, because it -- it represents the most significant capital cost project that MPIC has on the go. And while it was a significant capital investment, 65 million, benefits of over $13 million will be realized every year, beginning 2021/'22.

My final comments, MPI is asking for help in attaining its goal of ensuring that Basic is self-sustaining while operating on a break-even basis. Prudent fiscal management; sufficient funds are required in reserve. That's legislated in the Manitoba Public Insurance Corporation Act. Section 18 says that the Corporation must maintain sufficient funds in reserve.

And Manitoba Public Insurance is also asking for a modest but necessary rate increase. I can say with some confidence that MPI does not enjoy having to ask for a rate increase, and as I've indicated, envisions that one day soon not having to appear before this Board to ask for a rate increase, except on an exceptional basis. The rate increase and the issues related to the rate stabilization reserve are in the long-term best interests of MPIC and its policyholders.

At the end of the hearing, MPI will submit that the evidence presented in the rate application and the response to the Information Requests, and the rebuttal evidence, and during the viva voce evidence that's going to be heard over the next three (3) weeks will unequivocally support the appropriateness of the requested relief. In short, Mr. Chairperson, panel members, it is the right thing to do, and it's the right time to do it.

And before I conclude, Mr. Ghikas has a couple housekeeping comments that he'd like to make. Thank you.

MR. MATTHEW GHIKAS: Thank you, Mr. Chairman, and good morning, members of the panel. I just wanted to deal with the filing of the exhibits over the weekend and just reference what had been filed. We have the printed off copies, or they are now printed, and they're going to be circulated now. So those consisted of MPI's rebuttal evidence, which is MPI Exhibit 3.

--- EXHIBIT NO. MPI-3: MPI's rebuttal evidence

MR. MATTHEW GHIKAS: The news release

with respect to the road to zero -- sorry, Road Safety Plan is Exhibit MPI-4.

--- EXHIBIT NO. MPI-4: News release regarding the Road Safety Plan

MR. MATTHEW GHIKAS: The updates and omissions to PUB-1-31 is Exhibit MPI-5.

--- EXHIBIT NO. MPI-5: Updates and omissions to PUB-1-31

MR. MATTHEW GHIKAS: And the updates and omissions to PUB-2-17 is exhibit MPI-6.

--- EXHIBIT NO. MPI-6: Updates and omissions to PUB-2-17

MR. MATTHEW GHIKAS: The pre-ask of -- the -- sorry, the pre-ask of number 6 is -- and Appendix 1 were filed, and they will be MPI Exhibit 7.

--- EXHIBIT NO. MPI-7: Pre-ask of MPI-6 and Appendix 1

MR. MATTHEW GHIKAS: There was an affidavit of public notice and an aff -- that is MPI Exhibit 8. It will -- it -- we have not printed copies of that this morning.

--- EXHIBIT NO. MPI-8: Affidavit of public notice

MR. MATTHEW GHIKAS: And the affidavit of the reminder notice would be MPI Exhibit 9, and again, we have not printed copies of that one.

--- EXHIBIT NO. MPI-9: Affidavit of reminder notice

MR. MATTHEW GHIKAS: And there is -- Exhibit MPI 10 will be an affidavit relating to the public notice.

--- EXHIBIT NO. MPI-10: Affidavit relating to public notice

MR. MATTHEW GHIKAS: And MPI Exhibit 11 is the opening presentation that will be given this morning, the presentation of Mr. Yien and Mr. Johnston.

--- EXHIBIT NO. MPI-11: Opening presentation by Mr. Yien and Mr. Johnston

MR. MATTHEW GHIKAS: And that is all I have. Those will be circulated shortly.

THE CHAIRPERSON: Thank you, Mr. Ghikas. Mr. Williams...? Sorry.

OPENING COMMENTS BY CAC:

MS. KATRINE DILAY: Good morning, Mr. Chairperson, panel members. So my name is Katrine Dilay, and I'll be doing the opening statement of the Public Interest Law Centre on behalf of the Consumers' Association of Canada, the Manitoba branch.

So we'd first like to confirm that this opening statement is CAC Exhibit number 7, and I -- we just want to confirm as well the CAC Exhibits 1 to 6 as confirmed in the PUB record.

So the purpose of this presentation this morning will be to introduce the Consumers' Associat -- Association of Canada, the Manitoba branch, as well as outline issues that we intend to explore in this proceeding. I'd like to note that Gloria Desorcy, the executive director of CAC (Manitoba) is unfortunately not able to be here this morning. She sends her regrets, but she will likely be here later this week.

Our client in this proceeding is the Manitoba branch of the Consumers' Association of Canada, which I will refer to as CAC (Manitoba) in these opening comments. CAC (Manitoba) has over two (2) decades of experience of rate hearings. CAC (Manitoba)'s focus in regulatory hearing is guided by core consumer rights, which include the right to be informed, the right to choose, or in the case of marketplace monopolies, the right to be involved in the regulatory process as a proxy for choice, the right to have a voice in marketplace decision-making, and the right to consumer education.

The process of developing the position of CAC (Manitoba) is evidence-based, and is conducted through day-to-day consumer contact; focus groups; and stakeholder engagement, where possible; the CAC (Manitoba) board; as well as advice from expert advisors.

I would now like to move to a brief overview of the regulatory framework that guides rate hearings for Manitoba Public Insurance in order to provide sort of a roadmap for these opening comments. The test for the setting of rates for MPI is found in the Public Utilities Board Act, the Crown Corporations Governance and Accountability Act, as well as previous decisions from this Board. As found in Section 84(2) of the Public Utilities Board Act, MPI has the onus of demonstrating that the rate increases it seeks are just and reasonable, and we've reproduced that section for you on this slide.

The concept of just and reasonable rates is found in the interplay between Section 77 at the Public Utilities Board Act, Section 25(4) of the Crown Corporations Governance and Accountability Act, as well as Public Utilities Board Order 98/'14. And we've reproduced here the -- the test outlined in PUB Board Order 98/'14 at page 28. And the PUB, on that page of that order, has articulated the test that it uses to set just and reasonable rates. The words that you see in brackets there have been added by our legal team based on the governing statutes in play as well as the iterative dialogue from the regulatory process and the case law.

So to go through these five (5) factors, the first one is ensuring that forecasts are reasonably reliable; ensuring that actual and projected costs incurred are necessary and prudent, or justified; assessing the reasonable revenue needs of an applicant in the context of its overall general health, including necessary reserves, if any; determining an appropriate allocation of costs between the classes, and between drivers and vehicle owners in the case of MPI; and setting just and reasonable rates in accordance with statutory objectives.

In terms of the first factor identified on the previous slide from PUB Board Order 98/'14, ensuring that forecasts are reasonably reliable, CAC (Manitoba)'s review of the materials filed to date raises a number of questions that we wish to explore in this proceeding.

In terms of interest rate forecasting, CAC (Manitoba) asked the following questions: Is the naive forecast as of November 2017 an appropriate estimate for an insurance year that runs from March 1st, 2018, to February 28th, 2019?

Does the selection of a naive forecast effective November 2017 for the March 2018 through February 2019 insurance year significantly overstate claims cost, and as a result, overstate investment income, with an overall effect of unreasonably inflating the revenue requirement?

In determining a sustainable and balanced mechanism to forecast interest rates, what if any, implications do recent significant changes in the interest rate marketplace have?

In terms of claims forecasting, are the forecasting techniques employed by MPI consistent with those used by other modern insurance corporations? If they are not, why not?

What are the implications to the forecast of claims costs flowing from outlier years, if any, relating to collision severity forecasts?

And has MPI appropriately tested the hypothesis that at -- the higher frequency of extreme hail events is not random?

In terms of forecasts as they relate to the Personal Injury Protection Plan, what are the implications to the forecast of claims costs of the challenges MPI is experiencing in reserving Personal Injury Protection Plan long-term claims?

And what are the implications to the forecast of claims costs of the incomplete experience of MPI as compared to some other no-fault plans in terms of the tail factor selected for the long-term claims?

Turning now to the second factor as set out by the Public Utilities Board in determining just and reasonable rates, which is ensuring that actual and projected costs incurred are necessary and prudent, or justified, the first category under this factor where CAC (Manitoba) raises questions is with regard to long-term claims relating to the Personal Injury Protection Plan.

Has MPI demonstrated that it is reasonably and justifiably managing long-term Personal Injury Protection Plan claims? Has MPI demonstrated that it is appropriately reserving long-term Personal Injury Protection Plan claims? And are there any inferences that should be drawn from the choice by MPI to date to not take advantage of potential learnings from Quebec with regard to long-term Personal Injury Protection Plan claims?

With regard to information technology, or IT, CAC (Manitoba) raises the following questions:

What are the implications of historic, current, and future IT costs on ratepayers?

What is the evidence that MPI is strategically prioritizing forecast future expenditures in IT?

Has MPI demonstrated appropriate prioritization, management, and prudence in future proposed expenditures estimated at roughly $70 million related to services that it judg -- judges obsolescent?

Is the customer claims reporting system project an appropriate assumption of risk given the purported value to the Corporation, and which ratepayers bear the primary risk of the customer claims reporting system?

Are information technology services being ma -- managed in a reasonable and justifiable manner? Or are there significant opportunities for savings related to software, staffing, and business process management?

Finally, the last issue raised regarding actual and projected costs incurred is road safety. In terms of reducing tragic human, economic, and social costs in urban and rural Manitoba, can we have confidence that the Corporation is making justifiable evidence-based changes to its road safety portfolio? And we note on -- on this issue that road safety has consistently been a very important issue for CAC (Manitoba). As the panel may be aware, a few years ago CAC (Manitoba) presented a major witness on an evidence-based approach to road safety, Ms. Mavis Johnson.

CAC (Manitoba) is pleased to see movement toward a significant common vision between

CAC (Manitoba) and MPI on a number of issues relating to road safety. In this hearing the examination of CAC (Manitoba) on road safety specifically will focus on areas where differences still exist, or where clarification is required.

So turning now to the third factor outlined by the Public Utilities Board, which is assessing the reasonable revenue needs of an applicant in the context of its general overall general health, including necessary reserves, if any. CAC (Manitoba), under this factor, has identified issues with regard to MPI's investment portfolio, which it intends to explore in this proceeding.

Given persuasive evidence last year that the current investment portfolio of MPI was over concentrated, over constrained, and accepting undue risk for inadequate return, what are the implications, if any, for the setting of the rate stabilization reserve, or the RSR? Are ratepayers being asked to assume additional risks related to arguably imprudent portfolio design choices of the investment committee?

From the perspective of risk assumed by ratepayers, what are the key considerations relating to investment portfolio design? For example, what is the relative weight that should be given to nonpayment of liabilities risk, as well as the long-term health of ratepayers vers -- versus short-term considerations of rates stability? And has MPI adequately addressed the problems identified with it -- with its investment portfolio in last year's GRA, including smoothed accounting and IFRS changes, as well as completing an asset liability study?

In terms of the rate stabilization reserve, or the RSR, is the primary purpose of the RSR the avoidance of rate shock related to one-time only events?

And to what degree should concerns relating to rebates or surcharges drive RSR design considerations?

Has MPI misstated the purpose of the RSR, and has that misstatement biased its -- its approach to the setting of the RSR, the design of its investment portfolio, and the design of rates in accordance with accepted actuarial practice?

Has MPI incorporated feedback received during the technical conference into its setting of the RSR upper range?

Does the reinsurance program, as currently structured, impact the rate stabilization process and mitigates the RSR quantum?

CAC (Manitoba) also raises two (2) questions with regard to the self-sustaining nature of Basic. Has the MPI discussion relating to the self-sustaining nature of Basic failed to consider the inordinate risk borne by basic in consideration to other lines of business, and the benefit that other lines of business derive from the basic monopoly?

Considering the financial results over the longer term, the past decade, is it appropriate to consider Basic as self-sustaining?

So turning now to the determination of an appropriate allocation of costs between classes or between drivers and vehicle owners, in the case of MPI.

Is the division of the revenue contributions between vehicle owners and drivers just and reasonable?

Are the approaches of MPI in determining the appropriate allocation of risk between vehicle owners and drivers consistent with modern good practice.

And from the perspective of just and reasonable rates, what are the implications, if any, of significant increases in D -- DSR premiums for high-risk drivers?

In terms of just and reasonable rate design in accordance with accepted actuarial practice, CAC (Manitoba) raises the following points:

Is the determination of the rate indication by MPI consistent with modern actuarial practice?

What are the implications of MPI status as a Crown Corporation on the concept of intergenerational equity?

Does the exclusion of equity returns from the calculation of the rate indication unreasonably inflate the revenue requirement?

And has the Corporation mischaracterized the Supreme Court findings from ATCO gas and Pipelines Limited and Alberta regarding investment income on the RSR?

The next few slides will outline the four (4) main themes that are really at the centre of CAC (Manitoba)'s intervention in this proceeding.

First, CAC (Manitoba) views the basic insurance monopoly as a core strength of the Corporation. It drives the health of the Corporation, including market share and other lines. And there's a significant assumption of risk, such as interest rate risk and the customer claims reporting system.

The second main theme in CAC (Manitoba)'s perspective is that there's still unfinished business remaining from previo -- previous rate hearings on significant risk issues relating to the investment portfolio, including the risk of being over concentrated, over constrained, and the acceptance of undue risk for inadequate returns; risk relating to an appropriate mechanism to demonstrate strategic prioritization of IT expenses; as well as insight from Quebec on Personal Injury Protection Plan tail factors.

The third theme is that there's a need for sustainable forecasting tools for interest rates, for claims, and for long-term Personal Injury Protection Plan claims.

And finally, a fourth theme, in CAC (Manitoba)'s view, is that the findings flowing from the current and future rate hearings should build on the success of the regulatory dialogue, a dialogue which includes the Board and its advisors, Intervenors, MPI, and the public through com -- presentations and comments that are sent to the Board.

From the perspective of CAC (Manitoba), the Public Utilities Board has played an instrumental role in these dialogues with MPI, with Intervenors, and with consumers more generally. This iterative and respectful dialogue recognizes distinct roles and perspectives, and results in evidence-based approach to the setting of just and reasonable rates.

Some of the examples of the success of the regulatory dialogue include the move to accepted actuarial practice for rate setting as a way to mitigate forecasting risk related to interest rates, and to better comply with appropriate practice; the flagging as investment portfolio risks; pushing the Corporation to re-examine fundamentals of its business, such as investment portfolios.

Gartner, Intervenors, and the Public Utilities Board have played a role in bringing value management approach to IT expenses and the use of technical conferences as well. But as stated earlier, it is the view of CAC (Manitoba) that there is unfinished business that still remains.

So the last couple of slides that we have this morning are relating to CAC (Manitoba)'s expert witnesses that it intends on presenting in this proceeding. CAC (Manitoba) will be presenting two expert witnesses who are both highly qualified and have both previously presented expert evidence before the Public Utilities Board.

Ms. Andrea Sherry has actuarial practice with property and casualty insurers, is a Vice President in the private sector, and has extensive experience with Crown public insurers. Dr. Wayne Simpson has extent -- extensive experience in applied econometrics and applied micro-economics, and is the nationally recognized 2014 recipient of the McCracken award for the development and analysis of economic statistics from the Canadian Economics Association.

The independence of expert witnesses is a core element of the role of CAC (Manitoba)'s witnesses. So we've included there a -- an excerpt from the retainer agreement that CAC (Manitoba) has with its expert witnesses, which includes that their duty is to provide evidence that is fair, objective, and nonpartisan; is related only to matters that are within their area of expertise; and to provide such additional assistance as the PUB may reasonably require to determine an issue.

The duty of the expert witnesses is to provide assistance and give evidence to -- to help the Public Utilities Board, and this duty overrides any obligation to the Manitoba branch of the Consumers' Association.

Subject to any questions from the panel those are the opening comments of CAC (Manitoba). Thank you.

THE CHAIRPERSON: Thank you, Ms. Dilay. Mr. Oakes.

OPENING REMARKS BY CMMG:

MR. RAYMOND OAKES: Thank you again, Mr. Chairman. Just before I start my opening comments I would like to acknowledge that CMMG has two (2) executive members in attendance this morning, as they have done for a number of years; both Mr. Houghton and Mr. Gray are in the public gallery.

The CMMG was formed 25 years ago, in answer to the need for a critical analysis of motorcycle insurance in this province, and with a view to obtain fair and equitable rights. This then is the silver anniversary of the intervention, as we've been here every October since 1992 on behalf of its constituents the motorcyclists of Manitoba.

The CMMG is an umbrella group. It has a number of paid memberships. I'm told that at some point it was roughly in the area of 550 paid memberships, but these days the metrics extrem -- extend to other measurements, such as a couple thousand followers on Facebook, and certainly attendance at a number of public events.

But in terms of this Board we're here in this hearing, again looking for just and reasonable rates for motorcyclists, and helping the Board critically analyze the application before it. The CMMG has had a number exc -- of successes in its interventions over the years, transforming the nature of motorcycle and oth -- and public insurance in Manitoba. Those would include the loss transfer system, also called comparative fault, which allocates losses amongst classes of motorists based on causation.

Just as CA -- CAC said this morning, there's certainly still work to be done. We've had an overriding concern the past number of years that MPI uses over conservative methodology, resulting in loss ratios the -- that are over inflated. The loss ratios for motorcyclists are -- the actual loss ratios are significantly less than private passenger. We see an overestimation of the forecast losses. We'd point out the loss ratios over the last ten (10) years for motorcyclists are only 75.2 percent, and yet we're faced with an application for an increase again this year.

With respect to the overall economic environment that Corporation provides its services in, we're concerned that with interest rates rising that the premiums for next year will not be deficient as presented by MPI without an increase. We're concerned that we need more responsive investment policies and better investment returns, and that the Corporation does not need a rate increase if it properly provides appropriate investment vehicles in conjunction with the department of finance.

We think that the people in this room would be naive if we go along with the Corporation in saying that the naive forecast for interest rates is the applicable one, especially when we've seen a rate increase already, may have another rate increase by the Bank of Canada by the end of the month, and certainly over the course of the next insurance year.

With respect to the issue of road safety that's been a primary theme of the intervention of the CMMG. We've seen that increase. We've seen it increase from $10.4 million in 2016/'17 to 11.4 million forecast for 2019/'20. The concern is that motorcycle investment in safety has lagged behind all other classes. We're receiving two hundred (200) and -- or the forecast is two hundred and twenty-three thousand dollars ($223,000) out of that $11.4 million, which we'd suggest is insignificant with respect to the priorities that are required.

Certainly, later this week we'll hear more about the processes and the initiatives of MPI, and we'd suggest that we need more practical initiatives. Not continued investment in the overall scheme but some actual initiatives that help Manitobans reduce claims costs.

We're concerned that the initiatives of the Corporation brings as the flagships of its program include matters like investment in the road int -- initiatives, while ignoring much more important initiatives such as the wildlife collision situation. And we've seen that increase from some $30 million of losses annually to now some $43 million of losses annually -- annually without any new initiatives to deal with that. In fact, the only motorcycle initiatives that we see this year are eight (8) new social media exposure and messages and I'd suggest that that's totally insufficient.

With respect to the rate stabilization reserve, over the twenty-five (25) years that I've done this hearing I've seen this issue argued time and time again. I can tell you that if we go back a number of years and -- and I stand up and tell this Board that MPI should have $438 million, I would have been laughed out of the room in previous decades. How many drawdowns of the RSR have we seen over that time? How many one time events have required a drawdown of the rate stabilization reserve? I would suggest there's been none.

And we've certainly seen some problematic years. We had the great flood in Manitoba in 1997. No drawdowns then. I'd suggest that MPI has been very good at creating huge amounts of money to be squirreled away from Manitobans, and now they've come before this Board and said, Not only do we want this excessive sum of money, but now we want to squirrel away the investment income that comes from that.

And I'd suggest that we've seen that type of ingenuity before. We've seen the interest forecast rate risk, which was trotted out last year as a opportunity to again -- again pad reserves and put money aside so that their job becomes easier in providing insurance to Manitoba, but I think we get away from the concept that these are funds of Manitobans and should be returned to Manitobans, unless inadequate case can be made to retain those.

So those are the areas in which we look

forward to a spirited intervention and cross-examination of the Corporation's witnesses. At this time I'd like to close, and just confirm the marking of the two CMMG exhibits, the first and second round IRS. Thank you.

THE CHAIRPERSON: Thank you. Mr. Monnin.

OPENING REMARKS BY BIKE WINNIPEG:

MR. CHRISTIAN MONNIN: Thank you, Mr. Chair. I've circulated a slide deck which isn't meant to be something that I'll be reading verbatim, but rather just provide an overview of the -- what should be now the well-known grounds for the intervention -- intervention of Bike Winnipeg. But it's also intended to provide this Board in particular an overview of -- of the regulatory narrative which my friend was rel -- referring to earlier, in particular the regulatory narrative on the issue of road safety.

So Bike Winnipeg has been provided leave to intervene this -- again this year on -- on four (4) grounds, one being the optimum size of MPI's road safety budget and whether it's sufficient to enable significant reduction in cost to MPI. The second one (1) being the adequacy of MPI's road safety programs with respect to fatal and severe injury of vulnerable road users.

Third, the quality and clarity of MPI's data collection in particular comparison to transportation safety programs from local, national, international entities and jurisdictions. And that's the benchmarking that we've heard earlier today. And the benchmarking is something that's come up quite often in -- in the -- in the regulatory narrative. And finally, on the road safety issues and matters that have flowed from the last order, which is one 162/16.

Diana, if you can go to the next page, please. This is from order 179/01, so that's 2001. And in particular, starting from the second sentence in, what we like to draw this Board's attention to is the Board's -- the Board's words. And it says:

> "The Board considers that the other programs related to road safety are also critical in reducing claims costs.
>
> As is the case with the driver education program these programs should aim to change the attitudes of motorists and improve driving

habits."

And what is important there -- Bike Winnipeg likes to -- to underscore there is that you may hear in this hearing that road safety -- you -- this is a rate setting application we're doing here today and road safety shouldn't even be on the table. Well, it is and the Board has long recognized that road safety goes hand in glove with reducing claim costs. And that's where the Board came up in encouraging the Corporation to conduct an analysis which would support an optional level of expenditure of road safety.

The next slide, please, Diana. And here again the notion of -- of rate setting. The regulatory goal here of rate setting is tied into road safety. This is from Board Order 151/13, where the Board has -- has written:

"It's clear that road safety and loss prevention are significant issues for the Corporation. These factors affect basic revenue requirements in a direct and material way, and thus impact rates. So it's important that the value from these programs be maximized.

"And, furthermore, successful road safety loss prevention programs can minimize the economic and social costs to ratepayers resulting from collisions."

So, yes, indeed it affects rates, but there's a larger broader narrative there which the Board has quite rightly underscored as being min -- we want to minimize the economic and social cost to ratepayers resulting from these collisions.

And again, the -- on the issue of road op -- of -- of the optimization of the safety budget, the Board stated:

"MPI has not reviewed the cost benefit of its current road safety programs. The Board believes that this must be done. In particular, the budget and portfolio programs must be reviewed and optimized in a manner similar to that which MPI employed in respect of the immo -- immo -- immobilizer program."

Next slide, please, Diana. And this is from Board Order 125/15. It's just to highlight that the -- the notion of economic and social cost wasn't a loss leader. It wasn't a one (1) time blip in what the Board indicated or what the Board had written. In this order, the Board writes:

"In addition, successful road safety and loss prevention programs can minimize the economic and social costs to ratepayers" --

Pardon -- pardon me:

"to ratepayers from collisions, and the Board expects MPI to demonstrate in a more concrete fashion that it has optimized its road safety budget and is carrying out its responsibilities as a leader on road safety by spending on initiatives that can reduce the social and financial costs of collisions. The -- the Board has long recognized that the road safety issues not only affect the rate setting exercise it has to do here, but the larger economic and social costs to ratepayers of Manitoba."

Next slide, please. And the Board has been very successful and I would suggest -- Bike

Winnipeg, rather, would suggest nudging the Corporation along. And this is from order one 148/04, where if you go back through the Board orders on the road safety issue, you'll see that MPI has consistently identified three (3) main road safety priorities indicated to be occupant restraint usage, impaired driving, and unsafe speed. And MPI indicated that its underlying approach to traffic safety initiatives is to concentrate on educating road drivers, which is a great start.

If you'd go to the next slide, please. This is Board 14 -- the same order 148/04. And what the Board said here is -- is it's concerned that the accident prevention and driver education and training programs of MPI are not as successful as they should be.

The next slide, please. And we talked about road benchmarks earlier today in submissions, and as part of -- of what we'll be hearing in -- in this order -- or, rather, this hearing. But the benchmark issue is not new either. And this is from Board Order one 150/05. And the Board is telling -- is -- is write -- is as written that:

"Road safety measures are key to premium reductions and benchmarks need to be developed to allow MPI to effectively assess its road safety actions and plans."

And the reason for that is -- is, I would suggest -- Bike Winnipeg would suggest is underscored in Board Order 150/07, which follows. And that's because the frequency of motor vehicle caused serious injuries and fatalities in Manitoba remains unacceptably high.

And this is in Board Order 122/10, some three (3) years later where the Board says in the underscored language:

"The Board continues to have concerns with respect to a number of factors affecting MPI's operations and results, including the continuation of high accident frequency and severity rates, and the need for greater investment in road safety and traffic law enforcement initiatives."

So this -- this regulatory narrative, Bike Winnipeg would suggest, has been long-standing with this Board and it's -- it's grown in importance. And I think the Board and all Intervenors and the parties involved should actually take heart because we'll get to the -- to the end of the submissions, but we saw earlier last week, or later last week rather, the provincial road safety plan which was filed.

And we see in this filing the significant amount of filings filed by MPI is, Bike Winnipeg would suggest, on account of this regulatory narrative. It's -- it's been since 2001 since the road safety issue has been really at the core of this Board's -- the mind's eye of this Board and the reasons of this Board. And that's important to continue that con -- that -- that regulatory narrative.

And we see that again in Board one (1) -- Board Order 122/10 where the Board has said:

> "We -- it continues to have serious concern with respect to road safety in Manitoba and with respect to what steps will, or should be taken in terms of new or enhanced road safety initiatives."

And again, in the bold:

> "It is clear that MPI is in a relatively unique situation, joined by other jurisdictions with

"...mandatory Crown monopolies to take
action which is clearly -- which it
clearly did in the case of auto
theft."

And we see through this constitutional narrative in particular order 152 sub -- 152/12 at page 10. And this is with the Board has been -- was -- has -- has determined that:

"It's the view of the Board that
matters of road safety need to be
given a higher priority by the
Corporation than has been assigned
in the past."

And we see that again at page -- on the next page over, please, Diana:

"This information is concerning to
the Board. The Board looks to the
Corporation to take a more
aggressive approach and to further
its leadership role regarding road
safety planning and strategy in
Manitoba."

And that is where, with regards to the -- the eighty-five (85) deaths that occurred in 2016. And that continues along in Board Order 162/16, again with the bolded language:

"The spike in -- in fatal -- and the spike in fatalities is alarming to the Board and the Board is of the view that the Corporation must take the initiative and take a more aggressive approach toward prevention of collisions and fatalities on Manitoba highways -- roadways."

And Bike Winnipeg has seen this throughout its interventions in these hearings, and we might see this narrative again that MPI is only one (1) player and it's part of a complex of different road safety players, and we agree with that. But what the Board said on that point, again at 162/16 is:

"The Board finds that the Corporation is lacking in overall comprehensive vision and strategy in respect of road safety programming and goals. Further, the Board finds that the Corporation has expressed on occasion that it cannot take initiative for certain road safety planning or programming on its own given its mandate and jurisdiction. The Board's response to that is the Board finds a disposition is not satisfactory."

(BRIEF PAUSE)

MR. CHRISTIAN MONNIN: Page 15, please, Diana. As a note, I've skipped over a few pages and it's just -- those deal with -- with the clarity of data issues and what the Board has pronounced on that. As I noted earlier, this is -- I won't be reading everything from the present -- presentation. It's more of a bench memo to give the Board a little bit of its greatest hits on -- on what it said about road safety over the years.

But I have this slide up just to -- to show what my friends were referring to earlier about the regulatory narrative and to show where we started and -- and where we've ended. And this is -- if you look at Board Order 162/16, the Board also directs the Corporation to clarify its stance on the use of safe systems model or vision to zero target -- a vision zero target for collisions.

If you see that the below quote is from

151/13, and my friend was referring to Mavis Johnson, the expert that CAC had brought in. And here it says:

"MPI also states that the Board does not" --

And there's a typo and I apologize.

"Does not have the jurisdiction to direct MPI to undertake road safety initiatives, including the safe systems approach referenced below."

So in 151/13 you have MPI telling the Board, You guys don't have jurisdiction to tell me that to -- to adopt safe systems. And if you look at 162/16, I'm not getting to the issue jurisdiction or not, but I'm getting into the point of nudging MPI along. And in -- in 162/16, you have the Board directing the Corporation to clarify its stance on safe systems and vision zero, which it's -- it's done.

So we get to a point where the Corporation is saying, You have no business telling us what to do here. And fast-forward a few years later and the Corporation is doing that. And -- and that's a good reflection of -- of the regulatory narrative that's developed on this particular issue.

In the last few slides it's just setting out what we have identified at Bike Winnipeg as identified as -- as the road safety issues which we will be touching upon, not all of them. In particular 10.23, 10.25 26, 27, 28, and 29, 32, and 33, keeping in mind that our intervention is limited to the four (4) grounds that we were provided to intervene on. And subject any questions from the Board those are my submissions on behalf of Bike Winnipeg.

THE CHAIRPERSON: Thank you, Mr. Monnin.

Ms. McCandless, you were going to read-in something from CAA?

OPENING REMARKS BY CAA:

MS. KATHLEEN MCCANDLESS: Yes, I'm going to read into the record the opening comments submitted by CAA (Manitoba), given that they cannot be here today:

"Good morning, everyone. CAA (Manitoba) is pleased to participate in these hearings once again. We send our sincere regrets that our President, Mr. Mike Mager and his representative at these hearings, Ms. Erika Miller, are away on business travel, respectively.

However, Ms. Miller looks forward to joining the hearings on October 4th. CAA (Manitoba) has engaged in this annual process for over two (2) decades. We participate on behalf of our more than two hundred and four thousand (204,000) members and do so in the interest of road safety and ensuring rates are fair and reasonable for all ratepayers. Those issues are clearly -- clearly relevant to our members and Manitobans, and we feel it's important to be here every year because our members come to us for information about these topics. We will be listening with interest as a rate increase is on the table and look forward to road safety information during the proceedings, especially as cannabis legalization and ride sharing are emerging issues. Once again, we will be employing a watching brief and reporting to our President throughout the hearing, and respectfully ask the permission of the Board for leeway to ask questions if a topic or discussion arises in which we would like more clarification.

We value our position at these hearings, and thank the Board, Board counsel, and our learned Intervenor colleagues -- colleagues again for the opportunity."

THE CHAIRPERSON: Thank you. I'm looking at the clock now and I suspect this might be a good time to take a break. So we'll take a break until ten (10) to 11. Okay. Thank you.

--- Upon recessing at 10:34 a.m.

--- Upon resuming at 10:54 a.m.

THE CHAIRPERSON: Mr. Scarfone...?

MR. STEVEN SCARFONE: That'll be Mr. Ghikas this time, we're going to tag team.

THE CHAIRPERSON: Mr. Ghikas, welcome back to Winnipeg.

MR. MATTHEW GHIKAS: Thank you very

much, Mr. Chairman, it's nice to be back.

I'll just lead the two (2) witnesses through direct examination and then turn it over to them to do their presentation, Mr. Chairman. I'll start with that, Mr. Johnston, at the far end.

Mr. Johnston, you're the chief actuary -- I'm sorry.

MPI Panel 1:

LUKE JOHNSTON, Sworn

PETER YIEN, Affirmed

EXAMINATION-IN-CHIEF BY MR. MATTHEW GHIKAS:

MR. MATTHEW GHIKAS: Rookie mistake, Mr. Chairman. All right, Mr. Johnston, you're the chief actuary of MPI, correct?

MR. LUKE JOHNSTON: That's correct.

MR. MATTHEW GHIKAS: And you've held that position for almost seven (7) years?

MR. LUKE JOHNSTON: That's right.

MR. MATTHEW GHIKAS: What are your responsibilities in that position, sir?

MR. LUKE JOHNSTON: Currently the -- the chief actuary or the -- really the director of the pricing, forecasting and investments department. So there's three (3) units that report to me: investments, actuarial services and recap -- sorry, re-insurance, and financial forecasting.

MR. MATTHEW GHIKAS: And what, in general, do your respons -- responsibilities include on a day-to-day basis?

MR. LUKE JOHNSTON: So a lot of the -- the units I just described to you are somewhat self-explanatory. So obviously, the oversight of the investments area. For -- in terms of the chief actuary position, I sign off on the rate indication, conduct a liability review, perform the DCAT analysis, also do the rating for the other lines of business.

The -- a big part of our annual review process is obviously the forecasting for the pro forma financial statements; so all forecasts go through the forecasting committees under my oversight and then a lot of the other work could be characterized as risk management type work, reinsurance modelling, things like that.

MR. MATTHEW GHIKAS: And, Mr. Johnston, you've been working at MPI for approximately fifteen (15) years, having joined in December 2002, correct?

MR. LUKE JOHNSTON: That's right. And I was a student as well for about three (3) years prior to that.

MR. MATTHEW GHIKAS: And you hold a Bachelor of Commerce in Actuarial Science from the University of Manitoba, correct?

MR. LUKE JOHNSTON: Correct.

MR. MATTHEW GHIKAS: And you're a fellow of the Casualty Actuarial Society, as of 2006.

MR. LUKE JOHNSTON: I'm a fellow of the -- yes, I am.

MR. MATTHEW GHIKAS: And you're also a fellow of the Canadian Institute of Actuaries, correct?

MR. LUKE JOHNSTON: That's -- yes.

MR. MATTHEW GHIKAS: Can you just explain briefly what's involved in becoming a fellow of those organizations.

MR. LUKE JOHNSTON: Basically, there is an extensive examination process. When I went through it there was nine (9) exams with the -- a typical actuary finishing in their early 30s. So it's a quite extensive -- quite extensive process.

MR. MATTHEW GHIKAS: And in terms of

your role with this application in particular, Mr. Johnston, you are responsible for, as I understand it, the preparation of the actual -- actuarial information generally, including the rate setting analysis, claims revenue, investment forecasts, and valuation of policy liabilities and the driver rating scale?

MR. LUKE JOHNSTON: That's correct.

MR. MATTHEW GHIKAS: And the asset and liability management.

MR. LUKE JOHNSTON: That's correct.

MR. MATTHEW GHIKAS: And the dynamic capital adequacy test analysis in matters related to the rate stabilization reserve?

MR. LUKE JOHNSTON: Yes.

MR. MATTHEW GHIKAS: And you also had input in financial matters generally, correct?

MR. LUKE JOHNSTON: That's right.

MR. MATTHEW GHIKAS: Thank you. Do you adopt as your evidence in this proceeding the portions of the application and your responses to Information Requests, and your opening presentation and your rebuttal evidence over which you had responsibility or shared responsibility?

MR. LUKE JOHNSTON: I do.

MR. MATTHEW GHIKAS: Now, I'll turn to

-- to you, Mr. Yien. You are the Acting Chief Financial Officer of MPI, correct?

MR. PETER YIEN: That's correct.

MR. MATTHEW GHIKAS: And you've held that position since January 23rd, 2017?

MR. PETER YIEN: Yes.

MR. MATTHEW GHIKAS: And you continue to be a partner with MNP LLP, correct?

MR. PETER YIEN: That's correct.

MR. MATTHEW GHIKAS: And your term as acting CFO of MPI will end on October 20th, 2017. So a couple of weeks from now, correct?

MR. PETER YIEN: Yes.

MR. MATTHEW GHIKAS: And you will continue after that time to be a partner at N -- MNP?

MR. PETER YIEN: Yes.

MR. MATTHEW GHIKAS: What is MNP?

MR. PETER YIEN: MNP stands for Meyers Norris Penny. It is a national accounting firm. We are represented across Canada. We are definitely the most represented in the most cities in Canada and we operate primarily in Canada, but we do have coverage for our services across the globe as well.

MR. MATTHEW GHIKAS: And you were -- you have been a partner in -- at MNP since 2015, correct?

MR. PETER YIEN: That's correct.

MR. MATTHEW GHIKAS: And prior to that you were a partner at Deloitte?

MR. PETER YIEN: Yes.

MR. MATTHEW GHIKAS: And that began in 2006, as I understand it.

MR. PETER YIEN: 2004.

MR. MATTHEW GHIKAS: Oh, thank you. And prior to that, you also worked in and out of the private sector, correct?

MR. PETER YIEN: Yes, I have.

MR. MATTHEW GHIKAS: And for example, you -- you acted -- or you were employed by the Hudson's Bay company.

MR. PETER YIEN: Yes.

MR. MATTHEW GHIKAS: And what role did you play there?

MR. PETER YIEN: I held the position of IT controller which was responsible of all aspects of IT expenses and capital project. In my role, I was one (1) of the key signers for business cases and evaluated the merits of business cases.

MR. MATTHEW GHIKAS: And you also have held the position at Geac, G-E-A-C Computer Corp.

Limited.

MR. PETER YIEN: Yes.

MR. MATTHEW GHIKAS: What is Geac?

MR. PETER YIEN: Geac at the time was the leading Canadian software company. I held the role of global financial reporting. Specifically, my role was to improve processes. I had twenty-eight (28) local controllers reporting to me in that role.

MR. MATTHEW GHIKAS: And do you have particular areas of specialty in your practice as a partner at MNP?

MR. PETER YIEN: Yes, I have three (3) areas of specialty. One (1) area is in the area of consulting for information technology, specifically relating to projects, processes, controls.

I have a license to sign off on control reports which are quite often used today. There are referred to as service organizational control reports.

My second role is to support financial statement audits in which I actually go out and test the related controls and processes relating to that.

And then the final piece is I do have a third role, which is exactly the role that I'm doing. From time to time, there are clients that needs to rent, if you will, a professional to take over an area or an area of risk, and that's what I'm doing today.

MR. MATTHEW GHIKAS: Okay. And do you have experience with the insurance industry prior to coming to MPI?

MR. PETER YIEN: I -- I absolutely do. My insurance experience started about twenty (20) years ago but, more importantly, my area of focus has been over the past roughly ten (10) years at which point I guess, in about 2006, I served as the global partner for the Royal Bank group of companies; within that portfolio includes RBC insurance. In addition to that, I had served as one (1) of the audit partners for Sun Life.

MR. MATTHEW GHIKAS: And in terms of your professional accreditation, sir, you are a certified public accountant, both in Canada and the state of Illinois?

MR. PETER YIEN: That's correct.

MR. MATTHEW GHIKAS: And you're a chartered accountant?

MR. PETER YIEN: Yes. CPA is the chartered professional accountant and in the US it's the certified public accountant. So, yes.

MR. MATTHEW GHIKAS: And you are also a licensed public accountant?

MR. PETER YIEN: Yes. That means that I can actually sign off on reports with my signature; effectively the firm's signature.

MR. MATTHEW GHIKAS: Okay. And I saw in looking at your CV that you have a designation that is a CISA designation. Can you explain what that is?

MR. PETER YIEN: Sure. CI -- CIC is a globally accepted designation based in the US. It stands for certified information systems auditor. It means that I am capable of looking at IT related processes and audit against them to the related risks and see if the related processes and technologies meet the objectives for which they are designed for.

MR. MATTHEW GHIKAS: And you also have a designation that is CRISC, what is that?

MR. PETER YIEN: That's also a US based accreditation that's globally accepted. It stands for certified in risk and information systems control. The difference between this and the previous designation that I referred to is this is an area that really focus on internal controls and how internal control should be practised, followed, and ultimately meet those control objectives.

MR. MATTHEW GHIKAS: And for the benefit of the room, people might be wondering how --

how is it that you came to be recruited to act as acting CFO for MPI?

MR. PETER YIEN: Sure. Towards the tail end of December, I was notified that there was an opportunity to potentially serve Manitoba as the acting C -- CFO for Manitoba Public Insurance. I understood at the time that my predecessor Heather was retiring there was a need for her replacement to fill a temporary gap. I understand then passed that there was a series of interviews with a number of candidates. It was a competitive process. I went through the interviews and, ultimately, I was selected as the -- as serving this role.

MR. MATTHEW GHIKAS: Okay. And can you just give a brief rundown of what your responsibilities are as Acting Chief Financial Officer.

MR. PETER YIEN: Sure. This -- this role involves I would say in a nutshell, six (6) areas. It starts with the area of finance which are typical planning, budgeting, reporting, external reporting, including the year-end financial audit at which time I did come in and finish the year-end audit.

A second area would be Mr. Johnston, to

my right, he reports to me in the actuarial functions, including the investment functions that he talked about earlier, I have someone that is in internal audit that wears two (2) hats. He also plays a risk function role. And so I would say about 10 percent of his time he actually does report to me.

In addition to that, recently during this year, the value management process was moved to report to me. And then we also have regulatory and regulate -- pre -- in preparation for this GRA. I was instrumentally involved as part of that.

And finally, the last piece is subrogation. It's a bus -- it's an area of business where we actually recover for monies that we -- we think we should get back. So I have all those six (6) areas.

MR. MATTHEW GHIKAS: So, in general terms, what has your role been in terms of the preparation for materials and the filing of this presentation?

MR. PETER YIEN: Yep, my role has been three (3). In some of the IRs, as I was actually the writer. And then in other areas I was specifically focused on reviewing and the reviewing need to be represented in terms of the IR response. Has to be aligned with management's view, as well as with the Board of Directors' view.

And then in the other areas mine was a more higher-level review in areas that I'm not responsible for.

MR. MATTHEW GHIKAS: And, finally, Mr. Yien, will you adopt as your evidence in this proceeding, the materials prepared and filed by MPI, and subject to the areas that are best addressed by either Mr. Johnston or -- or Mr. Keith?

MR. PETER YIEN: Yes, I do.

MR. MATTHEW GHIKAS: Thank you.

Mr. Chairman, I understand that there -- the witnesses have a PowerPoint presentation. If that could be pulled up on the screen, Diana. Thank you. Oh, have you got control of it? Okay, we've got control of it, Mr. Chairman, and if I can turn it over to you gentlemen to give your presentation. Thank you.

THE CHAIRPERSON: Now can I just ask, is this -- is this a separate exhibit, the application or is it part of the...

MR. MATTHEW GHIKAS: It -- it's been filed this weekend as Exhibit MPI-11.

THE CHAIRPERSON: Okay. Thank You.

MR. MATTHEW GHIKAS: And there should be paper copies. If you don't have one. Okay. Thank you.

PRESENTATION BY MR. PETER YIEN

MR. PETER YIEN: Okay. Mr. Chair, PUB members, thank you for the opportunity to present to you. Before I get started I want to put some overview in terms of how this presentation was put together.

What I'm about to say represents certainly MPI's management - Manitoba Public Insurance executive committee, but even more importantly, it does represent the Board. And it is completely aligned with the views of what the Board thinks our Corporation needs to be in terms of both strategy and direction.

I will, later on mention in this presentation that the strategy component is something that the Board is still working on. It is a work in progress, but that doesn't mean some of the guiding principles have not already been initiated. In fact, we've started thinking along those terms as well. So everything that we've talked about here will be aligned to a strategy that we'll refer to later is being completed in December.

For the agenda, we have essentially eight (8) key topics. We'll start off by talking about the key points. Some of the basic significant challenges that we are facing today.

Number 3 talks to what the Board believes and certainly the management alignment of what we consider as prudent fiscal management. And that is effectively the key to achieving our mandate.

Number 4 is the 2.7 percent rate request is, indeed, appropriate. We'll -- we'll spend some time talking about rate stabilization reserve; that's where Mr. Johnston will focus in a little deeper in that area and then we'll come back to information technology where I'll -- where I'll talk about that.

I talked about earlier in a -- in the questioning that value management processes reports to me, so I will be highlighting some of the important areas and achievements that we've made, and how that would impact this moving forward.

And Number 8, expenses favourably impact the rate indication. And then finally we have a conclusion over the topics that have been just discussed.

The key point Number 1 is really

achieving MPI's mandate:

1) Basic insurance currently is vulnerable and faces significant challenges. We know that. We know that through our actuary. We are projecting un -- unsatisfactory financial condition. And this condition means that during our -- years that are being forecasted, the actual rate stabilization reserve will fall below our minimum.

Having the rate stabilization reserve fall below the minimum puts our ratepayers at risk of a possible rate shock by way of either increase in premiums and/or a need to rebuild the rate stabilization reserve.

Point Number 2) The 2.7 percent request is, indeed, appropriate. As I said earlier, management has taken action. We're not waiting, and we're doing it as we speak. To reduce the ask on taxpayers and that includes having the driver premium increased to demerit drivers. And this reduces the ask effectively on all ratepayers.

3) Prudent fiscal management. And I'll be focusing and emphasizing this as we go on in this presentation. This is a critical requirement for us to move forward to achieve the mandate that we just discussed a little earlier.

And what does that mean? In our view, it means that we need to have an upper rate stabilization reserve; essentially, a range that we would operate in. And that would be established. And that Basic total equity would also be allowed to be replenished with investment income. And I'll come back to as the reasons why but, essentially, what we are asking is that Basic must be able to fund itself. It should reduce the overall risk for ratepayers and taxpayers through rate shock and instability.

Achieving MPI's mandate. MPI's mandate is to provide universal access to affordable, comprehensive auto insurance to all Manitobans. While I personally am not an Manitoban, I'm extremely jealous of the rates that you're paying. I've just gone through a renewal process myself where the service levels, wait times in Ontario for me to get a quote on my existing insurance is about thirty-five (35) minutes. In my most recent experience the call was dropped and my ultimate waiting time was more than an hour. That's just for one (1) of my policies.

On top of that I'm paying thousands more than current Manitobans are paying in terms of insurance. I did a quick calculation over the weekend as I was preparing the GRA and I've realized over my lifetime so far I've paid in excess of $100,000 more for insurance. And that's just for two (2) cars that we have.

So what's affordability? We understand that affordability for an average Manitoban through our surveys is that it cannot exceed 3 percent. It needs to be stable and that stability is important.

I also know that last year the Canadian Payments Association has conducted a survey and the survey indicated that approximate 48 percent of Canadians are living paycheque to paycheque. In addition, 40 percent of Canadians are using their entire paycheque to pay off their bills. In addition to needing to supplement that with some other form of funds to pay their bills. That's how I view affordability.

Although I'm not a Manitoban and I'm not suggesting for a moment that that Canadian Payments Association survey represents Manitobans, I do believe that affordability could be defined that way.

We indicated earlier that the affordability is important and even though we put it in perspective of what the magnitude of that increase is, maybe it does come back to a cup of coffee, I will tell you that the Board is not looking at that that way.

The Board is actually ensuring that we move forward to create and build an organization where we are financially accountable and we are financially prudent. So that means if we can save money and put part -- money back in the pocket of Manitobans, we would do so.

This application puts Basic on a path to achieve long-term rate stability and I emphasize the word "long-term rate stability." I just indicated earlier, that in that survey that an average Canadian finds it hard to pay their bills and any rate instability will cause issues because there is really just isn't much left in average Canadian's wallet.

How do we do that? We achieve through that:

1) Operational excellence. We are measuring ourselves against other comparable insurance company to ensure that we will get there.

In addition, we need to have strong financial condition for Basic. That is actually necessary to deliver the mandate that I just described, number 1, appropriate break-even premiums; that the premiums that we charge are the right rates.

Secondly, talked a little bit about the adequate capital. This adequate capital is designed to protect the rainy day, a day of hail that we didn't expect, some weather conditions that we cannot forecast. Some of these are large. How do we protect that? It's through to having enough adequate capital that says, We're not going to ask for a rebate -- sorry, we are not going ask for rebuilding fee and we not asking for a rate increase.

And finally, we've heard you. Should we be looking at our portfolio of investments? Should we be taking on more risk and generate additional income? And how do we balance it with the associated risks that we end up taking? I'll be addressing that a little further in this presentation.

So it's a challenge for Basic. First, Basic's financial -- financial condition currently is unsatisfactory. We need to do something about that. Basic has come to rely on transfers from Extension, hundreds of millions. Basic is undercapitalized right now and is vulnerable for what we just discussed, and when we have those three (3) conditions in play, our ratepayers are at risk. Ultimately, the Board believes that Basic must fund itself as a line of business.

Basic's financial forecast condition is unsatisfactory. Currently, the lower RSR target is the absolute minimum amount of total equity to achieve satisfactory financial condition. It is currently 30 percent of the minimum capital tasks -- test that we have talked about. T

he Dynamic Capital Adequacy Test, the DCAT, is a scenario that we have accepted and is using as a test of Basic's capitalization. The Dynamic Capital Adequacy Test model shows that Basic maintains part of total equity with $201 million in total equity as at March 1st, 2018, with the following assumptions: 1) there's a 1 in 40 probability. And second, management action. That would include any rebuilding fees and/or rate increases.

The twenty-seven (27) -- the 2017 Dynamic Capital Adequacy Test report finds that the project financial condition, Basic is not satisfactory. And what we mean is in the years that we are projecting our financial condition, it falls below the 201 million.

Basic has come to rely on transfers from extension. In my previous sli -- slide, I alluded that we had made a lot of transfer. In the past few years, MPI has transferred $176 million just to meet the minimum RSR: 27.8 million in fiscal 2016/'17, followed by 75.5 million in fiscal 2015/'16, and also 70 points -- 72.7 million in fiscal 2014/'15.

MPI's Board of Directors approved these transfers, both the amount and the timing. MPI's Board of Directors will explore options to restore the RSR to an optimal range. We'll have a slide later to describe what that optimal range is, but essentially, what we're saying is the RSR will never stay constant. And it'll move, and as -- as it moves, we'll ensure that it moves in this optimal range so it doesn't affect negatively on ratepayers.

Once we establish this adequate RSR range, now we can achieve some certainty that the total equity would not be rebated either through a discount of premiums, or if the total equity is below the upper RSR target. Basic is undercapitalized and vulnerable. As you saw on the previous slide, Basic insurance is not funding itself or its own reserve. In fact, as stated by Mr. Scarfone earlier, the RSR balance is basically as a result of transfers.

The absolute minimum level of capital does not secure Basic's financial condition or even deliver stable results to Manitobans. That results in vulnerability from Basic's business, which is neither desirable nor sustainable. Ratepayers are at risk. When Basic is operating at a minimum level of capital, the consequences of the adverse financial results become more severe or exaggerated. Rate stability is much less attainable given the highly likelihood of rebuilding fees, for example. And that's maybe over and above possible rate increases. And when we combine these effects of both rates increases and rebuilding fees, that can result in rate shock.

I mentioned earlier that an average Canadian cannot sustain that rate shock. They're already spending essentially almost half their income, paycheck to paycheck, painful bills, and this rate shock is not sustainable and would ultimately damage Manitobans' confidence in their public auto insurance system.

That means Basic must fund itself. A long-term stability and sustainability depends on rates funding the cost of insurance, the actual cost of premiums year-over-year, and the reserve itself. Basically, what we're saying is when we charge premiums for a policy, we need to cover the cost of paying for that premium over duration of that policy and our coverage.

Secondly, MPI stakeholders, ratepayers,

and the government expect steady, predictable rates. I mentioned the thir -- less than 3 percent scenario. This means we need to avoid rebuilding fees with -- and government bailouts. It is simply not prudent to manage the business with the expectation of transfers from extension on a sustainable basis and a continued basis, and also sizable transfers like what we've demonstrated in the past.

It's not prudent to set premiums below the cost of the benefits. Overall, what I've just described, this approach would be consistent with the accepted actuarial practice, AAP, and makes very good business sense.

I want to spend a bit of time on what we mean by prudent fiscal management. I mentioned earlier that this is an area that our Board is focusing on, and it's this essentially building this element into our upcoming business strategy. It is very essential that we practice this in order to achieve our mandate.

There are several areas that we need to accomplish to achieve this. I'll talk about the facets of the prudent fiscal management. We need to establish MPI operations that are efficient and effective. We need to ensure that Basic requires and builds the capital reserves, and Basic requires the appropriate premiums. The facets of prudent fiscal management.

Our Board has indicated that we want to run MPI as a leading organization. MPI needs to deliver and continue to deliver matters under our control, and it starts with running the operations efficiently and effectively, but that alone is not enough.

We also need to ensure that we, through this GRA application, that we establish the adequate capital reserves and the appropriate premiums. The combination of the three (3) allows us as an organization to exercise what we call prudent fiscal management.

MPI's operations currently are efficient and effective. We've demonstrated that through a one point nine (1.9) decrease in our total Basic expense over the 2017 GRA. That's a rating years average that I'm describing. Cost containment, by the way, is an ongoing activity. We will continue to look for areas where we can have cost reductions. In fact, moving forward, we'll be building a dashboard to ensure that we are continuously identifying opportunities to drive savings without sacrificing service, without sacrificing the deliverables that we have committed to, and it's evidenced by actions to reduce operating costs in the budget.

An example of that would be stretch targets, something I'm very familiar with. That was achieved to get to a flat budget. Secondly, zero-base budgeting. What does that mean? We're enhancing that process. Zero-base budgeting means to look at our expenses for areas that we don't understand and ask ourselves, Can we do better? Can we do with less without sacrificing those things that I talked about earlier? Not only that, what are the areas that we need to challenge ourselves and stretch a little bit, as hard as it seems?

I mentioned about the keeping the budget flat in a decrease. We've even factored that if there is a GWI increase, general wage increase, we'll deal with it. If there is a CPI increase, let's try to figure out a way to save money elsewhere. That's what zero-base budgeting is.

We didn't stop there. We have enhanced a review committee. Our executives will review and challenge whether those assumptions are reasonable. Would it actually impact service? And if it doesn't, can we do more? This process will continually be enhanced as management continually redefine and enhan -- enhance the zero-base budgeting process.

Secondly, MPI's operations are efficient, as demonstrated by key benchmarking scores. We feel that benchmarking is important, and benchmarking gives us a view into what other organizations are doing, what they're not doing. However, I would have to caution that sometimes benchmarking alone is not enough. We are benchmarking against organization that may be dissimilar to us. Others may be familiar to us. So when we look at benchmarking results, we need to look at it with a light that says, What's different about that organization? What's similar that we need to learn from that organization? And essentially, drive better results.

We will continue to do that, and we'll be able to show that MPI's business model is successful, and that the latest benchmarking results are indeed favourable. And for the areas where it's a little -- not as favourable, we are looking for opportunities for improvement. We focus on gross expense ratios, and they do beat their benchmarks, and they will continue to improve.

Third, we need to achieve our corporate

goals. Achieving a reduction in expenses alone while sacrificing the other corporate goals is not an area that we want to get into for the Board. The Board is actually focussed in achieving the corporate goals, however, without letting go of what I've just described, focusing on the areas that we can reduce and do better.

MPI's operations are efficient and effective. When I look at this chart, it makes me shiver. I see Toronto, and that's where I live. For me, that seven thousand (7000) is pretty darn close to what I'm paying. And when I look at the chart for Winnipeg, Brandon is significantly less. And from the Board's perspective, this is a corporate goal that we -- they absolutely will focus in on. As much as we described earlier, that the magnitude of the increases may be equivalent to a cup of coffee, we're not focusing on that. We're focusing on make -- making sure that our rates will continue to remain among the lowest, and that's important.

Basic does require adequate capital reserves. Section 18 of the MPIC Act states:

> "The Corporation shall establish and maintain reserves in such amounts at all times."

It has sufficient funds to meet all the payments as they become payable under this Act and regulations.

Looking at this, it's very clear that MPI's executive and Board of Directors must be able to meet their financial responsibilities and ensure an adequate capital reserve, and that it exists to meet its actuary requirement and obligations. I will note that it is silent, though, in what such amounts mean. It doesn't stipulate on what an RSR rate stabilization reserve minimum and rate stabilization reserve maximum is.

So the Board has continued throughout the year, sin -- Mr. Scarfone mentioned that our Board came on board, pardon the pun, but around mid last year. They've been looking at this issue, and essentially said, Well, we do need to ensure that we get 100 percent minimum capital test, that we do need the upper limit in order to ensure we do run a corporation the way it should be run.

What does that mean? That when you look at the graph, you'll see an area of red. Once we fall below in the area of red, it means we are in trouble. We are below the lower limit of the rate stabilization reserve, and that means that we don't have enough capital to withstand our model adverse scenarios, such as a series of hailstorms that we don't anticipate that are significant, or perhaps a terrible winter, or a combination of the two (2).

When you look at in the area of the green, we start to realize that upper limit is an area where we are quite safe. We are well-protected. The Board is essentially saying that if we have this range to work with from $201 million at the lower rate stabilization reserve limit and the upper $438 million rate stabilization limit, when these unexpected events happen as donate -- as denoted by the arrows, and they could go up and down, we could end up building our reserves in a year where we didn't weather such a bad -- terrible weather. But it could come quickly down, just like that graph shows, when we have a series of unexpected events, that it could drop just as quickly.

But having that range that is not narrow, that is well-defined, and follow industry standards, allows us to create that rate stability I described. So while it's operating in that range, we are not in a position to ask a reb -- for -- ask for a rebuilding of the RSR rate stabilizing reserve. We are not asking ratepayers for rate increases. It's essentially a happy medium that allows us to protect our ratepayers.

Just to summarize, at the minimum level of total equity, meaning the lower rate stabilization reserve target, Basic can withstand the model as adverse scenarios after management action. Operating above the RSR rate stabilization reserve minimum promotes this rate stability I talked about. The rate stabilization reserve range needs to be sufficiently wide, not narrow, so that it can absorb these unforeseen events.

So it should be well above the minimum to reflect the variability in the financial results, within reasonable limits. The total equity is in the optimal range. When it is, it provides our ratepayers the best protection from rebuilding fees.

And at this point, I'll pass it to our actuary, Mr. Johnston, to continue.

PRESENTATION BY MR. LUKE JOHNSTON:

MR. LUKE JOHNSTON: Thank you, and good morning. So moving on to premiums for Basic. So Basic requires appropriate premiums. The first bullet states that Basic premiums should be set in accordance with accepted actuarial practice, and it might seem straightforward, but that accepted actuarial practice comment is significant when we're talking about making best estimates.

This is my professional reputation. I'm signing these rates. I'm putting my name behind these forecasts. If you go through the Information Requests in the application, you can't help but see a downward pressure on a lot of the forecast, a -- a desire to reduce them, to lower the rate, and that is something that obviously, intervenors can do, but they have their own objectives that they have for their clients. Mine is to set best estimates. And again, that's per my actuarial standards.

The other piece of this is zero profit provision. So on the bottom, we quote a section from the actuarial standards of practice. We're basically -- I won't read it word for word -- but it's basically saying that the present value of the cashflows that you get from the premiums should match the present value of the costs, plus a provision for profit. MPI doesn't make any profit. And there's things that happen in the private sector, so I'm going to assume that most private sector insurers want to make a profit, and it would make sense that there is a present value for that profit provision.

We have no profit provision in our

rate, so some of the questions we're seeing in the Information Requests are suggesting we use a private sector approach to determine profit, which gives us a negative profit. And all MPI is saying, and with our proposed rates, is that we don't think it's appropriate for a Corporation have a negative profit, particularly in the capital position that we're in right now.

Basic requires appropriate premiums. I'm continuing. Another aspect that a private insurer and -- and public insurers as well is -- is that they would have a way to build their capital. The -- the most obvious way would be earning profit. That's not an option for -- for MPI.

Another way would be, as -- as Saskatchewan government insurance does, they ensure that their capital at least stays the same. So if MPI had a 35 percent MCT -- MCT ratio, we might have a maintenance provision to make sure our capital position doesn't deteriorate. MPI doesn't have that. We are -- we also aren't asking for a RSR rebuilding fee in this application.

So in the absence of those other methods, the only way the rate stabilization can grow -- reserve can grow is through its investment income, and luck. Really, the only other way is luck, and that's not a strategy.

Just to give a visual interpretation of what I'm -- what I'm talking about, for our 2018/'19 rates, the blue bar at the top represents all the claims and associated expenses associated with the 2018/'19 policies. We then use our assumed investment return and calculate the present day cost of all those claims costs and -- and expense payments.

So just to make it clear, here, when we say, "Excluding the RSR investment income from the rate," that's just a small piece that we're talking about not including in our rate calculation. As you can see here, the investment income effect is almost $90 million on this rating year, so a substantial amount.

We then take that present value and set the premiums equal to that. No profit. There is no margin for error here. As you can expect, that -- that $90 million box is highly -- it's -- it has a lot of risk in there. There's -- in the orange box of claims and expenses, there's a lot of risk in there too. We don't have no buffer.

Take it down another level to the -- to the red bar. Now we're being asked to rebate funds on our capital earned on our -- investment income earned on our capital off of the rate indication, putting us into a negative -- a negative profit provision. And all the Corporation is say -- saying here is that we don't think that's appropriate for MPI.

THE CHAIRPERSON: Mr. Johnston, before you leave that slide, I have one (1) question. Can you go back to the previous slide?

Can you just explain a little more clearly what the difference between the light blue investment income is and the red investment income?

MR. LUKE JOHNSTON: So the -- on the top, the blue line again is all the associated cash flows with the -- with the policies we're selling, so the claims and the expenses. The $90 million investment income you see there is the -- is the investment income associated with those policies. When you go to the bottom bar they earn in our -- on our RSR, which is currently not satisfactory, based on the dynamic capital adequacy test.

It's expected that it will earn approximately $11 million of investment income on -- on the rate stabilization reserve. Based on the method utilized in last year's rate application and being asked about in the Information Request we'd be saying, Let's reduce rates by that $11 million of investment income on RSR.

Further on -- on this point, MPI views this payment of the RSR investment income is essentially a rebate. It is coming from the rate stabilization reserve. There's no question that $11 million is investment income earned on the rate stabilization reserve. And we would be doing that when we have unsatisfactory financial condition. Maybe if we were at the top of the range, and we had so much in capital that it was time for a rebate we might be talking about this differently, but that's definitely not the case right now.

Further, the RSR -- this RSR money hasn't even been earned yet. This is purely a forecast. Three (3), it would result, as I showed setting for pol -- policy premiums at a loss. And again, four (4), as I've already mentioned, by taking away the investment income in a breakeven forecast you would assume the RSR balance would never grow except through luck. And luck goes both ways as we've seen.

By never growing the rate stabilization reserve what's going to happen is MPI's business will continue to grow. Its required minimum RSR will continue to grow. And this will just continue ongoing, rebuilding fees or transfers from the competitive lines if that's available, much as -- like what you've seen in the last three (3) years.

Okay. Moving on to the 2.7 percent rate request. So I'm going to obviously talk about the 2.7 percent, but also the initial rate indication before the management action. I'll talk briefly about the best estimate interest rate forecast and the compliance filing process.

I'll just touch briefly on -- on this. As already mentioned, MPI has some of the lowest rates in the country. We don't take a rate increase slightly by any means. But, for the most part, for the first four (4) major classes we're looking at near inflationary type increases generally in the twenty (20) to thirty dollar ($30) range.

As mentioned, the Corporation's initial rate indication was 7.7 percent. And as the chief actuary, you can imagine this is not a rate indication that I take lightly, bringing it to a new Board of Directors. So when I talk about making best estimates this, I think, should signal to the Board that, you know, I'm -- there's no compromising in my standards. This is not a pleasant message to deliver.

The -- the 7.7 percent indication is

merely caused by claims. Claims costs and claims expenses are about 88 percent of the rate for Manitoba Public Insurance. So that's the -- the main driver, but there's also impacts from our investment return assumption and the treatment of RSR investment income.

So I'll start with claims. And as I mentioned, most of the rate is for claims, about 88 percent. About 6 percent of the overall indication stems from claims. One (1) of the big reasons is the continued collision severity growth. Over the last five (5) or so years, we've seen about 6 percent annual growth in collision repair costs. So that -- well, obviously if they continue to grow at that rate, a rate increase would be required.

But we've also seen an increased hail forecast. We've consistently been hit with higher than expected hail. I attended the Appointed Actuary's Conference last week, and there is a presentation from a large re-insurer that basically confirmed that we're -- really all areas of the world they're seeing more instances of extreme events over the last decade compared to previous decades. So if that's the case for MPI that would be consistent. Our hail forecast used to be 5 or $6 million a year. It's -- it's now over thirty (30).

Theft and vandalism claims increased. We had a very favourable run where theft and -- and crime-related perils declined for almost a decade. They appear to have plateaued in -- at least in the short-term beyond a bit of an up tick so we're watching that. But we felt we needed to increase the forecast.

And then, lastly, the PIPP forecast increased by about 6 million, and that stems from more long-term injury claims. We are seeing more claimants turn into lifetime type or very extended type injuries. And it definitely caught us off guard compared to what we'd seen in the first twenty (20) years of the PIPP program. So this is something we're monitoring closely, but -- closely, but we have enough evidence now that it's hard to deny that this -- this trend has -- is -- is persistent.

Moving on to the third bullet. Our rates are calculated based on an assumed investment return. That investment return has declined and that caused 0.8 percent of the increase. MPI's proposal to exclude the RSR investment income from rates is -- is -- causes about a 1 percent rate increase relative to last year's rates that we -- that were approved. And then the last bullet's just noting that non-claims related costs are not the cause of all of the rate increase. It actually declined by about 0.2 percent.

Management action. These factors have largely already been discussed, but just to reiterate, the seven-point-seven (7.7) required rate increase, the road and strategy, the physical damage stretch targets, the corporate bonds, DSR, and then associated reductions of expenses from making those changes. So these management actions were taken after the -- my initial proposal on the seven-point-seven (7.7) rate indication, which allowed me to put a new forecast out on 2.7 percent.

So just to make this point clear from -- in terms of my role as actuary, again, I have to make best estimates. So I have to have evidence and believe that these -- these things will happen. We don't just get to decide we're going to lower rates by 5 percent and promise some things, right? These -- these particular strategies were -- were shown to be credible, and that allowed me to take -- consider them in the rate.

I don't think I need to reiterate this -- this piece, but basically the stretch targets on the bottom point ref -- reflect KPIs and changes to claims management, which are expected to occur.

Actually, one (1) thing I can say on these sli -- on these slides is at least to date as of about the end of August, we are seeing favourable progress on these targets. So I can say from a actuarial rate setting perspective that I continue to have confidence that the management actions in the previous slide related to claims are -- are on target.

In regards to the corporate bonds, as mentioned, the forecast of rates assumes a increase in allocation to corporate bonds up to 18 percent. So what that does for rates is, obviously it improves your assumed investment return. A lot of our fixed income portfolio is in government bonds. The movement to corporate bonds increased the investment return. Higher returns leads to a lower present value, charge lower rates.

This allocation, while -- while it still has to be approved by the Minister, 18 percent corporate bonds is very much in line with other insurers, Saskatchewan being -- being one of them. So this is not seen as a off-line proposal. But again, it does still require approval.

In terms of the last point about taking on increased risk only makes good business sense. If you recall, not everybody was here at the time, but

MPI's RSR used to be not tied to the risk of the Corporation. And it used to just be 10 percent to 20 percent of premiums, which would today probably be about eighty (80) to 160 million.

In that environment it's very hard to take risks, because your capital levels aren't responsive to the increased risk that you take. So although not the same today, if we have very low current capital and capital targets, and -- and we actually don't have a upper target right now, it's very difficult to take on additional risk when you already are basically coming to the Board and saying that we don't have adequate capital.

So we'd be saying we don't have adequate capital, but were to take even more risk, which would mean our capital is even less -- even less adequate. So that's -- that's what we're discussing here. It doesn't make sense to take these additional risks if you don't have an appropriate RSR upper and lower target.

Driver safety rating. So the first -- it's important to recognize that this isn't a premium reduction. We have -- we are transferring a portion of the rate increase onto the drivers to the -- but only to the demerit drivers. Demerit drivers are about 8 percent of all -- of all drivers. We've provided evidence that show that this rate increase is justified.

That said, rate increases, at least right now on the DSR scale, are -- are set based on policy decisions, not formal actuarial practice. The rating structure we have today doesn't allow us to rate by driver. So this is a policy decision, but it's very much guided by the actuarial information on what's appropriate.

The drivers. If, on the demerit side, if they improve their behaviour they can largely avoid these increases. And we have definitely seen that on the first iteration of DSR. When you put in the driver safety rating in 2010, the behaviour of the demerit drivers improved significantly and continues to do so. So we're hoping that this will incent further, but that's something that's very difficult to forecast. So we don't have that in our application. But just to be clear, not having the claims is much better than -- we would much rather they not have the claims then -- then collect this additional premium.

Best estimate interest rate forecast. So for rate setting, or in -- in the financial modelling we used a ten (10) year Government of Canada naive interest rate forecast. So when -- when we say that we don't mean that we only have ten (10) year Government of Canada bonds. We just mean that the -- the spreads or the differences are all relative. Like, so a corporate bond might have a certain spread above a ten (10) year Government of Canada bond. So it's not that we're just using that -- that rate to set the -- to set the premiums.

The -- the naive forecast is definitely simple and clear. There's no -- you know, there is no grey areas. It is -- it is what it is. And from the evidence we've provided we believe it's got the most predictive power of any of the methods. That said, we do recognize that there has been difference of opinions on the interest rate forecast in the last bunch of years.

So two (2) things are happening in this application. Move -- moving to accepted actuarial practice has decreased the interest rate risk in the application. The biggest reason for that is that we're only focused on the policy year instead of on the breakeven on the entire financial statements, so that would include prior year's claims.

The other piece is the compliance filing. So I really see the compliance filing as a good compromise to different opinions on where interest rates will go. It was mentioned in one (1) of the introductions that interest rates have since been increased a couple of times since we filed the application. That's fine. Any information we have, as of November 30th, will be reflected in the updated rate proposal.

So, like, we want rates to go up, too. So -- but what won't be happening is banking on this forecast two (2) years out in the future that says rates are going to go up two hundred (200) basis points. And, as mentioned earlier, we lost about $168 million from interest rate forecasts that didn't materialize. We can't -- we can't do that. That's basically our entire rate stabilization res -- reserve.

The AAP and the compliance filing reduce risk, as I just mentioned. This is just an example of what we've seen as of, I believe, August 31st. But regardless of where the rates move, MPI would be asking for a compliance filing to reflect the latest interest rates.

THE CHAIRPERSON: Mr. Johnston, I'm just wondering if this is an appropriate time to take a break for lunch and we can complete the presentation after lunch.

MR. STEVEN SCARFONE: Mr. Chairperson, perhaps we could get from the two (2) gentlemen an indication of how much longer they have.

THE CHAIRPERSON: Sure.

MR. STEVEN SCARFONE: The Corporation prefers that we try and get through the presentation, if we can, largely because Mr. Yien has a -- has a board meeting at 3:00 p.m. that he needs to attend, so.

THE CHAIRPERSON: Are -- are we talking about the presentation that's six (6) more pages or --

MR. STEVEN SCARFONE: Yes.

THE CHAIRPERSON: -- is there more to the presentation?

MR. STEVEN SCARFONE: Well, and that's a question for the two (2) panelists, but I do believe it's just the -- the remaining six (6) pages. Correct, gentlemen?

THE CHAIRPERSON: What time is Mr. Yien's meeting?

MR. PETER YIEN: Yeah, my meeting is not till three o'clock.

THE CHAIRPERSON: Okay. Well, I would

assume that we'd be -- given the pace we've gone through, I would assume that we would -- we would be finishing the -- the remaining pages by three o'clock.

MR. STEVEN SCARFONE: If that's -- if -- if that's all that's left, gentlemen.

THE CHAIRPERSON: Yeah, I -- sorry. I went on the basis that the presentation was simply this. Is there -- is the presentation broader than this?

MR. STEVEN SCARFONE: No.

MR. STEVEN SCARFONE: No, it's only the slides. Your -- your understanding is correct.

THE CHAIRPERSON: Okay. So let's break until 1:10, and we'll have the presentations at 1:15. And then we'll -- presentation's, I -- I would assume you -- you don't need more than an hour, do you, to complete it?

MR. STEVEN SCARFONE: I wouldn't expect so, Mr. Chairperson.

THE CHAIRPERSON: Okay. Yeah, well, why don't we break right now and then we'll -- we'll come back at 1:10.

MR. STEVEN SCARFONE: Thank you.

THE CHAIRPERSON: Thank you.

--- Upon recessing at 11:56 a.m.

--- Upon Resuming at 1:11 p.m.

THE CHAIRPERSON: Okay, we're -- we've got a couple of presentations from public witnesses. The presentations will be about ten (10) minutes each.

Mr. Pfeiffer, is that your name?

MR. IAN PFEIFFER: Pfeiffer.

THE CHAIRPERSON: Pfeiffer? You have to push it really hard. Mr. Pfeiffer...?

MR. IAN PFEIFFER: I broke your microphone already. Are we ready?

THE CHAIRPERSON: We are. Could you -- for the record, could you give your full name?

MR. IAN PFEIFFER: William Ian Pfeiffer.

THE CHAIRPERSON: How do you spell Pfeiffer?

MR. IAN PFEIFFER: P-F-E-I-F-F-E-R.

THE CHAIRPERSON: Thank you. The floor is all yours, sir.

PRESENTATION BY MR. IAN PFEIFFER:

MR. IAN PFEIFFER: Perfect. The reason I'm here today to speak on behalf of this cause I've got the renewals for my vehicles and I have quite a number of vehicles.

This year was the first time I actually looked at it and started questioning the registration fees on my vehicles and the registration charge is $154 on a regular vehicle.

On things like my trailers, I have a trailer that's $99 in -- in insurance or total, ninety-two (92) of that is a vehicle registration charge. And that's the same thing as my cargo trailer. On my pontoon boat trailer, the vehicle registration fee is $84 on a $350 insurance.

In total this year I paid $4,168 for my insurance; $715 of that, or 17.15 percent was registration fees. So I contacted the Minister of Crown corporations to find out exactly what this registration fee covered. What was I getting for this money that I'm giving MPI because it's a considerable amount.

It took them a few days to get back to me because -- well, first of all, they went to MPI's customer service. The Minister's office directed it there. Somebody from customer service finally contacted me. I let them know my concerns. And it took them three (3) or four (4) days before they could finally get back to me and tell me that 100 percent of that registration fee is forwarded from MI -- Manitoba Public Insurance Corporation to the Minister of Infrastructure and Transportation. Not a single penny stays with MPI.

So I contacted Darren at the Public Utilities Board and I said, Listen, I'm concerned about this. This is kind of ridiculous and I started searching and investigating some more. I was surprised when he said that he wasn't aware that MPI doesn't keep any of that money; that all of that money goes to the Manitoba infrastructure and transportation.

Now, considering that MPI is listed as a nonprofit corporation, I find it disingenuous that they're taking $154 profit right off the top. And if they don't want to call it profit, at the very least it's a road tax, but it is in no way whatsoever a registration fee. And it's completely dishonest to present it as such to all of the ratepayers that are paying their insurance.

The fee was increased as well in the 2013 budget by the NDP government a hundred dollars. It was $54. It was raised to $154. Now I'm not saying that it didn't go before the Public Utilities

Board for that increase for sure, but what I can tell you is I can't find anything on your website in all of the rate applications in anything that says that they did go before the Public Utilities Board.

And if the government is going to do these types of increases, my understanding is to protect, again, us ratepayers, any of those increases are supposed to go through you.

Now, when I spoke to the customer service person at MPI, I also asked if that hundred and fifty-four dollars ($154) is included when they do the right comparisons with other jurisdictions. I was told that no, in fact, they don't include that hundred and fifty-four ($154). She likened it to the extra amount that you would pay if you are purchasing a $200 deductible as opposed to your $500 deductible, which I simply asked, Can I buy my insurance if I have a $500 deductible? The answer was yes.

Can I buy my insurance if I don't pay the registration fee? And the answer was no. So I also believe that, without question, that needs to be included when doing any rate comparisons whatsoever. I brought copies here of that and I'm not shy about living my name or leaving them here with you if you want to see them, but you can also look at every one of your own vehicle registrations and see that this is the case.

I think that -- that this is dishonest, completely dishonest and I believe a recommendation for this to change it, is if MPI feels that they need an increase, and we know that our governments aren't just going to hand off a hundred and fifty-four ($154) on -- how many vehicles do you guys insure; hundred thousand, (100,000), 200,000.

I mean, it's tens of millions of dollars they're taking right off the top. I would say if you want an increase, take it off the registration fee. Take it off the registration fee every year until that dishonest fee is gone and we'll all win. The consumers will get their money back. The government won't have to give up those funds in one quick shot. MPI will get an increase to put into their reserve fund, which is, you know, I hear that -- this morning, the main talk was the fact that you are not for profit and you're just looking to increase the reserve fund. Do it with that? Leave our pockets alone. That's it.

THE CHAIRPERSON: It's not necessary but would anybody care to comment.

MR. MATTHEW GHIKAS: Well, I think --

I think that perhaps what we can do is we have the transcript of the -- of the presentation and what we can do is provide a comment or a response on it when we complete our final submission if that's satisfactory to you, Mr. Chairman?

THE CHAIRPERSON: Yes, if you're going to do that, could you get Mr. Pfeiffer's contact information so that he would also get a copy of what your submission is.

MR. MATTHEW GHIKAS: We certainly can.

THE CHAIRPERSON: Okay, thank you.

MR. IAN PFEIFFER: That would be good because I just let them know I shared this on Facebook and I -- I only have fifty (50) friends. I just have it so I can get the pictures of my grandkids. It's the only reason I have Facebook.

MR. MATTHEW GHIKAS: You've got more friends than I do.

MR. IAN PFEIFFER: It got -- it got shared 900 times and everybody asking for -- to know exactly what comes of it down the road. And I was shocked at how many of those people also had no idea that this hundred and fifty-four bucks ($154) just disappears.

And on the other note, most

jurisdictions on those trailers because, I mean, we're talking about seven bucks ($7) insurance, most jurisdictions charge a one-time charge for trailers of $250 to $300, and then you never pay again.

So, I don't know why MPI doesn't have the same type of thing in place because you're charging me every year for seven dollars ($7) worth of insurance on a boat. Charge me 250 bucks one time, get it over with and get rid of the registration charge.

THE CHAIRPERSON: Thank you, Mr. Pfeiffer.

MR. IAN PFEIFFER: You're welcome.

THE CHAIRPERSON: Appreciate it.

MR. IAN PFEIFFER: Any time.

MR. MICHAEL TRIGGS: Mr. Chairman, I could actually respond to Mr. Pfeiffer's concerns.

You may recall that a number of years ago DVA, the driver vehicle's registration was separate as a government department and in 2005, it merged with the Manitoba Public Insurance. The responsibilities of the DVA was to administer registration of vehicles. So, at that time, the government charged a fee for every time you registered your vehicle, you get your license plate as part of the -- the cost of that.

When the merger occurred MPI took over that responsibility but the registration fee stayed in place and they were as a -- kind of a pass through to the government. We collect the money and it goes on to the government. So this is the government's monies from the registrations they set for registration -- when you register your vehicle each year.

Each province has their own registration fees as well that are paid directly to the governments. In most jurisdictions, you don't have your insurance and your motor vehicles paid for at once, you have to go and do it two (2) separate stops; one at the motor vehicles department and another one at your insurer. But in Manitoba we have combined to the two (2) and they are all put all the same bill.

MR. IAN PFEIFFER: So that makes it right?

MR. MICHAEL TRIGGS: Just explaining what it's -- you asked what it's for and I explained -- it was just --

MR. IAN PFEIFFER: I just -- well, I'm just -- I was also given the option saying that -- and did you present to the Public Utilities Board for that hundred dollar (100) increase in the registration fee?

Because regardless of what you're saying here, Manitoba government is owned by the people and it owns MPI so it's all -- you can do whatever you want with the bureaucracy, the people that are paying the bill don't really care. What they care about is, you know, like I said, can I insure my vehicle without paying that hundred and fifty-four ($154)? It's not optional. It's part of the -- it's part of the cost and it's not a registration fee.

MR. MICHAEL TRIGGS: It is a registration fee and Manitoba Public Insurance does not keep that money. It's passed through to the government --

MR. IAN PFEIFFER: I --

MR. MICHAEL TRIGGS: It has nothing to do with --

MR. IAN PFEIFFER: How is it -- explained to me how it's giving a hundred and fifty-four ($154) to infrastructure and transportation, which as far as I'm con -- as far as I know and please feel free to correct me if I'm wrong, as far as I know has absolutely zero to do with any database that registers a single vehicle anywhere.

Tell me who do I talk to at infrastructure and transportation that could provide me the data on exactly how many vehicles they're registering in their database? Who should I speak to?

MR. MICHAEL TRIGGS: Probably the Minister's office.

MR. IAN PFEIFFER: I've spoken to the Minister's office, they put me back to you guys. I asked you what happens with that -- even your staff took three (3) to four (4) days to find out where this goes.

I spoke to the Public Utilities Board, they didn't know that this went directly to the government.

THE CHAIRPERSON: Maybe I can shorten this. So what it sounds like is this registration fee that's being changed, the government's not doing anything, transferred the jurisdiction to MPI, you collect the fee, that goes to the gov -- that flows through to the government, is that correct?

MR. MICHAEL TRIGGS: Correct.

THE CHAIRPERSON: Okay.

MR. IAN PFEIFFER: Which would be profit.

THE CHAIRPERSON: And that -- that

does not appear before us as part of the application?

MR. MICHAEL TRIGGS: Correct.

THE CHAIRPERSON: Okay. So, Mr. Pfeiffer, we've got that information and we'll -- we'll consider it and thank you for your presentation.

Okay, next?

MR. DARREN CHRISTLE: Mr. Grey.

THE CHAIRPERSON: Mr. Grey.

PRESENTATION BY MR. ROBYN GRAY:

MR. ROBYN GRAY: It's Robyn, R-O-B-Y-N, Grey, G-R-A-Y. Good afternoon, Mr. Chairman and the Board. I'm Robyn Gray.

I've been in the motorcycle business for over -- I have been in the motorcycle business for over 50 years, owning and running three (3) motorcycle shops including Harley-Davidson of Winnipeg for 28 years. I started the Coalition of Manitoba Motorcycle -- Motorcycle Groups 25 years ago to address the concerns of Manitoba motor -- motorcycles with MPI.

I would like to thank the Board and Chairman Robert Gabor for last year's hearings for instructing MPI to answer my questions about how Manitoba Motorcyclers are compensated in the case of a total writeoff where the insured had extra parts and labour, such as a custom paint job et cetera on their motorcycle.

From these -- from these emails with Mr. Mark McKeon (phonetic) and Mr. Ward Keith, (phonetic) I have concluded there are several problems with MPIs compensating these motorcyclists for their loss fairly.

Number 1 is, MPI's refusal to use the insurance principle of indemnity. Mr. Ward Keith's definition of insurance indemnity from his email to me on December 23rd, 2016, and I quote:

> "This coverage is based on an insurance principle called indemnity with the objective to return a customer to the same financial position they were in prior to a loss, no more no less."

I have repeatedly asked for an explanation of why this print -- why this principle of indemnity was not applied to my client Travis Rudolph's (phonetic) total loss claim. This question has never been answered, but was repeatedly skirted around with the explanation that it was actual cash value that mattered and determined the payout of the claim. This is very troubling when I cannot get a straight answer for this simple, straightforward question. What does MPI have to hide?

Despite a Black Book valuation as required by the total loss duties of an adjuster, namely, duty number 7, and I'll quote:

"Obtain the proper values from the Black Book and base this information into the actual cash value A-C-V worksheet on the total loss workbook in the C-A-R-S cars file."

The Black Book value of my client's motorcycle was eighteen thousand and five hundred dollars ($18,500) to nineteen thousand dollars ($19,000). And the current bills for his added parts, labour and custom paint was -- excuse me -- fourteen (14) a little over fourteen thousand and five hundred dollars ($14,500) totalling over thirty-three thousand dollars ($33,000). These are all current bills and everything.

The MPI adjustor offered my client an insulting fifteen thousand and five hundred dollars ($15,500) for the loss of his motorcycle. You heard me right, fifteen five. Less than half of what he was entitled to. And he -- due to MPI's ridiculous offer, my client was forced to hire me as his arbitrator to receive the settlement he was legally entitled to at his expense.

After it had to go to an umpire to decide it, fully expense to my client, Mr. Rudolph still didn't receive the proper settlement. The umpire char -- charged the equivalent of 300 percent depre -- depreciation per year on the extra parts. Several of MPI's arbitrators and umpires are currently under investigation.

Number 2, more troubling is when MPI agents sell the insurance to clients who have extras on their motorcycles. All a client is asked: What is the declared value of their motorcycle? No mention of the fact that the declared value is only to set the premium amount and that they probably would never receive the amount they assume they would get in the event of a total loss. MPI selling an insurance product without any disclosure at all as to what amount the motorcycle was actually insured for, very unfair. They are very -- very -- a very unfair business practice selling a product without any disclosure at all what the client is buying.

After my input to MPI on March 16, 2017, MPI sent a directive to its agents outlining that the agents explain to their clients the meaning of "declared value" and the meaning of "actual cash value." This directive falls -- fails to properly inform the client properly and still lacks full disclosure for the insurance they are buying.

Solutions to these very serious problems. When a client has a -- has an -- extra parts, paint, whatever, or a unique vehicle, what is needed is an insurance policy, which insurance companies do have where the client and MPI agree on a value based on the Black Book appraisals and receipts for added parts or work. Depreciation would be deduct -- be deducted in the event of a total loss, the client would get paid fairly and honestly. No smoke and mirrors to confuse the client.

I strongly encourage PUB to mandate MPI to implement this insurance procedure when insuring motorcycles with extra parts or -- or labour. The motorcyclers would know -- would know they have the right amount of insurance and would save the expense of hiring an arbitrator and possibly an umpire to receive fair compensation for their loss.

Number 2, (sic) all agents should be -- or all adjustors should be taught the principle of indemnity and told to use it when calculating total loss settlements, not to pay the least amount possible disregarding the client's right to a fair and honest settlement for their loss and to be treated honestly and with the respect that they are entitled to. Very, very simple boys. I would like -- I would like to -- I would be happy to answer any questions the Board has on anything I had said, or MPI.

THE CHAIRPERSON: Mr. Ghikas...?

MR. MATTHEW GHIKAS: I -- I was just going to say, Mr. Chairman, that the -- the -- some of the issues, Mr. Gray has -- has raised are -- it's -- don't normally fall within the quote unquote "four corners" of what would the -- the -- the Board will be dealing with in this proceeding.

What I would suggest is that we, as I indicated before, we -- we do have the transcript and that we handle that with Mr. Gray outside of the -- outside of the channels of the proceeding off-line.

THE CHAIRPERSON: That's fine, but you need to get Mr. Gray's contact information because if you're going to do it... Oh, it's already been provided. Okay. Okay, and you might want to look at this notice of the difference between "declared value" and "actual value," but I leave it up to you.

MR. MATTHEW GHIKAS: Thank you, Mr. Chairman and thank you, Mr. Gray for the comments.

MR. ROBYN GRAY: I just -- can I just say something? If, in fact that this is not the pru -- this is not the venue to -- for me to -- you know, to -- to address these very big problems, where do I go?

I have been dealing for -- for over a year, with Mr. Ward Keith and Mr. McKeon on this. I probably fifty (50) emails back-and-forth asking them questions and all they've been doing is screeting -- skirt -- I just want the answer to: Why do we not apply the principle of insurance indemnity when they pay out on any vehicle? What they try to do is try to actually screw the client. I've been in this business for four -- for fifty (50) years. I've been dealing with Autopac since they started. It -- I'm very frustrated.

THE CHAIRPERSON: I can see your -- I can see your frustration, Mr. Gray. I would -- I'd suggest that maybe you deal directly with them. The problem is we're setting rates here, and I'm trying to -- I'm trying to push this matter to them to see if you can resolve it. I'm not sure how it fits within a rates hearing that's -- that's the only problem.

So, Mr. Scarfone...?

MR. STEVEN SCARFONE: Yes. Thank you,

Mr. Chairperson. I can say that the gentleman has identified the correct process that he needs to turn to in order to deal with his complaint and that's the appraisal process under the coverage reg -- regulations.

So, when you get to the umpire stage from there you could, if you're still unsatisfied with the process seek judicial review. Alternatively, the gentleman could go to the ombudsman with his complaint.

MR. ROBYN GRAY: I don't want to go to the ombudsmen. I want you guys to straighten it out.

MR. STEVEN SCARFONE: Those are -- those are your only...

MR. ROBYN GRAY: You guys are almost committing fraud by not -- without full disclosure of the product.

THE CHAIRPERSON: Yeah, sorry...

MR. ROBYN GRAY: I am sorry, but you -- you know, you're -- you don't understand what I'm talking about. A guy walks into the insurance and thinks he's got his whole bike insured, he has an accident then he's got to hire people like me and I don't -- I didn't even get satisfaction out here. That's why I came to the Public Utility Board before.

THE CHAIRPERSON: Okay.

MR. ROBYN GRAY: I'm sorry...

THE CHAIRPERSON: Can you -- can you just have somebody take a look at this matter again and then --

MR. ROBYN GRAY: They have been.

THE CHAIRPERSON: Well, I don't -- you know the problem, Mr. Gray, is I don't know what you want from us because I'm not sure we have any jurisdiction over this. I'm trying to move this forward so that it can be resolved. That's about all I can say.

MR. STEVEN SCARFONE: Undertake to do that, Mr. Chairperson.

THE CHAIRPERSON: Okay. So, take a look at it.

STEVEN SCARFONE: Yes.

THE CHAIRPERSON: Okay. Thank you.

MR. ROBYN GREY: I tell you, it's a joke...

(BRIEF PAUSE)

THE CHAIRPERSON: Okay, if we could resume.

MS. KATHLEEN MCCANDLESS: Just a couple of -- other...

THE CHAIRPERSON: I'm sorry, I'm sorry.

PRESENTATION BY MR. ANDREW CHIMKO (READ-IN)

MS. KATHLEEN MCCANDLESS: -- matters with respect to public presentations. I do have one presentation from a member of the public that I'll be reading in to the record and this is from Mr. Andrew Chimko that's, C-H-I-M-K-O.

"This is my presentation to the Public Utilities Board of Manitoba respecting the hearing on Monday, October 2, 2017 to consider Manitoba Public Insurance Corporation increases in vehicle insurance rates and premiums. In reality, vehicle insurance rates in Manitoba are not regulated by PUB because MPIC has two (2) forms of increases. There is the general rate increase subject to PUB approval and there's the unregulated increase that applies to new year vehicles. So as the vehicle population is replaced by newer vehicles, and older vehicles go to the crusher, average insurance rates go up even if PUB approved no general rate increases. After ten (10) to fifteen (15) years rates for the total population of vehicles doubles even if PUB increases were zero percent. The general rate increases by PUB permit MPIC to continually increase rates for older vehicles that actually depreciate in value each year thus reducing MPIC expenses.

In addition, stolen vehicle frequency in Manitoba drop from eight thousand nine hundred and ninety eight (8,998) vehicles in 2004 to one thousand nine hundred and twenty-three (1,923) vehicles in 2015. That's producing enormous savings for MPIC due to the installation of immobilizers.

PUB must review and limit the rainy day fund maintained by MPIC, because

it is a form of abuse of the public
who are required to ensure their
vehicles through MPIC."

So that's Mr. Chimko's presentation and then one (1) other housekeeping matter, is that over the break we circulated a document that you should have before you, which is a list of thirteen (13) public comments and just for the information of the parties and Intervenors here, this year, the Board has a new mechanism on its website which permits members of the public to -- to make public comments to the PUB about rate applications.

In respect of the MPI application, the Board received thirteen (13). And these have been anonymized and circulated. And so this list of public comments will be entered as PUB Exhibit Number 13. Thank you. Those are my matters.

--- EXHIBIT NO. PUB-13: Thirteen public comments.

THE CHAIRPERSON: Thank you, Ms. McCandless. We can resume the presentation now.

MR. PETER YIEN: Thank you.

CONTINUED PRESENTATION BY MR. LUKE JOHNSTON:

MR. LUKE JOHNSTON: Okay. Section 5 of our presentation is on the rate stabilization reserve. Talk about the -- the different purposes of -- and calculation methods for the lower and upper target, and also an item stemming from the -- some of the DCAT technical conferences in terms of an alternate way to calculate the upper target.

So, the proposal MPI has is that for the lower target, we use the DCAT method which has been a very collaborative process. I'm sure not all the parties have everything they want, necessarily, but we did our best to collaborate as much as possible there. And the test for the lower target is: What would it take to fall to zero or assets are less than liabilities? That would be called insolvency for a private insurer who recognize that we're different, but we still think that test is appropriate -- appropriate. We don't want to have it be in a negative total equity position.

The upper target is designed to give us an operating range to manage normal variability in financial results. And the way we've calculated that ranges is using the existing DCAT scenarios, which we've at least reasonably agreed upon, I think, subject to any of the parties disagreeing with that, but we've used an existing framework that is established and we've been using it for a few years. So, I don't expect a large disagreement on at least the scenarios that are being run.

So what we did for the range is basically said our rating cycle is about three (3) years. We apply about a year before the rates are implemented, and then the rates are in effect for two (2) years, so three (3) years seemed like a reasonable period for which to manage the variability from your rate proposal.

And then we used the PUB's current 1:40 risk tolerance for the -- for the lower level, so the range represents what's the normal variability you'd have in a three-year period at a 1:40 year confidence.

The DCAT lower target is 201 million. And it's -- we have not changed our methodology for that calculation. One of the Intervenors made a comment this morning that this is never going to happen, and I've never seen this happen. That's totally false. It's happening right now.

In the last five (5) years alone, we've lost over $300 million on Basic. In the last two (2) years, we've lost more than $170 million. So the recent experience is actually worse than we're even modelling in the DCAT right now.

The lower RSR target effectively means if you had $201 million in the bank right now, once every forty (40) years, including management action, that being a rate increase or rebuilding fees, you would exhaust that entire amount one (1) every forty (40) years. Given that we're setting rates with no profit, we'd expect about a 50/50 chance of falling of the -- of the RSR falling, or -- or versus going up, if we're using best estimates. So falling to zero is obviously very bad, but there is a -- a lot of combinations where the, you know, we're falling to 100 million, or falling to 50 million that would trigger RSR rebuilding fees.

The upper RSR targets, so MPI is again proposing an upper target of 100 percent MCT, which equates to $438 million. There has been comments that the MCT is arbitrary. It is not arbitrary. Literally everybody uses this test except MPI. The one (1) possible exception would be Quebec, the SAAQ. I won't try to pronounce that properly.

And so the -- the capital test is -- is really straightforward. It looks at your balance sheet. It takes industry-wide risk metrics in terms of, you know, if you have this much in the stock market, what's an appropriate risk provision for -- I -- I believe the MCT uses 1 in 200 years as -- as a way to measure that. But it's anything from arbitrary.

So as noted on the slide, it's a standard capital test. It considers our risk, similar to, you know, how other insurance companies are measured. A big advantage of this test is they -- is -- is the office of the superintendent of financial institutions has a lot more information than MPI on these risks.

Sometimes, I'm sure I might be accused of operating on bit of an island and only looking at MPI data. This would be a good reason to, you know, somewhere else to look in terms of how they assess some of these risks that MPI maybe can't quantify to the same extent. And then, of course, by using the standard measure, you can compare to other jurisdictions.

So this chart shows on -- on the right side, it shows a comparison where MPI sits relative to other insurers in Canada. And when I read a lot of the -- the questions in the Information Requests, there's comments like, MCT is a solvency test, or, You're taking ratepayers' money, or -- or things like that.

We -- we're not doing anything even close to that relative to, you know, what everyone else is doing. MPI -- MPI's minimum ask on the rate stabilization reserve is really nowhere close to what anybody else does. SGI targets 100 percent. ICBC targets 145 percent MCT. The private sector is typically 200 to 225 percent MCT. MPI is asking for a minimum of 37 percent MCT. So when the comments were made, like, MCT is not appropriate, or, MPI is trying to take ratepayers' money, we are doing by -- we're asking for way less than any other insurance company in Canada.

We're recognizing that we are a monopoly, that we -- you know, we -- we will -- if we come to the PUB, we would expect break-even rates to be set, and any other advantages that come with having a monopoly. But what we're asking for is, I don't think, can be considered excessive when you compare to, really, anybody else.

The $438 million upper -- upper target is appropriate for -- for the following reasons. When we're -- if we're always operating right at the lower RSR target, we're always on the risk of another rebuild. So as you've seen in the last three (3) years, we transferred about 170 to $280 million from extension, because we're constantly trying to get to our minimum target. If we have a range, that gives us some room to operate, where we don't have to ask ratepayers for constant rebuild fees or -- or rebates.

The chart on the right is intended to give better perspective on how the upper target operates. So you can see on the -- we have on the -- the first column there, where it says, The 'R' -- the starting RSR -- RSR balance, what we're doing is running the models that we use for the DCAT already. And we're saying, What's the probability that we could stay at the minimum RSR target over the next three (3) years? So what's the probability, basically, that we would need a -- a rebuild?

So at 181 million, we're saying there is a 68 percent chance that you'd have -- and you require an RSR rebuilding fee, because you -- you'd have insufficient capital. And that makes sense. That's lower than our current target.

In about the -- in the -- about the midpoint of the range, two-fifty (250) to three hundred (300), there's still a -- a reasonable chance that you could fall below the lower target, but -- but less so, 40, 30, 40 percent. And then when you approach the upper target, which would likely be a place we -- we'd rarely ever be, obviously the protection is -- is better. But at that point, we'd be rebating.

So completely independent of the MCT -- 100 percent MCT calculation, we performed a DCAT-based calculation of the range, and that produced 442 million as shown on the slides. Recognizing that the Board may have different views on how many years it should be, what the risk tolerance should be, we included those in the application. Two (2) years, 1 in 20, things like that to give the Board a perspective of what that looks like.

CONTINUED PRESENTATION BY MR. PETER YIEN:

MR. PETER YIEN: Now we come to information technology. As simple as information technology sounds, it can be complex. We know that in order to serve our customers and our ratepayers, MPI must seek to improve and evolve how we deliver our products and services, and this requires our investment in people, process and technology. Not only that, that needs to be aligned with our business strategy.

I'll talk about how IT initiatives have different characteristics, and depending on that characteristic, will drive our implementation of that slightly differently.

I'll talk about how the IT strategy itself would drive the various initiatives. In order to keep ourselves honest -- and I talked about earlier process improvement, and continually operating efficiency and effectiveness, we do need to look to others through our CIO scorecard, which does track MPI and whether -- and whether we're improving or not.

And finally, we cannot implement IT strategies without competent people that are well-versed in technology and understands our business, and hence, our IT staffing strategy also needs to be effective.

IT initiatives have many drivers. But what are they? The first one is one we all get to know, and very familiar with. When we have a change in business strategy, our strategic planning needs to be aligned with the IT strategic plan. But that's not all. There are other areas that are either not within our discretion, or perhaps with limited discretion from MPI. And let's go through three (3) of them.

The first one is an external event.

Well, that could be caused by a political change, which would drive specific work. Legislative changes, for example, will invoke system changes to address that. Societal changes; there may be less of appetite for a reduced deductible, or maybe there would be an increased appetite for a lower deductible. And things such as the mobilized initiatives in the past have driven system changes to meet the ratepayers' needs.

And finally, the third, but -- last but not the least is technological requirements. Technology changes very quickly and rapidly. When versions of software goes out of date, they become unsupported. In layman's terms, it means if anything goes wrong, you're on the hook, and if it doesn't work, it means the system stops working and nobody's there to help you. When we have situations like this, we need to manage that risk by either applying a patch of a piece of software, or we could upgrade that piece of software.

These are not necessarily tied to strategic planning. It's a cost of doing business. It's something we need to do to keep the lights on. That would apply the same with technology in terms of hardware like a computer. When a computer becomes unsupported, or a piece of hardware becomes no longer available and we can't replace it, we need to do something about it.

So just in short, in order to align our IT strategy with the business strategy, there are things we need to keep on doing regardless of whether we have a business strategy or not.

Next, I want to talk a little bit about vendor releases. Sometimes vendor releases creates complexities. When a piece of software sometimes gets updated, it doesn't work with another piece of software, and we have to figure out a way for it to work. And even more importantly, sometimes when they introduce a new piece of software, it creates a new vulnerability in terms of security. It means somebody can effectively open a door that never existed before, and we call it a security risk.

And they can take advantage of that risk by either exploiting that data, or showing it to the world, or -- or simply selling it to the world, or threatening the reliability of the system. And that's something that we continually will work on, and we have no choice in terms of dealing with that.

Going back to the IT strategic plan, yes, the IT strategic plan drives initiatives, and it is contingent on the corporate strategic direction. I will note that the Board of Directors, after going through a period of transition since the last summer, has been in progress, and has been working on looking at these risks, and without immediately jumping and developing a new business plan. It takes work.

The work that's required is understanding what are the software and the hardware that we currently know? How fast should we go moving forward? On top of that, there is a business strategic direction in where we need to go. And all these pieces need to be worked in concert, and you can't rush through the entire process.

IT does support the business, so the business direction absolutely must be set. And that's being targeted for around December, and we will go through an iterative process to finalize that. At the same time, having the IT strategy is not enough. It's important to continue to refine the value management process and continually improve it with a higher level of discipline. And that higher level of discipline includes business cases, having a higher level of rigour in documenting, putting in one (1) spot, so to speak. Call it a business case.

Finally, we do understand that the 2016 GRA strategy as submitted remains our current relevant tactical plan. Having said that, the Board is very intentional in ensuring that no new capital projects will begin until the new corporate strategic direction is set.

I mentioned earlier about the CIO scorecard, which effectively tracks MPI's improvement. It affects -- holds it accountable for what others are doing, and could we improve. It does provide an independent assessment of MPI's progress specifically in the area of information technology. MPI does this on an annual basis, and Mr. Geffen spoke to that scorecard at last year's hearing.

For this year's scorecard, Mr. Geffen will speak to and show that MPI continue to make progress. As I said earlier, this is a journey to improve. The results so far, nearly all projects are delivered on time and on budget.

Secondly MPI's IT spend as a percentage of operating expense has decreased by 4.5 percent over the last five (5) years. By far the most important, number three (3), is that MPI continues to improve its maturity. Again, it's a journey and its 3.9 percent over the past five (5) years. This means it's getting towards a higher level of effectiveness.

In order to execute any IT strategy we

need people and resources, technical skills. IT staffing strategy is effective. We continue to acknowledge the PUB Order and the conversion of consultant rules to internal staff. To date twenty-seven (27) positions between 2016 -- the fiscal year 2016 and '17 and fiscal years, 2019 and '20, effectively driving $2.4 million in savings.

I just want to highlight briefly that the conversion of a consultant to an internal employee is not necessarily a easy process and we do have to take a look at it with the following perspective.

One (1), when we convert that technical consultant over we will need the skill set of that individual for a period of time. It would effectively make no sense to convert someone that's a external consultant to an internal employee and only find that we need to dismiss or fire that individual within a short period of time.

Secondly is there enough work internally to keep that external consultant busy, and if there isn't it makes, that conversion effective.

Having said that, fifteen (15) positions have already been transitioned. That's up from eleven (11) projected previously and we're continuing to accelerate the benefit realization, keeping in mind what I've just shared. And it's important to have that cost benefit balance in mind. And you'll see in the chart below that we meet that acceleration. And so effectively, for the fiscal year 2017/'18, we're a hundred thousand dollars ($100,000) ahead, and we are now at $0.6 million for this fiscal year and projecting to two (2) point mill -- 2 million and 2.4 million in the fiscal years 2018/'19 and 2019/'20, respectively.

I mentioned earlier that having all that in place alone is insufficient. For IT to continue to deliver value and to optimize by driving processes being more efficient and more effective, it requires a sustainable value management process. I'm pleased to tell you that the process is maturing and has been updated this year. Our work is not done though. This process needs to continue through the course of time. We're through that process and we are ready to implement it, and we've started doing so.

Finally, we believe that the refined value management process will drive and demonstrate results. Well, what is that value management process? I mentioned that it's evolving. It's evolving. I'll give you an example. All capital projects over five hundred thousand dollars ($500,000) moving forward will require a business case documented reviewed. That's revised. All ideas would be documented through a thin business case, which we also documented and that's revised.

In our view, this is improvement -- an improvement over our past practice. Second, by through -- having a more refined process we will drive a higher level of support and decision-making around various initiatives. And we are normalizing, or in other words, applying it consistently throughout the Corporation. It is essentially a consistent approach to demonstrating benefits. And we're going to continue to adopt better ways of measuring and tracking value from initiatives, but it's a strong continuation of what we have been doing.

Value management process, as I said earlier, not only is it continuing but it is a iterative approach. I talked a little bit about the thin business case. That's vetted by management. It gives a high-level concept and idea. It defines what the need is, alongside with if we did a project, what would it look like? What does it smell like? It is fairly high level. It does include benefits and objectives, and that idea will germinate, perhaps, into a full business case which I'll describe in a minute. But defining the qualitative and quantitative factors is a really important start to measuring post-implementation benefits.

Secondly, detailed business cases before they become accepted and become final. As I said earlier, any projects greater than five hundred thousand dollars ($500,000) would require a detailed business case. This would mean that we would have to have costs and benefits that are measurable assumptions that are vetted with a high level of rigour and a full documented business case.

Let me describe what a full business documented business case looks like. It describes the idea, the context of the idea, why the idea is important, how we'd generically make it work. And then when you get into level -- high level detail, how do we contextually ensure that the organization is ready for that? How fast do we go? And then ultimately the financials that are typical business cases, the cost and benefits.

It would also include how you measure some of the benefits. Some benefits are directly measurable, quantitative. Others are slightly less measurable, more qualitative. But nonetheless, there will be a very intentional balance to understand what that present value, if you will, which is essentially what benefit have we got from this project moving forward.

The third point, business transformation office has accountability currently for IT project delivery and it will apply this new value management process to an already established project management methodology. So effectively what we're doing is we're integrating the value management process as part of what we already do.

Finally, the last point, post-implementation reviews. Projects that have a full business case will be subject to post-implementation reviews.

Expenses. I mentioned earlier that expenses has been managed favourably, which effectively operating expenses has no impact on the rate indication. I will talk a little bit about material reductions in our operating budget and some of the key assumptions that are related and the actions that follow.

Material reductions in operating budget. This is the average of the rating years, and when you look at this chart, I'm just going to focus on a few line items. Line number five (5), operating.

As you see in our last GRA application we came in at $83.1 million. We're proposing for the current GRA about 75.195 million. That translates into a savings of roughly $8 million, or almost 10 percent reduction. This is a -- the very significant reduction that ultimately translates into our total expenses, which is line 12 going from 311.5 million for 2017 GRA to three-o-five-five-o-five (305,505) in the 2018 GRA. Net -- net we're talking about an overall reduction of 1.9 percent as indicated by the arrow.

So what are our key assumptions and actions? One (1) is reducing our FTE accounts by 6.9 percent. That translates into one hundred and thirty-three (133) full-time equivalents by year-end -- by fiscal year-end 2019 and '20, as compared to the 2016/'17 budget around. It involves a 15 percent reduction in management FTE, which we already achieved. Zero percent general wage increase for personnel in 2017, which we already achieved. Zero merit increases for management personnel we have already achieved. Elimination of man -- one (1) management layer in 2017, achieved. And finally the flattening of the management organization structure, achieved.

As you can see management has the full

intention, under the guidance and direction of the Board, to remain vigilant and focussed on cost reductions. As a result of that, a $2.6 million stretch target was identified in 2017/'18 and beyond, and we are actively moving towards achieving that. But we haven't stopped there. We're continually identifying additional savings, where appropriate. Again, I go back to with a focus of not to reduce service levels or impacting potential projects that are ongoing and put them at risk.

Special service expenses, which include things like auditor expenses or actuaries expenses have been reduced by 1 million in 2017. And we continue and expect that savings to continue in the future years. A reduction in our negotiations in our RFP process to ensure that overall building expenses throughout the forecast period and beyond are kept at check -- check -- kept in check. These expenses would include things like rent, maintenance, janitorial services, for example.

Next, reductions in sponsorships, particularly in areas where we have less mathematical correlation to that's spent to a road safety result. Further reductions are being considered carefully in this area, but we are looking.

And finally, there will be no CPI built into the forecast for fiscal year 2018/'19 and fiscal year 2019/'20. As you can see in these key assumptions, and actions we're stretching -- we're stretching. We need to re-prioritize. But again, with the focus of not losing sight of achieving our corporate objectives.

So in conclusion, Basic currently is vulnerable and faces significant challenges. Mr. Johnston talks about the undercapitalization. But we're not asking for a rate stabilization reserve that is very high. The rate stabilization reserve maximum that we asking for is either below significantly, or at minimum of other insurance companies. By not getting there, we feel that this puts ratepayers at risk of possible rate shock. In fact, knowing that we have transferred the amount of dollars that we talked about in the past puts us in a high rate of possible rate shock.

Two (2), the 2.7 percent rate increased request is appropriate. As you saw, management has taken that action and will continue to take action to reduce asking ratepayers. The driver premium increase to demerit drivers reduces the ask on all ratepayers, and it's important to note that drivers have the ability to drive safer. It is within their control to keep premiums in check.

Third, prudent fiscal management. As I said earlier, this is an area of focus for our Board and it demands that upper rate stabilization reserve that I just mentioned a few seconds ago, that it be established and that Basic equity be allowed to be built up, replenished with investment income so that we get to that optimal range.

Mr. Johnston said earlier that we'd probably be not operating at the $438 million. That's not what we're targeting for. We're targeting to operate at a level where it does protect the ratepayer, but certainly not at 201 million, which is our current dynamic capital ta -- capital asset test minimum. Once the Basic program starts to fund itself it will reduce the risk to ratepayers and taxpayers. And with that, I conclude our presentation.

MR. MATTHEW GHIKAS: Mr. Chairman, that's everything from us in terms of opening matters.

THE CHAIRPERSON: Thank you. We'll have cross-examination tomorrow, so I guess we'll adjourn for today. Thank you. Nine o'clock tomorrow morning. Thank you.

--- Upon adjourning at 2:09 p.m.

Certified Correct,

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Cheryl Lavigne, Ms.