

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

Winnipeg, Manitoba

October 6, 2017

Pages 880 to 1109



“When You Talk - We Listen!”



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1 --- Upon commencing at 9:03 a.m.

2

3 THE CHAIRPERSON: Good morning,
4 everyone. We'll start. Mr. Ghikas, I understand you
5 have -- you're waving documents.

6 MR. MATTHEW GHIKAS: Yes, I'm -- I'm
7 excited to submit a response to a pre-ask, Mr.
8 Chairman. This is PUB PreAsk Number 1. And it will
9 be MPI Exhibit 16 and this is asking for the update to
10 the response to PUB-MPI-2-9 to reflect actual market
11 interest rates as of the end of September 2017.

12 And we note in this response that this
13 is -- that this is the update to the interest rates as
14 of September 30 which is -- which is -- essentially,
15 what's being done here is what's being proposed for
16 the -- the update for the November 30th as well.

17 And that's it for me, Mr. Chairman.

18 THE CHAIRPERSON: Thank you.

19

20 --- EXHIBIT NO. MPI-16: Response to PUB PreAsk
21 Number 1

22

23 MR. MATTHEW GHIKAS: And I should say,
24 copies are being circulated now.

25 THE CHAIRPERSON: Thank you.

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: Mr. Williams, are
4 you ready to go?

5 DR. BYRON WILLIAMS: Ready, as I will
6 be, Mr. Chair. Good morning to members of the panel.
7 Good Morning, Mr. Keith

8 MR. WARD KEITH: Good morning.

9

10 MPI PANEL 2:

11 WARD KEITH, Previously Sworn

12

13 CONTINUED CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

14 DR. BYRON WILLIAMS: In a few minutes
15 we'll come to how MPI is prioritizing its portfolio,
16 but I -- I do want to go back to the IBM
17 recommendation, sir.

18 And you'll recall that we discussed
19 that yesterday?

20 MR. WARD KEITH: (NO AUDIBLE
21 RESPONSE).

22 DR. BYRON WILLIAMS: You're nodding
23 your head, is that a "yes"?

24 MR. WARD KEITH: Yes.

25 DR. BYRON WILLIAMS: And you'll agree

1 that IBM recommended return on investment as a common
2 indicator for all loss prevention programs. Agreed?

3 MR. WARD KEITH: Yes, that's what they
4 recommended.

5 DR. BYRON WILLIAMS: And the thinking
6 behind them as an aspirational to -- target was that
7 that would allow comparisons against the impact of
8 loss prevention investments in a relatively clean
9 manner; agreed?

10 MR. WARD KEITH: Agreed.

11 DR. BYRON WILLIAMS: And we can also
12 agree that right now MPI's not there on all its
13 programming in terms of looking at ROE in the exact
14 fashion that IBM was recommending?

15 MR. WARD KEITH: That's right. So --

16 DR. BYRON WILLIAMS: ROI, I misspoke
17 and I meant to say, return on investment, less I be
18 chastised for using acronyms.

19 MR. WARD KEITH: Yes. As -- as
20 discussed. So -- so we have made significant progress
21 on what I listed yesterday as the phase 1 programs and
22 phase 2 programs are continuing this year.

23 I -- I should say though that, you
24 know, as was discussed with IBM at the time and has
25 been discussed at this Board, you know, there -- there

1 may be some programs that it is -- it will be very
2 difficult to develop a framework that gives us an
3 exact return on investment. And I'm referring to some
4 of the road safety initiatives around public awareness
5 and education only because of the difficulties in
6 being able to attribute those programs to specific
7 declines in collisions and fatalities and serious
8 injuries.

9 But, our objective is that on an
10 overall basis, what we would hope to do is provide
11 and we would provide this after our data sets are
12 complete at the next hearing, at the next GRA, an
13 overall score card that would help us to measure ROI
14 at the portfolio level in terms of the money invested
15 in loss prevention programming opposite the return on
16 investment that we either can -- and identify or
17 anticipate with respect to claims costs.

18 DR. BYRON WILLIAMS: So in terms of
19 that portfolio level, using your term I think you said
20 score card, that's about a year away, sir?

21 MR. WARD KEITH: Yes, we'll finish
22 that as we complete the data sets for the remaining
23 programs we're continuing to flush out.

24 DR. BYRON WILLIAMS: Okay and just --
25 I hope we'll be on common ground here, but just in

1 terms of backing away from return on investment and
2 just focusing on evidence, more generally, sir.

3 When we look at the portfolio whether
4 it's road safety or more broadly, loss prevention, the
5 common objective is to reduce either the probability
6 or severity of -- of loss for all your programming;
7 agreed?

8 MR. WARD KEITH: Agreed.

9 DR. BYRON WILLIAMS: And within that
10 common objective you want to be confident that current
11 and future investment decisions contribute to an
12 overall return on in -- investment, agreed?

13 MR. WARD KEITH: Yes.

14 DR. BYRON WILLIAMS: And it's
15 certainly important that we base the analysis of the
16 portfolio not on perception but on empirical evidence;
17 agreed?

18 MR. WARD KEITH: Where that's
19 possible, absolutely, that was our preference.

20 DR. BYRON WILLIAMS: And good data
21 provides an important tool in calculating value for
22 investments --

23 MR. WARD KEITH: Yes.

24 DR. BYRON WILLIAMS: -- correct? At
25 this point in time without asking you to elaborate,

1 I'm going to suggest to you that in terms of the
2 information necessary for rigorous and complex
3 costing analysis, the best information in the
4 possession of MPI is in the areas of distracted
5 driving, impaired driving, speed, and use of occupant
6 restraints.

7 Would that be fair, sir?

8 MR. WARD KEITH: Well, I -- I would
9 agree with that on the basis that, you know, based on
10 the priority setting framework that we've established
11 that when we do that analysis, that those -- those do
12 come -- those do come to the top in terms of the most
13 significant factors that are impacting collisions and
14 fatalities and serious injury.

15 DR. BYRON WILLIAMS: I'm diving
16 deeper, though, sir, because I'm -- I'm going to
17 suggest to you that within those four (4) specific
18 portfolio -- areas be distracted driving, impaired
19 driving, speed, and use of occupant restraint, the
20 Corporation has dug deeper and performed more complex
21 costing analysis than it has for the remainder of the
22 portfolio.

23 MR. WARD KEITH: That's correct.

24 DR. BYRON WILLIAMS: And indeed, in
25 terms of those four (4), we're going to call them the

1 Big 4 for -- that costing analysis has been validated
2 by external stakeholders.

3 MR. WARD KEITH: Yes.

4 DR. BYRON WILLIAMS: Correct? And
5 again, just focusing on those Big 4, those external
6 stakeholders would include Transport Canada, correct?

7 MR. WARD KEITH: Subject to check, I
8 would have to confirm -- I would have to confirm the
9 external sources that validated the costing studies.

10 DR. BYRON WILLIAMS: I'm going to
11 suggest to you, subject to check, that they would be
12 Transport Canada, the Traffic Injury Research
13 Foundation, and also the University in Australia. I
14 forget if it's Marsh (phonetic) or not.

15 You're nodding your head, sir?

16 MR. WARD KEITH: Yes, yes.

17 DR. BYRON WILLIAMS: Now, sir, I may
18 be testing your memory, as much as mine, but that
19 detailed costing analysis in terms of occupant
20 restraint, impaired driving and unsafe speed has
21 previously been filed with the Board.

22 Will you accept that, subject to check?

23 MR. WARD KEITH: Yes.

24 DR. BYRON WILLIAMS: In terms of
25 distracted driving, are you confident that that

1 information, that deep dive into distracted driving,
2 analysis has been filed with the Board previously?

3 MR. WARD KEITH: The distracted
4 driving analysis, the costing analysis has just
5 recently been completed.

6 DR. BYRON WILLIAMS: Okay.

7 MR. WARD KEITH: So I would need to --
8 subject to check, confirm whether or not it's been
9 filed with the Board.

10 DR. BYRON WILLIAMS: Okay.

11 MR. WARD KEITH: There is a reference
12 to it in our application materials, and I believe in
13 one of our Information Requests --

14 DR. BYRON WILLIAMS: Yes.

15 MR. WARD KEITH: -- but if the study
16 itself has not been fully submitted to the Board then
17 we could do an undertaking to do that.

18 DR. BYRON WILLIAMS: Okay and -- and -
19 - let's -- we'll come to the undertaking in just one
20 (1) second, sir. And I don't think you need the
21 reference but if you do.

22 In terms of the outcomes from the
23 distracted driving analysis, and referring your back
24 row to CMMG-1-12, MPI identified an android -- annual
25 range somewhere between 69 and 92 million, subject to

1 check?

2 MR. WARD KEITH: Yes.

3 DR. BYRON WILLIAMS: And, sir, I'm
4 going to ask you, by way of undertaking to file the --
5 the costing analysis with regard to distracted driving
6 that forms the basis for the Corporation's estimate of
7 that range of 69 million to 92 million.

8 Would you be able to do that, sir?

9 MR. WARD KEITH: Yes.

10 DR. BYRON WILLIAMS: And is that
11 undertaking satisfactory, Counsel?

12 MR. MATTHEW GHIKAS: Can you just
13 rephrase it for the reporter, please. You got it.

14 DR. BYRON WILLIAMS: Could we get
15 someone under oath to note Cheryl's comments that I
16 phrased it well, because that's pretty rare. So, Mr.
17 Ghikas is not biting on that so we'll just -- thank
18 you for that, Mr. Keith.

19

20 --- UNDERTAKING NO. 24: MPI to file the costing
21 analysis with regard to
22 distracted driving that
23 forms the basis for the
24 Corporation's estimate of
25 that range of 69 million

1 to 92 million.

2

3 CONTINUED BY DR. BYRON WILLIAMS:

4 DR. BYRON WILLIAMS: Mr. Keith, we are
5 going to come to your prioritization process in just a
6 second, but going back to return on investment.

7 Without asking you to elaborate, you've
8 already indicated that it's -- it can be a challenge
9 in certain of the road safety and loss prevention
10 areas; agreed?

11 MR. WARD KEITH: Yes, agreed. And I
12 think the literature and other resources would tell us
13 the same thing.

14 DR. BYRON WILLIAMS: And beyond that,
15 even where it -- it would be possible in certain lines
16 of business for MPI, apart from the Big 4, there's
17 still more research and development and analysis that
18 -- that -- that might need to be done.

19 Agreed, sir.

20 MR. WARD KEITH: With respect to the
21 re --

22 DR. BYRON WILLIAMS: Yeah, and the
23 question was quite poorly asked so let me try that
24 again.

25 You've undertaken a deep dive into the

1 Big 4 in terms of your analysis; agreed?

2 MR. WARD KEITH: Yes.

3 DR. BYRON WILLIAMS: That rigorous
4 analysis hasn't been done for other aspects of the
5 portfolio that might be readily quantifiable; that --
6 that's still work yet to be done; agreed?

7 MR. WARD KEITH: Well, with respect to
8 road safety issues, that's right. With respect to
9 broader loss prevention programs, we had not
10 contemplated doing detailed costing studies. Rather,
11 I think the data will be more readily available to do
12 -- to do return on investment calculations based on
13 what we know the cost of those programs to be, both
14 administratively and otherwise, and the return on --
15 the return that we get from running those programs.

16 DR. BYRON WILLIAMS: Okay. And thank
17 you for that. So, as I understand it, it would be --
18 if there's more deep analysis to go it would be on the
19 road safety side?

20 MR. WARD KEITH: Yes.

21 DR. BYRON WILLIAMS: And my
22 understanding, sir, is that if you're fully going into
23 the return-on-investment approach, one might use as an
24 optimization tool a dynamic model to -- to capture the
25 -- the behaviour of -- of the activity over time.

1 Is that your understanding as well,
2 sir?

3 MR. WARD KEITH: Yes, that's one (1)
4 model, yes.

5 DR. BYRON WILLIAMS: And that allows
6 you to recognize the scale effects in terms of reduced
7 cost per -- per output -- per unit of output when
8 expenditures change; agreed?

9 MR. WARD KEITH: Agreed. And -- and
10 that is, you know, the heart of the data dashboards
11 that we've been creating in terms of creating them in
12 a way that is a dynamic approach, so we can continue
13 to measure progress over time.

14 DR. BYRON WILLIAMS: In terms of cost
15 data, first of all, and focusing on road safety, does
16 MPI intend to dive deeper apart from the Big 4 in turn
17 -- in terms of developing analysis for other road
18 safety issues to that -- to the same degree of
19 intensity as -- as you did for the Big 4? Are there
20 any on the list, sir?

21 MR. WARD KEITH: We haven't
22 contemplated that at the current time, but I'm not
23 suggesting that we won't. I think that that is the
24 whole purpose of using the priority setting framework.
25 So, as the priorities change over time then if we

1 believe that there would be value in doing a deep dive
2 costing analysis, then we would -- then we would
3 undertake to do that.

4 Just -- to clarify though, the costing
5 analyses that we've done in the past just for -- for -
6 - for the Board's understanding, these are based on
7 direct costs to the insurance pool. So they -- they
8 don't address the social costs, or community costs and
9 so we would oppose to continue if we were to do
10 further costing studies to remain consistent with that
11 approach.

12 DR. BYRON WILLIAMS: You jumped to my
13 next line of question, sir. So I thank you for that.

14 MR. WARD KEITH: Sorry.

15 DR. BYRON WILLIAMS: No, I should
16 congratulate you. Just on that point and -- and if
17 you're able to answer great; if not, that's fine.

18 Is it your understanding that
19 Saskatchewan -- SGI, Saskatchewan Government
20 Insurance, the Auto Fund, that they take into account
21 both the direct costs to the insurer, as well as the
22 social cost in their analysis?

23 MR. WARD KEITH: I -- I'm not able to
24 answer that.

25

1 (BRIEF PAUSE)

2

3 DR. BYRON WILLIAMS: And -- okay. I
4 wonder if, Diana, I can ask you to turn to the --
5 Return To Zero, (sic) which I believe is MPI Exhibit
6 4, and it may be page number 4, but, Mr. Keith, just
7 give me one (1) second and I'll just check my notes
8 here.

9 Yes, it is. Page number 4, Diana, on
10 the left-hand side.

11 Mr. Keith, I hope I'm not making you
12 put on your glasses, you could accept this subject to
13 check if you -- if you prefer, but in terms of
14 calculating or estimating the -- the total cost --
15 social costs of motor vehicle collisions, Road To Zero
16 estimated at \$6.4 million per fatality and \$133,000
17 per injury; agreed?

18 MR. WARD KEITH: Yes.

19 DR. BYRON WILLIAMS: And they
20 estimated for 2013 over \$2 billion in costs -- the
21 societal costs of traffic fatalities and injuries for
22 the 2013 year; agreed?

23 MR. WARD KEITH: Agreed, and this was
24 data modelling that was created by Transport Canada
25 and leveraged for use by the provinces.

1 DR. BYRON WILLIAMS: Thank you and I
2 just see the definition of the annual social cost of
3 motor vehicle collisions which you'll see on the left-
4 hand side in the second paragraph in brackets. I'll
5 suggest to you it includes loss of life, medical
6 treatment, rehabilitation, lost productivity, property
7 damage, et cetera; agreed?

8 MR. WARD KEITH: Agreed.

9 DR. BYRON WILLIAMS: And, sir, am I
10 cor -- well, would it be correct to presume that otta
11 -- the insurance costs are in there as well?

12 MR. WARD KEITH: Yes, the insurance
13 costs would be incorporated into the broader social
14 costs.

15 DR. BYRON WILLIAMS: And
16 proportionally, sir, do you have any sense of how much
17 of that is insurance costs?

18 DR. BYRON WILLIAMS: I don't off by
19 hand. But I mean, we could easily compare I think the
20 average cost of a fatality to the insurance fund
21 versus the indicated cost on a social basis.

22 I -- I think though that, you know, to
23 your point, the definition of social costs is much
24 broader than direct insurance costs and so it -- it
25 includes these things but, more broadly, the social

1 costs relate to -- to the costs leveraged on society
2 as a result of someone having sustained a serious
3 injury or fatality.

4 And so -- so it -- it goes well beyond
5 the direct costs that are tied to an insurance -- an
6 insurance program, an auto insurance program.

7 DR. BYRON WILLIAMS: And thank you for
8 that. And certainly I was privy to your conversation
9 with My Learned Friend on behalf of Bikes Winnipeg
10 yesterday where it's clear that MPI's taken the
11 position that the social costs of collisions are best
12 addressed in a jurisdictional level; that was your
13 evidence yesterday, sir?

14 MR. WARD KEITH: Yes, absolutely. We
15 -- we've been clear that, you know, when it comes to
16 discussing the cost of road safety within a forum such
17 as this, which is to approve rates for the -- for the
18 basic program, that it's appropriate to focus on road
19 safety in terms of the direct cost to the insurance
20 fund.

21 But we -- we -- we fully recognize that
22 there are other costs associated with fatalities and
23 serious injuries that go well beyond the cost to the
24 insurance fund, and those ought to be appropriately
25 addressed at the jurisdictional level.

1 DR. BYRON WILLIAMS: Is -- and
2 recognizing that your evaluation process -- process is
3 evolving, is at least reporting on the social costs of
4 accidents wh -- while not including them in -- in the
5 evaluation, is that something that Manitoba Public
6 Insurance might contemplate over time?

7 MR. WARD KEITH: It's not something
8 that we do today, Mr. Williams, but I -- I -- and I
9 can't say that we would contemplate it over time; but,
10 I wouldn't rule out that we would look at doing that
11 as the provincial Road Safety Plan moves further down
12 -- down the road, and as we start to combine our data
13 in -- in -- in a more -- in a more aggregated sense.

14 DR. BYRON WILLIAMS: And you'd agree
15 that that might have some use at the provincial level
16 in getting insight, both in the direct insurance cost,
17 and the broader costs, sir?

18 MR. WARD KEITH: Yes, I do for sure.

19 DR. BYRON WILLIAMS: And at the
20 regulatory level, whether or not it's used for prior -
21 - privatization, would you agree that that may be of
22 some value to interested persons within the room.

23 MR. WARD KEITH: I think it may be of
24 -- I'm sure it would be of interest to everyone in the
25 room, but my point is that when it comes to the

1 regulatory process for setting the rates for Basic
2 Autopac, the social cos -- and -- and I don't mean to
3 sound insensitive or anything, such as that. But the
4 overall social costs are -- are somewhat irrelevant to
5 the rate-setting process for the Basic program.

6 It's not that the social costs aren't
7 important. The social costs drive pressure on
8 communities; they drive pressure on the health system;
9 they drive pressure on community support systems.
10 Those are all very important from a provincial
11 jurisdictional level. But with respect to the
12 insurance fund and the -- the claims costs that are
13 driving the rates that need to be charged, they --
14 they -- they are more relevant in other forms.

15 DR. BYRON WILLAMS: Yes, I understand
16 and I -- I won't belabour the point, sir, but just
17 where I think we are in our conversation is currently
18 -- it's the direct costs to the insurer that are taken
19 into account in your prioritization process; agreed?

20 MR. WARD KEITH: Yes.

21 DR. BYRON WILLAMS: And, that's the
22 line in the sand in terms of prioritization that you
23 in -- you intend to draw, focusing on the cost to the
24 insurance because in -- in the Corporation's view,
25 that's most relevant to the rate-setting process;

1 agreed?

2 MR. WARD KEITH: That's the process we
3 would take for evaluating our programs. We would
4 certainly feed the results of our evaluations to the
5 broader road safety committee to be factored into the
6 broader discussion around social costs.

7 DR. BYRON WILLAMS: And, in terms of
8 reporting on the broader social costs, while it's not
9 currently contemplated, that's something you're not
10 saying yes to or no to. The door is neither op -- is
11 not -- not closed.

12 MR. WARD KEITH: I -- I do think it's
13 important, I can be honest with you, I think it's
14 important to report on social costs of -- of these
15 collisions. I'm just not sure whether it would be
16 more appropriate for those to be included in the
17 annual reporting that's been committed by the
18 provincial Road Safety Committee versus through MPI at
19 this GRA process.

20 DR. BYRON WILLAMS: Okay. Thank you
21 for that. And, Diana, I'm going to direct us to loss
22 prevention Appendix 4, I believe it's Page 35.

23 Mr. Keith, just while we're going
24 there, in terms of the prioritization process that MPI
25 currently em -- employs, you -- the Corporation sees

1 it as a -- an important tool of accountability
2 demonstrating to the best of its abilities value for
3 money; agreed?

4 MR. WARD KEITH: Yes.

5 DR. BYRON WILLAMS: And, the
6 prioritization process that the Corporation currently
7 undergoes is also a mechanism by which you seek to
8 remain current as well as identify emerging issues;
9 agreed?

10 MR. WARD KEITH: Yes.

11 DR. BYRON WILLAMS: And the prior -
12 - prior -- priority setting process, I apologize for
13 my sleepiness, also may assist in identifying issues
14 that are already being addressed by other stakeholders
15 in the community; agreed?

16 MR. WARD KEITH: Yes, very much.

17 DR. BYRON WILLAMS: And, some value
18 from identifying issues already being addressed by
19 others is it may sh -- lead you towards opportunities
20 for collaboration; agreed?

21 MR. WARD KEITH: Agreed.

22 DR. BYRON WILLAMS: And, it also may
23 lead you to a choice, recognizing that others are in
24 the field, that while this is a priority, there's a --
25 an opportunity to step back and let others take the

1 lead on that particular issue; would be fair to say?

2 MR. WARD KEITH: That -- that is
3 absolutely a fair outcome, yes.

4 DR. BYRON WILLAMS: Sir, again, my
5 friends from Bike Winnipeg went through this Phase 2
6 analysis with you, but at -- at the high level, in the
7 ran -- in the logic model the key -- two key
8 indicators accounting for 65 points are fatal and
9 serious injur -- injuries and relative collision
10 costs; agreed?

11 MR. WARD KEITH: Yes.

12 DR. BYRON WILLAMS: And when you're
13 assessing relative collision costs, you'll agree with
14 me that there are some challenges for the Corporation
15 in the sense that you have quite refined, relatively
16 refined data for the Big 4; being distracted driving,
17 occupant restraint, unsafe speed and the fourth one
18 (1) escapes me at the moment.

19 MR. WARD KEITH: Impaired.

20 DR. BYRON WILLAMS: Impaired. And
21 then you have more higher-level estimate for the other
22 -- others; would that be fair, sir?

23 MR. WARD KEITH: Yes, that's fair.

24 DR. BYRON WILLAMS: And, so as your --
25 as your process evolves it may lead you to -- to

1 decide that you may need to dig deeper on other road
2 safety issues apart from the Big 4, in terms of data
3 and analysis.

4 MR. WARD KEITH: We may -- we may --
5 that may lead us to that conclusion, yes.

6 DR. BYRON WILLAMS: Just to scroll
7 down the page, Diana. We -- we can agree that public
8 support is also given some weight but -- about 10
9 percent of -- within the logic model, sir?

10 MR. WARD KEITH: Yes.

11 DR. BYRON WILLAMS: If we could turn
12 now to, Diana, please, to the traffic collision
13 statistics report, which is MPI Exhibit 7, and
14 specifically to Page 90, 9-0, Table 5-13a.

15 Mr. Keith, you'll see on the screen
16 before you table 5- 13a, caption "collision victims by
17 provincial location and casualty," and this looks like
18 the 2011 to 2015 average. Diana, could you go one (1)
19 pr -- page --

20 MR. WARD KEITH: One (1) page up.

21 DR. BYRON WILLAMS: Yeah. Thank you,
22 Mr. Keith. Here we have Table 513 which captures
23 collision victims by provincial location and casualty
24 type in 2016; agreed?

25 MR. WARD KEITH: Yes.

1 DR. BYRON WILLAMS: And I do want to
2 focus your attention on the -- in terms of casualty
3 types, on the first few columns being, "killed and
4 seriously injured," do you see those, sir?

5 MR. WARD KEITH: Yes, I do.

6 DR. BYRON WILLAMS: And on the left-
7 hand side of this table, you'll see "location", and
8 I'll suggest to you it's broken down into some urban
9 centres including Winnipeg and Brandon; agreed?

10 MR. WARD KEITH: Yes.

11 DR. BYRON WILLAMS: And some -- some
12 smaller centres, including northern communities such
13 as Flin Flon and The Pas, as well as more southern
14 communities such as Dauphin and Selkirk; agreed?

15 MR. WARD KEITH: Yes.

16 DR. BYRON WILLAMS: And "other urban"
17 as well.

18 MR. WARD KEITH: Yes.

19 DR. BYRON WILLAMS: And finally, that
20 -- that big category of "all rural"; agreed?

21 MR. WARD KEITH: Agreed.

22 DR. BYRON WILLAMS: And, sir, we'll be
23 -- in terms of the fatalities, this being the 2016
24 year, we see that of the 107 fatalities, which is on
25 the bottom, on the total Line 23 of those were in

1 Winnipeg, sir.

2 MR. WARD KEITH: Yes.

3 DR. BYRON WILLAMS: And, we see that
4 in "all rural," there were seventy (70) accounting for
5 65.4 percent of the total killed in that particular
6 year.

7 MR. WARD KEITH: Yes.

8 DR. BYRON WILLAMS: And, sir, in terms
9 of that "all rural," grab bag presumably, that
10 includes northern and southern Manitoba.

11 MR. WARD KEITH: Yes.

12 DR. BYRON WILLAMS: On reserve and off
13 reserve communities.

14 MR. WARD KEITH: This would be traffic
15 collision data, so it would be fatalities on public
16 highways.

17 DR. BYRON WILLAMS: Okay. To the
18 extent that there are fatalities on roads on reserve,
19 they would not be captured here.

20 MR. WARD KEITH: They're not captured
21 in the traffic collision data. And that's one (1) of
22 the -- that's one (1) of the reasons for the
23 difference between data that is reported at the
24 national level for comparative purposes, and claims
25 data that's produced by the Corporation.

1 DR. BYRON WILLAMS: And --

2 MR. WARD KEITH: Relatively I -- I
3 would submit to you, relatively, that the -- the
4 proportion of rural-to-urban, and particularly rural-
5 to-urban fatalities would not change.

6 DR. BYRON WILLAMS: Sir, in terms of
7 the rural, is there any further breakdown that is
8 useful in terms of where those deaths are taking
9 place, sir? Are there any conclusions in terms of
10 whether it's simply random in rural Manitoba, or
11 whether there are sp -- specific communities or areas
12 that are -- that are more challenged?

13 MR. WARD KEITH: I would have to take
14 that subject to check, Mr. Williams. I -- I believe
15 that on an overall basis, it is fairly random,
16 although there are certainly some intersections that
17 more recently have been reported in the media where
18 there have been a number of fatalities. I'm thinking
19 in particular of Highway 16 at Highway 1 over this
20 past summer. Apart from that, though, I would
21 anticipate that generally they are fairly random
22 across all rural -- across all rural highways.

23 DR. BYRON WILLAMS: I'm not asking for
24 an undertaking, sir. I -- just -- if you're -- you're
25 -- you're checking with your staff over coffee and if

1 -- if -- if that answer changes, will you get back to
2 the Board.

3 MR. WARD KEITH: Certainly.

4 DR. BYRON WILLAMS: Sir, just in terms
5 of serious injuries, again focusing on the "all
6 rural," you'd agree with me that of the four-hundred
7 and seventy-eight (478) serious injuries reported in
8 2016, one-hundred and ninety-five (195) or around 41
9 percent were captured in "all rural;" agreed?

10 MR. WARD KEITH: Yes.

11 DR. BYRON WILLAMS: And the second
12 major category there, and actually, the largest in
13 terms of serious injuries is, Winnipeg being one-
14 hundred and nintey-eight (198) or 41.4 percent, sir.

15 MR. WARD KEITH: Yes.

16 DR. BYRON WILLAMS: If we can now go
17 to Table 5-13a. Thanks, Diana.

18 Sir, this reports the same type of
19 information that's capturing the average of the years
20 between 2011 and 2015, correct?

21 MR. WARD KEITH: Yes.

22 DR. BYRON WILLAMS: And, again we see
23 in -- of the total killed, "all rural" is sixty-one
24 (61) out of the eighty-seven (87); agreed?

25 MR. WARD KEITH: yes.

1 DR. BYRON WILLAMS: And in terms of
2 the serious injuries, it's a hundred and fifty-three
3 (153) out of the three hundred and forty (340),
4 correct?

5 MR. WARD KEITH: Yes.

6 DR. BYRON WILLAMS: And that's a major
7 theme in the report, and in a long-standing theme,
8 which is the disproportionate representation of rural
9 communities in fatalities, as well as serious
10 injuries; agreed?

11 MR. WARD KEITH: Particular --
12 particularly for fatalities, but I would agree with
13 that.

14 DR. BYRON WILLAMS: Forty percent for
15 serious injuries is pretty disproportionate for that
16 population as well, is it not, sir?

17 MR. WARD KEITH: Well, it includes all
18 rural Manitoba, so in terms of a population
19 perspective, you're right, in terms of the kilometres
20 of highway, I would argue that it is proportional.

21 DR. BYRON WILLAMS: Thank you, for
22 that clarification.

23 And, sir, I -- I want to go to enforce
24 enhanced -- or enforcement activities, and we're going
25 to start leaving aside any comments on gravel, we'll

1 come to that in a moment, sir. You understand that?

2 MR. WARD KEITH: (NO AUDIBLE RESPONSE).

3 DR. BYRON WILLIAMS: You're nodding
4 your head.

5 MR. WARD KEITH: Got it.

6 DR. BYRON WILLIAMS: And again, I don't
7 want to travel too much where My Friend, Mr. Monnin,
8 traveled yesterday -- Maitre Monnin, but, MPI dating
9 back to 1998, has an extensive history in terms of
10 enhancement programs under the banner of "road watch."

11 MR. WARD KEITH: Yes.

12 DR. BYRON WILLIAMS: And we've seen in
13 recent years, which you adverted to yesterday, some
14 expansions to distracted driving in 2012; agreed.

15 MR. WARD KEITH: Yes.

16 DR. BYRON WILLIAMS: Speeding in school
17 zones and snowmobile tr -- trail enforcement have also
18 popped up in -- since 2013; agreed?

19 MR. WARD KEITH: Yes.

20 DR. BYRON WILLIAMS: And, the original
21 program was very much focused on impaired driving, is
22 that fair, sir?

23 MR. WARD KEITH: That's true.

24 DR. BYRON WILLIAMS: And, MPI partners
25 with the certain Manitoba Police Services; agreed?

1 MR. WARD KEITH: Yes.

2 DR. BYRON WILLAMS: And, those Police
3 Services could include the RCMP and police services in
4 Winnipeg, correct?

5 MR. WARD KEITH: They do include that
6 -- those two (2) police agencies, yeah.

7 DR. BYRON WILLAMS: And, I'll ask you
8 to accept, subject to check, some of the other
9 communities would include: Brandon, Morden, Winkler
10 Rivers, Ste-Anne, Altona and Dakota Ojibway; agreed?

11 MR. WARD KEITH: Yes, I -- I believe
12 there's a couple more that typically participate but -
13 - but those are agencies that participate.

14 DR. BYRON WILLAMS: And, in terms of
15 participation, how does the Corporation satisfy itself
16 that it's -- it's captured rural Northern Winnipeg
17 that it's got all the major populations.

18 How does it do that?

19 MR. WARD KEITH: Well, primarily for
20 rural we -- and Northern we rely on the RCMP, so the
21 RCMP is the police agency responsible for the majority
22 of the rural communities in Manitoba. And so -- and
23 the commun -- rural highways, so we focus on them.
24 Part of the challenge with inhan -- with our enhanced
25 enforcement program is that it is subject to the

1 support -- not the support, that's the wrong word, the
2 availability of resources from the police agencies.

3 And so, when we do offer enhanced
4 enforcement activities to support our public awareness
5 efforts, we are prepared to consider proposals from
6 any police agency across the province. It's just that
7 those are the typical agencies that we receive
8 proposals from.

9 DR. BYRON WILLAMS: And when one
10 examines a proposal from the RCMP, is MPI looking for
11 a focus on rural communities, reserve communities? Is
12 there some sort of criteria that you're trying to
13 employ to ensure that -- that the enforcement
14 activities are -- are regionally appropriately
15 distributed, sir?

16 MR. WARD KEITH: Yes, we do try and do
17 that work with the RCMP. So, they identify the
18 detachments from which they offer their services, and
19 then we try and work with them to ensure that there's
20 coverages within those regions.

21 DR. BYRON WILLAMS: And, are, in --
22 MPI's view, are there any weak spots or areas where
23 you'd wish for greater police force participation?

24 MR. WARD KEITH: I -- I -- I'm not
25 sure I could answer that at this point. I think that

1 we do have a -- a -- a fairly tight process with the
2 RCMP to look at balancing our desire to spread the
3 enhanced enforcement across the province, with their
4 ability to -- to provide resources to do so. And I
5 think that together we do have a fairly wide coverage
6 in -- in eastern, northern, western and southern
7 Manitoba, outside of the major centres.

8 DR. BYRON WILLAMS: Mr. Chair, and
9 members of the Board, I should've just noted that our
10 client Ms. Desorcy is here this morning. I apologize
11 for -- for doing -- failing to do so earlier.

12 In terms of enhanced enforcement, Mr.
13 Keith, MPI continues to support it because visible
14 enforcement is an acknowledged best practice to -- to
15 increase motorises -- motorists apre -- apprehended --
16 risk of apprehension; agreed?

17 MR. WARD KEITH: Yes.

18 DR. BYRON WILLAMS: And, that's
19 especially so when it's coupled with education and
20 awareness activities; agreed, sir?

21 MR. WARD KEITH: Yes, exactly, which
22 is why we combine it with our public awareness
23 efforts.

24 DR. BYRON WILLAMS: And, focusing on a
25 relatively new initial relate -- initiative, excuse

1 me, related to gravel roads, there's been a number of
2 activities which you captured I think, in your
3 PowerPoint Slide 24, MPI Exhibit Number 12, I --
4 yesterday; agreed, sir?

5 MR. WARD KEITH: Yes.

6 DR. BYRON WILLAMS: And, you can
7 accept this subject to check, yesterday you talked
8 about the frequency of collisions on gravel roads, but
9 it would be fair to say that between 2012 and 2014,
10 about 14 percent of all fatal crashes occurred on
11 gravel roads.

12 Sir, you'll accept that, subject to
13 check?

14 MR. WARD KEITH: Yes.

15 DR. BYRON WILLAMS: And about 12
16 percent of all serious injuries in that same three (3)
17 year period. You'll accept subject to check?

18 MR. WARD KEITH: Yes.

19 DR. BYRON WILLAMS: Sir, in terms of
20 the gravel road strategy, there was some initial
21 enforcement activities starting in the summer of 2017;
22 agreed?

23 MR. WARD KEITH: Yes.

24 DR. BYRON WILLAMS: You're moving
25 towards instruction High School Driver Ed, in 2017 as

1 -- as well; agreed?

2 MR. WARD KEITH: Yes. Starting in
3 September of this year.

4 DR. BYRON WILLAMS: And, your written
5 materials suggested that you would be targeting public
6 awareness and gravel road risk in 2018; agreed?

7 MR. WARD KEITH: Yes, that's what we
8 submitted and -- and, Mr. Williams, that's at Appendix
9 7 --

10 DR. BYRON WILLAMS: Okay.

11 MR. WARD KEITH: -- of the submission.
12 But -- and, I do realize yesterday I said that -- that
13 had commenced in 2017. So I have received some
14 clarification, there has been some preliminary
15 movement on the public awareness campaign with respect
16 to gravel roads this summer, but it will continue and
17 be in full force next summer.

18 DR. BYRON WILLAMS: In terms of the
19 enforcement activities that took place this -- this
20 year, sir, can you -- would you characterize them as
21 kind of full -- full force, or are they a -- a pilot?
22 I wonder if you can articulate the -- what the
23 intention wh -- was for this summer for this summer.

24 MR. WARD KEITH: For this summer, I
25 think it is -- it is safe to say that it was more of a

1 pilot. I -- you know, at -- to your point about the
2 support for the RCMP and -- and the need for
3 enforcement on -- in rural locations.

4 As I described yesterday, when it comes
5 to the enhanced enforcement program, in addition to
6 the -- to the -- to the strategies that you have
7 correctly identified, we have worked with the RCMP
8 over the last two (2) years, I believe, to allow for
9 enhanced enforcement on northern and ice roads in the
10 wintertime. And that has now been built into our
11 ongoing road-watch support, so that is an annual
12 contribution that is very specific to the RCMP for
13 enforcement activities on -- on those northern and ice
14 roads.

15 With respect to the gravel, so, we
16 contributed a hundred thousand dollars (\$100,000) this
17 -- this year to enhanced enforcement on gravel roads
18 specifically, again with the RCMP and rural
19 communities. And unfortunately, I don't have the
20 results of -- of -- of that campaign with me but --
21 but I would -- I would -- I would fully anticipate
22 that that would continue and be added as part of our
23 ongoing road-watch activities.

24 DR. BYRON WILLAMS: And, sir, I
25 appreciate that you don't have the results with you,

1 are those results available from the summer of 2017?

2 MR. WARD KEITH: Actually, I -- I
3 don't know that they are in a complete form, Mr.
4 Williams, only because the enforcement has continued,
5 actually. So, it was initially intended for the
6 summer started in May and was for the early part of
7 the summer, but with the support of the RCMP, they
8 have extracted that out, and so it is just now
9 concluded.

10 DR. BYRON WILLIAMS: Okay.

11 MR. WARD KEITH: And -- and so that
12 data is still being formulated.

13 DR. BYRON WILLIAMS: And was, sir,
14 where is it regionally focused? Is -- is -- are there
15 specific locales where it's focused, sir?

16

17 (BRIEF PAUSE)

18

19 MR. WARD KEITH: My understanding is
20 it's province-wide, wherever they have their
21 detachments and where they -- wherever they have
22 available resources to be able to -- to have lended to this
23 campaign.

24 DR. BYRON WILLIAMS: Thank you, sir.
25 And Diana, could we go to Road to Zero again, which is

1 I believe MPI Exhibit 4. And I think page 8 is where
2 I'm -- I'm looking to go.

3

4 (BRIEF PAUSE)

5

6 DR. BYRON WILLIAMS: And Mr. Keith, it
7 looks like your eyesight has dramatically improved.
8 You're not requiring your glasses today.

9

MR. WARD KEITH: I realized about
10 three quarters (3/4) of the way through yesterday that
11 I had a screen in front of me instead of my tiny
12 writing here, so I'm fine. Thank you.

13

DR. BYRON WILLIAMS: I -- I was hoping
14 to actually use that as a tactical advantage. I'm a
15 little disappointed.

16

MR. WARD KEITH: You'll have to turn
17 off the screen.

18

DR. BYRON WILLIAMS: And you -- you'll
19 recall, sir, you had a discussion with My Learned
20 Friend from Bike Winnipeg yesterday about
21 infrastructure investments. Do you recall that?

22

MR. WARD KEITH: Yes.

23

DR. BYRON WILLIAMS: And I just want
24 to direct your attention to the -- the bottom
25 paragraph on the left-hand side of page 8 of Road to

1 Zero. And you see the last -- the last few sentence -
2 - the last few lines talking about the challenges on
3 resources of maintaining a vast infrastructure network
4 in areas with a -- with a declining population.

5 You see that and you're aware of that,
6 sir?

7 MR. WARD KEITH: Yes.

8 DR. BYRON WILLIAMS: And just to -- to
9 be clear, from the perspective of Manitoba Public
10 Insurance, it's not your job to assist in -- with the
11 strain on -- on inf -- on that infrastructure network?

12 MR. WARD KEITH: That's right. We
13 don't believe we have the authority to do so. It
14 doesn't change the fact that it's an issue province-
15 wide though, and that's why it's been incorporated
16 into the provincial plan.

17 DR. BYRON WILLIAMS: And -- and we'll
18 leave whether or not there is legal authority to do
19 so.

20 From a policy perspective, sir, as
21 well, one (1)of the considerations is whether -- it
22 goes back to -- to where you can get most bang for the
23 ratepayers' dollar, and whether that's better invested
24 -- be better done leaving those responsibilities to
25 infrastructure and transportation, agreed?

1 From a policy perspective, sir, leaving
2 aside your jurisdiction, MPI would prefer to leave
3 that to -- to the agency that's got -- clearly got the
4 authority to do so?

5 MR. WARD KEITH: Well, I -- I would
6 turn the response around a little bit in terms of
7 MPI's programming, and our efforts, and our priorities
8 are established based on the mandate, and based on the
9 authority we believe we have, and that doesn't include
10 support for infrastructure at this time. So
11 therefore, it would fall to either the province, or
12 the municipality is responsible for that
13 infrastructure.

14 DR. BYRON WILLIAMS: And just along a
15 similar line, if we can go to page 22 of Road to Zero,
16 on the left-hand side. Thank you, Diana.

17

18 (BRIEF PAUSE)

19

20 DR. BYRON WILLIAMS: Mr. Keith,
21 directing on the left-hand side -- that's perfect,
22 Diana. The second last -- last paragraphs, which
23 begins, "Automated trans -- traffic enforcement." And
24 you see at the end of that paragraph, a reference to
25 expanded use of automated enforcement using data to

1 target specific locations would improve enforcement
2 coverage in problem areas across Manitoba.

3 You see that reference, sir?

4 MR. WARD KEITH: Yes.

5 DR. BYRON WILLIAMS: In terms of the
6 problem areas -- I'm -- I'm not asking for an
7 exhaustive list, but what are the problem areas that
8 are contemplated in that reference?

9 MR. WARD KEITH: Well, those would be
10 -- I mean, primarily, those would be the rural areas
11 outside of the City of Winnipeg where the -- based on
12 RCMP data and combined with MPI data, there are the
13 majority of the collisions that are occurring.

14 DR. BYRON WILLIAMS: One (1) example
15 being the intersection of Highways 1 and 16 to the
16 west of Portage?

17 MR. WARD KEITH: That would be a
18 recent example, yes.

19 DR. BYRON WILLIAMS: And sir, are
20 these the type of investments that Manitoba Public
21 Insurance would contemplate?

22 MR. WARD KEITH: No, we would not
23 contemplate these investments either.

24 DR. BYRON WILLIAMS: And for the same
25 rationale that we discussed previously?

1 MR. WARD KEITH: Yes.

2

3 (BRIEF PAUSE)

4

5 MR. WARD KEITH: I do think this
6 reference, though, is -- is broader than simply a
7 rural issue. I do believe that the Winnipeg Police
8 Service, based on my understanding of -- of the
9 current legislation that allows automated enforcement
10 in Winnipeg, would like to see broader use of
11 automated enforcement, not just in construction, and
12 school zones, and playground zones, et cetera. And so
13 I think -- I think this is a broader reference that is
14 one of the priorities established by the Association
15 of Chiefs of Police.

16 DR. BYRON WILLIAMS: And there's
17 certainly precedent and examples in particular from
18 Alberta and the City of Calgary where that's been
19 undertaken, sir?

20 MR. WARD KEITH: Yes. That is my
21 understanding.

22 DR. BYRON WILLIAMS: Mr. Keith, one
23 (1) of the -- your jobs is broader than road safety,
24 or it -- it goes to loss prevention more generally,
25 agreed?

1 MR. WARD KEITH: Yes.

2 DR. BYRON WILLIAMS: And I'll save
3 most of my questions about driver safety rating and
4 fleet rebates to -- for Mr. Johnston --

5 MR. WARD KEITH: M-hm.

6 DR. BYRON WILLIAMS: -- but at a high
7 level, we can agree that driver safety rating, there's
8 some pretty supportive evidence that it's had a -- a
9 positive impact in terms of the mitigating the
10 likelihood of -- of the collisions, agreed, sir?

11 MR. WARD KEITH: Yes, and as well as
12 in influencing safer driving behaviour. I do think
13 that's an important point, Mr. Williams. You know, in
14 yesterday's discussions, you know, the -- Mr. Oakes
15 levelled some criticism about the extent to which we
16 are protecting motorcyclists and creating initiatives
17 to help protect motorcyclists on the road, and Mr.
18 Monnin, levelled some criticism about the extent to
19 which we're introducing new initiatives to support
20 pedestrian safety and cycling safety.

21 And we can talk about the strengths or
22 the weaknesses of individual initiatives. We can talk
23 about whether or not MPI has opportunity to introduce
24 new initiatives. I would argue that that's one (1) of
25 the reasons, probably the primary reason, why we

1 established the external stakeholder committee on loss
2 prevention, of which your clients are members, so that
3 we have a forum where -- where our stakeholders can
4 bring forward ideas and we can discuss them as a
5 group, and then we can put them through the program
6 development framework and run them through the value
7 management process.

8 And we are more than welcome to look at
9 new opportunities, new initiatives, but we would
10 simply suggest that those would be better suited to be
11 run through the forums that we've established rather
12 than bring them forward in a critical sense in this
13 hearing.

14 But with respect to the broader issue
15 of driver safety rating, you -- you know, there can be
16 criticism about that were not doing enough to protect
17 vulnerable road users, and motorcyclists, or all road
18 users, for that matter.

19 I know there could be questions about
20 the actuarial science behind how the premium was
21 established for each level of the DSR scale, which I
22 am certainly not an expert to -- to discuss. But --
23 but I'm the road safety guy, and so when I look at the
24 opportunity here that exists for us to demonstrate
25 some real leadership in terms of taking a stance on

1 high-risk driving behaviour, and -- and being very
2 clear that -- that people who -- who exhibit high-risk
3 driving behaviours on the road, high-risk drivers will
4 pay more for their insurance, and the high-risk
5 driving activities of these drivers are not going to
6 be subsidized by other insurance ratepayers.

7 And by the way, if you are a high-risk
8 driver, you have -- you and you alone have the power
9 not to have to ever pay those additional premiums that
10 are proposed. So you have the power as a high-risk
11 driver not to be one (1) of the individuals to
12 contribute to that \$17 1/2 million. The way to do
13 that is to improve your driving behaviour.

14 And by the way, if you improve your
15 driving behaviour, you will quickly jump up the DSR
16 scale into the positive range because of the snapback
17 provisions. So I think we have a real opportunity
18 here to, at a higher level, be able to do much more to
19 protect cyclists, to protect pedestrians, to protect
20 motorcyclists, to protect all road users by getting at
21 the high-risk driving behaviour in a very tangible and
22 very financial way that will send the message that, If
23 you continue to exercise these kind of behaviours, you
24 will pay more.

25 DR. BYRON WILLIAMS: Mr. Keith, I -- I

1 have a rule of one (1) speech per cross-examination.
2 So we're going to -- we -- you and I can agree that
3 that was it. And I -- I do thank you for your -- your
4 insight.

5 And just the interests of time, I -- I
6 -- I'm not going to go down the path of supporting my
7 colleagues in what I consider to be entirely
8 appropriate participation in this hearing, but the big
9 message that I -- that I believe I heard from you,
10 sir, in that presentation was that a driver safety
11 rating is a powerful tool to incent driver behaviour,
12 and also the Corporation believes it's a key driver of
13 collision frequency reduction, agreed?

14 MR. WARD KEITH: It can be a very
15 strong influencer to bring down collision frequency.
16 Yes.

17 DR. BYRON WILLIAMS: The plaudits that
18 the Corporation assigns to the driver safety rating
19 program, would it be fair to say that when we look at
20 the Fleet Rebate Program, that it's not as well
21 refined as driver safety rating, sir? And Diana, if
22 we can go to Loss Prevention page 72.

23 Would that be fair, sir?

24 MR. WARD KEITH: I'm not sure what you
25 mean, Mr. Williams, about -- about not being as well

1 refined.

2 DR. BYRON WILLIAMS: Sir, you'll
3 recall in the IBM report that basic fleet management
4 was identified as an area of loss prevention with a
5 relatively low maturity level in terms of alignment
6 with loss prevention objectives?

7 MR. WARD KEITH: Yes.

8 DR. BYRON WILLIAMS: Agreed? And they
9 also identify challenges in terms of program
10 management in the context of establishing baselines,
11 correct?

12 MR. WARD KEITH: Yes.

13 DR. BYRON WILLIAMS: And also
14 challenges in -- in terms of data collection and
15 analysis. Would that be fair?

16 MR. WARD KEITH: Yes, those are their
17 observations.

18 DR. BYRON WILLIAMS: And it would be
19 fair to say, sir, that those -- those obs -- those
20 issues still exist with regard to driver safety rating
21 -- excuse me, with regard to the Fleet Rebate Program?

22 MR. WARD KEITH: I -- I'm not sure I
23 can answer that, Mr. Williams. I -- I would have to
24 go back and examine exactly what progress has been
25 made on that particular program. I'm not trying to

1 avoid the question. I just don't want to provide an
2 inaccurate response.

3 DR. BYRON WILLIAMS: Maybe we can flip
4 to the -- the next page of this, Diana. Just actually
5 scroll to the bottom of page 72. It's right there.
6 That's perfect.

7 Focussing your attention on lines 5 to
8 8 at page 72, you'll see the observation by Manitoba
9 Public Insurance, or the organization, and your area
10 that you supervise, that the average and weighted
11 averages for refunds were similar.

12 Do you see that reference, sir?

13 MR. WARD KEITH: Yes.

14 DR. BYRON WILLIAMS: But you also --
15 you -- MPI also observes that the average surcharge
16 and weighted average sur -- surcharge are very
17 different, correct?

18 MR. WARD KEITH: Yes

19 DR. BYRON WILLIAMS: And the inference
20 from that is that surcharges are only targeting a
21 small number of fleet owners, agreed?

22 MR. WARD KEITH: Agreed.

23 DR. BYRON WILLIAMS: And you see the
24 articulation of the concerns identified by IBM. Do
25 you see that, sir on the next few lines?

1 MR. WARD KEITH: Yes.

2 DR. BYRON WILLIAMS: And going on to
3 the top of page 73, MPI is describing basic fleet
4 management is a future opportunity for MPI, agreed?

5 MR. WARD KEITH: Yes. Thank you for
6 pointing that out for me, Mr. Williams.

7 DR. BYRON WILLIAMS: And in terms of
8 that future opportunity, it would be fair to say that
9 while there was very extensive efforts done with
10 regard to driver safety rating in '09/'10, and then
11 more planned for this year, the Fleet Rebate Program
12 has not been modernized to the same degree as driver
13 safety rating, sir?

14 MR. WARD KEITH: I -- I think that's
15 fair. It -- it has not been examined to the same
16 level as DSR.

17 DR. BYRON WILLIAMS: Yet those fleet
18 owners, like individual drivers, have the power to
19 change their behaviour and the power to change their
20 employees' behaviour; agreed, sir?

21 MR. WARD KEITH: They -- they may be
22 able to influence their employees' behaviour. I -- I
23 would say yes. I don't think that's quite the same as
24 -- as drivers influencing their own behaviour, but to
25 the Fleet Rebate Program and Surcharge Program,

1 because it's based on vehicle ownership of the fleet,
2 there -- there is another level there in terms of
3 employers being able to -- to influence their own
4 drivers.

5 DR. BYRON WILLIAMS: So you have less
6 confidence that the Fleet Rebate Program will be able
7 to influence behaviour, sir?

8 MR. WARD KEITH: I don't know that
9 there's less confidence as much as I'm just pointing
10 out that it's not a direct implication to the drivers
11 of fleet vehicles as it is with the DSR program.

12 DR. BYRON WILLIAMS: So recognizing
13 Manitoba Public's -- Insurance's statement that this
14 is a few -- future opportunity for MPI, what's the
15 timeline for the realization of that opportunity, sir?

16 MR. WARD KEITH: I -- I don't believe
17 that we've established a specific timeline.

18 DR. BYRON WILLIAMS: And is there a
19 reason for that?

20 MR. WARD KEITH: There is no specific
21 reason other than we are just continuing to examine
22 and finalize all the datasets for these programs. So
23 this has been identified, as you have pointed out, but
24 to my knowledge, there's not been a specific timeline
25 put to it.

1 DR. BYRON WILLIAMS: The IBM
2 identification of this as a low maturity level program
3 was in 2015, sir?

4 MR. WARD KEITH: Yes. And then there
5 was a -- a process of refining the data and creating
6 the datasets, and it's the datasets that were
7 completed last year -- or this -- this past year that
8 have identified and -- and validated the future
9 opportunity.

10

11 (BRIEF PAUSE)

12

13 DR. BYRON WILLIAMS: Rumour has it,
14 Mr. Keith, that Uber, U-B-E-R, is coming to town.
15 Have you heard that rumour?

16 MR. WARD KEITH: I've heard there's
17 interest.

18 DR. BYRON WILLIAMS: And, sir, I'll
19 confess to you that I just recently discovered that
20 Facebook is something that people like, and apparently
21 people have moved on beyond Facebook, so I'm not to
22 pretend I'm really familiar with Uber, but you're
23 going to -- you will -- you would agree that in terms
24 of the -- that there's been a major revolution in the
25 transportation industry related to drivers of private

1 vehicles using their personal vehicles to -- for pay
2 to transport other -- other citizens, agreed?

3 MR. WARD KEITH: Agreed.

4 DR. BYRON WILLIAMS: And being removed
5 from the real -- real world, I've not recognized this,
6 but there's a -- a technological revolution related to
7 Uber in a number of Canadian jurisdictions, agreed?

8 MR. WARD KEITH: Agreed, and it would
9 not be specific to Uber. It would be all ride-sharing
10 services of this nature.

11 DR. BYRON WILLIAMS: So -- and by
12 "other ones," you might refer to Lyft, Sidecar and
13 Split, just as examples, sir?

14 MR. WARD KEITH: You have been on
15 Facebook.

16 DR. BYRON WILLIAMS: I would be
17 misleading if I said I had, sir. And certainly,
18 you're aware that the MNP report recommended allowing
19 ride-sharing services into the Winnipeg marketplace?
20 MPI would be aware of that, sir?

21 MR. WARD KEITH: Yes.

22 DR. BYRON WILLIAMS: And recently,
23 legislation was introduced in the Manitoba legislature
24 being the Local Vehicles for Hire Act. You're aware
25 of that, sir?

1 MR. WARD KEITH: I am aware of that.

2 DR. BYRON WILLIAMS: And again, not
3 seeking a legal opinion, but generally, sir, this
4 would enable specific municipalities to create -- to
5 allow ride share services such as Uber and others to
6 enter the marketplace in their particular communities
7 and enable them to regulate them as they chose as
8 well?

9 MR. WARD KEITH: That is my
10 understanding is that provincial regulation, through
11 the taxicab board would be eliminated, and it would be
12 left to municipalities to create bylaws that would
13 establish the rules around operation of these types of
14 services.

15 DR. BYRON WILLIAMS: And in terms of
16 the insurance market and its response to ride share
17 services like -- like -- or ride-hailing services such
18 as Uber, presumably there's a concern with passengers
19 using their cars to carry paying passengers and being
20 inadequately insured. Is that a concern, sir?

21 MR. WARD KEITH: With drivers using
22 their -- their cars?

23 DR. BYRON WILLIAMS: Drivers. Yes, I
24 -- yeah.

25 MR. WARD KEITH: Yeah. This is

1 something that we are currently looking at very
2 closely in terms of what, how -- how will -- how will
3 the insurance rating and the insurance model work for
4 private individuals who choose to use their passenger
5 vehicles to provide services for hire and receive
6 compensation when we know that today, based on the
7 current model, taxicabs, for example, are tracked
8 within their own registration class and buy their own
9 insurance use. And we know that the rates for
10 taxicabs are intentionally established in a way that
11 they are not being subsidized by the private passenger
12 vehicle class.

13 So work is currently underway to -- to
14 determine an appropriate model for ensuring these
15 kinds of activities, if and when they do come to
16 Manitoba, and that, once it is put together, would
17 then come before this Board, because it would require
18 rate approval under the Basic plan.

19 DR. BYRON WILLIAMS: So what I think I
20 -- I'm hearing you say, sir, is that there is a
21 potential insurance risk to the Basic plan from these
22 type of activities? I'm not meaning that in a
23 pejorative way, but it's a change in the marketplace
24 that would have to be responded to by a change in --
25 in some way in terms of how we insure individuals.

1 MR. WARD KEITH: Yes, exactly. And --
2 and what we would expect is that by bringing this
3 forward, then we would address any potential risk to
4 the Basic fund.

5 MR. BYRON WILLIAMS: Is the
6 Corporation aware of data from other jurisdictions
7 examining the implications on insurance programs of --
8 of these ride hailing services?

9 MR. WARD KEITH: We're currently
10 exploring the data that is available from other
11 jurisdictions, although from an insurance perspective
12 that data is not always readily available, other than
13 from the ride-share services themselves.

14 MR. BYRON WILLIAMS: And, sir, to --
15 to -- from MPI's perspective are these activities
16 already under -- under -- underway in Winnipeg, or is
17 it -- is this or are we expecting in the future? Like
18 --

19 MR. WARD KEITH: Ride-sharing
20 activities? I -- I really couldn't say if they're --
21 if they're currently in play today. If they are then
22 they would be in play contrary to the rules of the
23 Taxicab Board. So I can't speculate on whether or not
24 there are, but certainly they're -- they wouldn't be
25 sanctioned under provincial or municipal legislation.

1 MR. BYRON WILLIAMS: And in terms of
2 developing its potential approach and considering
3 implications for the Basic program, including to the
4 private passenger class, does MPI have a timeline in
5 terms of when it may -- might be bringing forth a prop
6 --

7 MR. WARD KEITH: I -- I can tell you
8 that based on the way that the provincial legislation
9 has been introduced and that it -- it -- the
10 legislation will come into force on proclamation or on
11 February 28th of 2018, which ever comes first. And so
12 we -- we would be working towards the end of February
13 time frame.

14 MR. BYRON WILLIAMS: And what kind
15 of consultation activities has the Corporation
16 undertaken to date with regard to these -- the risk to
17 the Basic program of these ride hailing services?

18 MR. WARD KEITH: Well, as of now we
19 are in discussions with the City of Winnipeg with
20 respect to their work on this issue, and we have
21 regular consultations with the current taxicab
22 industry as well. Our intent, though, would be to
23 bring this forward for -- for review and approval
24 through this regulatory process.

25 MR. BYRON WILLIAMS: And -- noting

1 your -- your focus on consultation yesterday, sir,
2 would it be fair to suggest that prior to bringing it
3 forward for approval, you might chat with
4 organizations who are interested in the interests of
5 the private passenger class, including CAA and CAC
6 (Manitoba)?

7 MR. WARD KEITH: Absolutely. You
8 know, what we would intend to do, once we -- once we
9 have a -- once we have a model that -- that we're
10 ready to bring forward, is we would consult through
11 the external stakeholder committee on loss prevention,
12 at least for information and -- and input, if not to
13 help us establish what we think the model should look
14 like.

15 MR. BYRON WILLIAMS: Okay. Sir, just
16 a couple of questions on the provincial road safety
17 committee. We understand that -- it's fair to say
18 that you play a major role on that committee, sir?

19 MR. WARD KEITH: Yes, I -- that's fair
20 to say.

21 MR. BYRON WILLIAMS: And I didn't ask
22 that question very well either. I meant you as a
23 person, but also you as MPI.

24 MR. WARD KEITH: Yes. That's what I
25 struggled with, but I think the answer is yes to both.

1 MR. BYRON WILLIAMS: Just nod your
2 head when my questions are really bad, sir, and we'll
3 --

4 MR. WARD KEITH: Because it was the
5 same answer, right?

6 MR. BYRON WILLIAMS: In terms of the
7 provincial road safety committee, I presume it has a
8 budget?

9 MR. WARD KEITH: No, I -- there's not
10 a current budget established for the provincial road
11 safety committee.

12 MR. BYRON WILLIAMS: So there's no
13 contribution from MPI Basic program to its activities,
14 apart from time?

15 MR. WARD KEITH: There is not, no.

16 MR. BYRON WILLIAMS: And we have this
17 beautiful Road Safety Plan that -- that Manitoba
18 Manitoba Public Insurance have shared. Do we have the
19 timeline for actionables over the next couple of years
20 in terms of this -- this plan, sir?

21 MR. WARD KEITH: We don't have a
22 timeline specifically that I can share today. I do
23 know that now that the plan has been released that
24 work is -- is aggressively underway to identify
25 working groups that would be established to target

1 each of these priority areas.

2 And then there will be working group
3 meetings to bring forward recommendations that would
4 bubble up through the technical oversight committee,
5 and to the legal -- to the leadership committee for
6 presentation to government. But -- but the timing
7 will be -- the timing will be aggressive because the -
8 - of course, the plan itself is only three (3) years
9 in duration.

10 MR. BYRON WILLIAMS: And would we
11 expect a timetable to be publicly available, sir, in
12 the near future?

13 MR. WARD KEITH: I'm not sure I can
14 commit to that at this point, Mr. Williams.

15 MR. BYRON WILLIAMS: Sir, my
16 understanding is that under the plan there's an intent
17 to have an annual Road Safety Plan progress report,
18 agreed?

19 MR. WARD KEITH: Agreed.

20 MR. BYRON WILLIAMS: And you'd agree
21 with me as well that under those progress reports
22 there would be value in detailing the operational
23 plans for the upcoming year?

24 MR. WARD KEITH: Yes.

25 MR. BYRON WILLIAMS: And so that's

1 what you anticipate to come out, sir?

2 MR. WARD KEITH: Yes. Yes.

3 MR. BYRON WILLIAMS: Now, in terms of
4 the plan, would it be fair to say that the only target
5 mentioned is a continued downward trend over ten (10)
6 years?

7 MR. WARD KEITH: That is the only
8 target that's specifically mentioned in the plan, and
9 that is consistent with the same methodology used
10 through the Canada's road safety strategy 2025.
11 That's not to suggest that additional targets may --
12 not necess -- that's not to suggest that additional
13 targets won't be established for the individual
14 priorities areas that have been identified, but at the
15 -- at the plan basis that was what was put forward.

16 MR. BYRON WILLIAMS: And there are no
17 numeric targets for the first three (3) years, agreed?

18 MR. WARD KEITH: Not in this action
19 plan, no. Those -- those may flesh themselves out,
20 though, in the annual updates, Mr. Williams.

21 MR. BYRON WILLIAMS: And thank you for
22 that. Apart from the target, would you see value in
23 including performance measures in the operational
24 plan, sir?

25 MR. WARD KEITH: I think it would

1 depend on what the priority area is that is being
2 tackled, but I do think that where it makes sense to
3 include performance measures that the committee will
4 pursue those.

5 MR. BYRON WILLIAMS: And let's just
6 for the benefit of the panel, and perhaps myself, you
7 understand -- and let's use drinking and driving as an
8 example. When -- when we think of performance
9 measures, you'll agree that we could look at outcome
10 measures, such as the number and -- and percentage of
11 drivers and riders killed with a blood alcohol comm --
12 content greater than .08? That could be an outcome
13 measure, sir?

14 MR. WARD KEITH: That could, yes.

15 MR. BYRON WILLIAMS: And we would also
16 look at potentially process measures. For example,
17 the proportion of hours of RoadWatch undertaken,
18 something like that, sir?

19 MR. WARD KEITH: Yes.

20 MR. BYRON WILLIAMS: Okay.

21 MR. WARD KEITH: Yes, I consider those
22 to be outputs and outcomes.

23 MR. BYRON WILLIAMS: And are those the
24 type of measures that you anticipate being reflected
25 in the operational plan, sir?

1 MR. WARD KEITH: Well, again, I think
2 it really depends on the priority area that's being
3 established or the priority area that's being tackled.
4 So if there is a priority area that deals with
5 improvements in infrastructure, for example, those
6 kind of targets may not be appropriate. Those kind of
7 performance measures may not be appropriate.

8 But as it relates to movement on -- of
9 the scale in terms of contributing factors in motor
10 vehicle collisions and road user behaviour changes,
11 those would absolutely be potential measures could be
12 included.

13 MR. BYRON WILLIAMS: And just to
14 finish what I hope is a point of agreement, sir, you
15 would agree that in the interest of accountability
16 there would be value in having targets, measures, and
17 outcomes beyond the continued downward trend for
18 specific areas of priority?

19 MR. WARD KEITH: I think that for
20 specific priority areas that that is a fair statement.

21 MR. BYRON WILLIAMS: Members of the
22 panel, I -- I thank you for the -- the time. And, Mr.
23 Keith, I --

24 MR. WARD KEITH: Thank you.

25 MR. BYRON WILLIAMS: -- enjoyed the

1 conversation. Thank you.

2 THE CHAIRPERSON: Thank you. I'll ask
3 the panel if the panel has any questions for Mr.
4 Keith. I've got a few questions, if I can find them.

5

6 (BRIEF PAUSE)

7

8 THE CHAIRPERSON: Mr. Keith, I woke up
9 early this morning and read in the newspaper the --
10 the usual story that I -- that we read too often about
11 a young person with a suspended license who is texting
12 and drove into a car.

13 Now, in -- in the programs that you're
14 proposing -- this is just sort of a general question:
15 What do we do? We've got -- we've got DRS, we've got
16 all sorts of other programs.

17 Is -- is -- does MPI view that this
18 kind of individual is going to change their behaviour?
19 Or are we looking more at sort of the criminal realm
20 to deal with this kind of person?

21 MR. WARD KEITH: It's an interest -- I
22 mean, this is part of the dilemma, right? Is that I
23 think that probably the answer is looking at both of
24 those aspects.

25 With respect -- you know, with respect

1 to trying to influence driver behaviour, we do have
2 programs in place through our Driver Improvement and
3 Control Program to identify drivers who have -- have
4 involvement in -- in convictions and at fault
5 collisions that flag them for treatment -- flag them
6 for remediate action through our Driver Improvement
7 Program.

8 The -- the concern with that is that at
9 the end of the day, you know, depending on if you are
10 not responding to driver improvement interventions,
11 the solution is driver license suspension. And to
12 your point, that -- that, in effect, allows them to
13 drop out of the system completely, but does not
14 necessarily mean that they're not going to continue to
15 drive. So that's when it crosses into the realm of
16 enforcement.

17 So the extent to which we have
18 enforcement to identify the activities of unlicensed
19 and suspended drivers on the roadways. But if -- if
20 they are licensed then we have processes in place to
21 try and -- try and influence better behaviour.
22 Enforcement's a key part, though, as is -- as is
23 legislation and -- and which the police would then be
24 required to enforce.

25 THE CHAIRPERSON: Okay. On the issue

1 of -- of seatbelts, do you have specific information
2 to show the fatalities in urban areas versus rural
3 areas when seatbelts were not used and there was
4 either a collision or fatal accident?

5 MR. WARD KEITH: Yes, that information
6 is in the traffic collision statistics report, so we
7 could pull out the specific references for you there.

8 What I can tell you, though, that it --
9 it will tell us, and it hasn't really changed, and
10 it's part of the challenge with dealing with the issue
11 of seatbelt wearing rates, is that on an overall
12 basis, most Manitobans wear their seatbelts. And the
13 -- the seatbelt wearing rate is estimated at around 95
14 percent, which is consistent with all other
15 jurisdictions.

16 But at the same time, when we look at
17 fatal collisions and people killed in collisions,
18 nearly 30 percent of those are not buckled up at the
19 time of the collision. So we've got this di -- this -
20 - this dichot -- dichotomy where the vast majority of
21 Manitobans wear their seatbelts, but yet those who are
22 killed in collisions, a large part -- part are not.

23 Factored into that, the issue that has
24 been raised by Mr. Williams in terms of rural roads,
25 and the fact that when you're driving on a highway

1 outside of Winnipeg and you're not wearing your
2 seatbelt, and if you're involved in a collision, your
3 chance of being seriously injured or killed increases
4 exponentially. When in reality, in the City of
5 Winnipeg, if you're not wearing your seatbelt you're -
6 - you're likely not going to be going fast enough to
7 kill yourself.

8 THE CHAIRPERSON: Yeah. I -- I was
9 going to ask you -- my -- my impression, and I -- I
10 looked through the statistics quite a bit earlier, was
11 that the rate in rural Manitoba is much higher than in
12 -- in Winnipeg for fatalities where non-use of
13 seatbelts is one (1) of the factors.

14 MR. WARD KEITH: Very much. Very
15 much. So fatalities themselves are more common in
16 rural Manitoba, and fatalities involving non-use of
17 seatbelts are more common in rural Manitoba.

18 THE CHAIRPERSON: So is there any
19 program that would target seatbelt use in rural
20 Manitoba?

21 MR. WARD KEITH: So one (1) of the
22 programs that we are operating now and that we do in
23 col -- collaboration with the Citizens on Patrol
24 Programs, so we administer and support Citizens on
25 Patrol across the province. So there are -- and these

1 are the community groups that patrol their
2 neighbourhoods and have more recently moved into road
3 safety initiatives to help us with safety on the
4 public roads.

5 There's fifty (50) COPP groups,
6 Citizens on Patrol groups, throughout rural Manitoba.
7 And what we do is, there is a relationship that we
8 have between the COPP groups operating in those rural
9 communities and the RCMP in those communities, where
10 they do observational studies of vehicle and drivers
11 with in those communities to measure the seatbelt
12 wearing rate within those communities.

13 And then that data is fed to the RCMP
14 responsible for that jurisdiction, and that feeds
15 their enforcement efforts. So there is some activity
16 going on there, but what we're finding generally is
17 that the seatbelt wearing rate, even in rural
18 communities, is coming up now. For -- for many --
19 many years it was significantly lower than the
20 seatbelt wearing rate in Winnipeg and other major
21 urban centres. It's now coming up very close to what
22 the -- to what the wearing rate is in Winnipeg.

23 It's just that the problem is when
24 people live in these small communities, when they
25 leave the communities and get out onto the highways if

1 they're not wearing their seatbelts they are much more
2 at risk to being killed or seriously injured.

3 THE CHAIRPERSON: Mr. -- Mr. Williams
4 raised the issue of performance measurements. When --
5 when you're introducing a new program, what sort of
6 time frame is required in order to do a measurement?
7 Is it a year, two (2) years or longer?

8 MR. WARD KEITH: Yeah.

9 THE CHAIRPERSON: I mean, what -- what
10 is, you know -- I don't think you're going to find
11 anything after six (6) months, but what is the
12 earliest time where you can actually start testing
13 whether the program is -- is properly targeted and
14 you're starting to get results where you can start
15 making decisions or changes?

16 MR. WARD KEITH: It really depends on
17 the program. But to your point, particularly when
18 we're dealing with these kinds of initiatives where
19 we're trying to influence road user behaviour, that
20 can -- that can take a long time to start to
21 influence.

22 And so we can do analysis of if there's
23 any -- been any changes in collisions or fatalities
24 with seatbelt wearing rate, for example -- seatbelt
25 wearing, for example, as a contributing factor or

1 failure to wear seatbelts. We can do that on -- on an
2 annual basis. But our concern would just be that, you
3 know, because we're dealing with changes in road user
4 behaviour that this can occur over many, many years.
5 So that's part of the challenge in figuring out how we
6 do develop performance measures that make any sense
7 that we can really use to determine the effectiveness
8 of a particular initiative.

9 THE CHAIRPERSON: Okay. I want to ask
10 you about jurisdiction because a number of times we've
11 heard MPI say, Well you know, infrastructure and other
12 items aren't in our jurisdiction. You've got a road
13 safety committee, which includes, I guess, the
14 provincial municipal jurisdictions in yourselves.

15 But I'm trying to understand the
16 decision-making process where you get people around
17 the table and everybody goes, We could reduce
18 collisions, but everybody's wondering who has
19 jurisdiction. And I'll -- I'll give you some
20 examples. And the first one (1) is a little story.
21 My wife, for some reason, thinks I know how to repair
22 things. So on Saturdays I end up driving to Home
23 Depot or Rona down on Kennaston.

24 And I don't know if you've driven on
25 Kennaston, but in the same 50 yards there are geese

1 and duck crossings all the time. Literally, it's the
2 same area and there have been numerous collisions
3 there. Deals with Mr. Oakes' wildlife issue.

4 I'm just wondering: Does anybody
5 within any of the jurisdictions look at this and go,
6 you know, this is something we need to look at because
7 we do have collisions and trying to figure out who has
8 jurisdiction, or what should be done? And I assume
9 that's sort of the provincial committee, but I don't
10 know. But who is looking at these kinds of issues?

11 MR. WARD KEITH: Well, I -- I can't
12 speak to the issue of geese because I'm really not
13 sure.

14 THE CHAIRPERSON: Yeah.

15 MR. WARD KEITH: But I can tell you,
16 for example, that on the issue of wildlife that as it
17 -- as -- as much of an issue is that for MPI, it's
18 also well on the radar of the sustainable development,
19 or the old conservation department of the government.
20 So, and as well as for infrastructure.

21 So I think to your point, Mr. Gabor,
22 the -- the whole intent of the provincial road safety
23 committee is to try and stop this, Well, it's their
24 jurisdiction, or it's their jurisdiction, it's their
25 jurisdiction by making sure that when you are going to

1 talk about these issues at the provincial
2 jurisdictional level that you're going to bring all
3 the stakeholders together around the same table, so
4 that there is a common -- a common discussion and
5 common consensus about what to do with some of these
6 issues.

7 THE CHAIRPERSON: Okay. Let me give
8 you another example. Your statistics, when you have
9 accident -- accidents between cyclists and vehicles
10 for either injuries or fatalities, determine whether a
11 helmet has been worn by the rider.

12 MR. WARD KEITH: Yes.

13 THE CHAIRPERSON: Is there a belief
14 that greater helmet use would reduce the inj -- number
15 of injuries and fatalities from cyclists?

16 MR. WARD KEITH: Absolutely.

17 THE CHAIRPERSON: Okay. Is there
18 discussion around the table on how you promote the use
19 of helmets by cyclists, and which jurisdiction should
20 be responsible for promoting it?

21 MR. WARD KEITH: So I don't know that
22 there's been that discussion to this point, but this
23 is the place where there would be that sort of
24 discussion. Because it really crosses into many
25 factors, right?

1 So, I mean, MPI, from a education and
2 awareness perspective has -- has promoted the use of
3 helmets for many years. But the -- you know, the --
4 the other jurisdictions have moved to legislate the
5 requirement for helmet use, and -- and that would be a
6 decision of government supported by Manitoba
7 infrastructure.

8 So another great example of what we
9 hope will come out of this committee by getting
10 everybody around the same table. And on that issue we
11 also have the feedback from the health -- the health
12 the folks who are also clearly in support of helmet
13 use as a means to reduce the severity of injuries
14 involved in collisions.

15 There just needs to be a collective --
16 a collective commitment to address this issue beyond
17 just recommending, advertising, and education around
18 the importance of helmet use. There's got to be a
19 corp -- a -- a provincial commitment, potentially to
20 legislate that, so that we remove the option of -- of
21 the discretion around helmet use.

22 THE CHAIRPERSON: Okay. Next -- next
23 example. Driver feedback signs. Has MPI looked the
24 driver feedback signs? I read a study last night
25 about Edmonton and what Edmonton does. Edmonton has -

1 - it's either a hundred and four (104) or a hundred
2 and forty (140) driver feedback signs.

3 Has MPI looked at, its use at all?

4 MR. WARD KEITH: I -- I don't think we
5 have, because I'm not even sure what that is.

6 THE CHAIRPERSON: Oh, those are the --
7 they're the electronic signs that tell you what speed
8 you're driving as you approach them.

9 MR. WARD KEITH: Oh, I see.

10 THE CHAIRPERSON: So they have them on
11 Grant Avenue at -- at one (1) point and other
12 locations.

13 MR. WARD KEITH: So we have used them
14 in the past. A few years ago we did -- we did do a
15 wildlife intervention pilot on Wilkes and I'm looking
16 at Mr. Oakes for a reminder here. I believe it was on
17 the Roblin and Grant where we combined the use of
18 those driver feedback signs, what I call variable
19 message boards, along with -- with public awareness
20 around the risk of a collision with wildlife on Roblin
21 and -- and on Wilkes, so in the City of Winnipeg.

22 And that included not just message
23 boards alerting them that they were in a high
24 collision corridor, but also speed -- speed signs,
25 recognizing that if they are going within the speed

1 limit they have a greater likelihood of avoiding a
2 collision if it happens.

3 THE CHAIRPERSON: Right.

4 MR. WARD KEITH: We -- but we haven't
5 -- but -- so we've used it on a -- on a pilot in
6 specific intervention basis, but not more broadly.

7 THE CHAIRPERSON: Okay. The reason I
8 raise it is because in Alberta it's the cities who are
9 running the programs.

10 MR. WARD KEITH: Yeah.

11 THE CHAIRPERSON: And I'm just
12 wondering, again, for your -- I guess for your
13 provincial committee if this is something the nee --
14 needs to be examined more closely, and there needs to
15 be determination who should be taking the lead on the
16 issue. Because according to the numbers I've seen in
17 in Edmonton, at least, it's reduced collisions
18 significantly.

19 MR. WARD KEITH: You know, there --
20 there's no question that, you know, based on the safe
21 systems approach that's at the heart of -- the heart
22 of the provincial plan that infrastructure is a key,
23 key element. And that includes speed sign -- it
24 include speeds limits. It includes speed signs. It
25 includes the way that highways and roads are

1 constructed. It includes the -- the way that they can
2 be constructed in a way that mitigates the severity or
3 -- or impact of a collision if one occurs.

4 And it includes the importance of
5 active transportation corridors to sub -- to -- to
6 separate active transportation from vehicular traffic.
7 It's, it's a huge piece of the road safety framework
8 that needs to be -- that needs to be collectively
9 addressed. And that's what I'm hoping will come out
10 of this committee.

11 THE CHAIRPERSON: Thank you. Last
12 question. At one (1) point in your testimony you
13 talked about loss prevention programs, and you said
14 there were a number of programs not funded by
15 Basic. I assume that some of the loss prevention
16 programs then are funded by Basic and others are
17 funded by Extension? Is that correct?

18 MR. WARD KEITH: What I was referring
19 to primarily is the regulatory programs. So, for
20 example, what I just talked about the driver
21 improvement program. We also have a medical
22 compliance program. So these are loss pre -- we have
23 identified them or define them as loss prevention
24 programs because they are really all about tackling
25 high-risk drivers or identifying medically at-risk

1 drivers. And if they're medically at-risk then they
2 present a concern, not just to themselves but others.

3 Those are functions that we deliver and
4 administer as part of our role as administrator of the
5 Drivers and Vehicles Act. So those costs are not
6 funded by the Basic program. Those are -- those are
7 funded separately under our DVA line of business.

8 THE CHAIRPERSON: Are any of the loss
9 prevention programs funded by Extension?

10 MR. WARD KEITH: Yes, there are some
11 of those as well. So, for example, the Winter Tire
12 Program is funded through the Extension program. I --
13 I believe, subject to check. But that is another
14 example of a -- of a program that would not be funded
15 by Basic directly.

16 THE CHAIRPERSON: Okay. Those are my
17 questions. Thank you very much, Mr. Ward (sic).

18 MR. WARD KEITH: Thank you.

19 THE CHAIRPERSON: Thanks, Mr. Keith.
20 We'll adjourn for twenty (20) minutes. And then I
21 assume -- sorry, Mr. Oakes, yes?

22 MR. RAYMOND OAKES: My understanding
23 is I'm up after the break.

24 THE CHAIRPERSON: You are.

25 MR. RAYMOND OAKES: Thank you.

1 THE CHAIRPERSON: Thank you.

2

3 --- Upon recessing at 10:35 a.m.

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

5

6 THE CHAIRPERSON: We'll resume.

7 Welcome back, Gentlemen. Mr. Oakes...?

8 MR. RAYMOND OAKES: Good morning,
9 again, Mr. Chairman, and good morning to the tens of
10 viewers on the live webcast feed. I note the other
11 counsel have resisted the impulse to wave and say hi
12 mom, so, I'm going to resist that as well.

13

14 CONTINUED MPI Panel 1:

15 LUKE JOHNSTON, Previously Sworn

16 PETER YIEN, Previously Affirmed

17

18 CONTINUED CROSS-EXAMINATION BY MR. RAYMOND OAKES:

19 MR. RAYMOND OAKES: And I'm going to
20 ask Diana if she would bring up page 3 of the overview
21 1.1, just to try and get our heads back into the main
22 application after the time spent on road safety and
23 put it into context. Down at the bottom of the page
24 1.1.

25 And -- and I think I'll start with Mr.

1 Johnston, but the overview talked about the
2 significant financial challenges. It started off with
3 the first bullet:

4 "Forecasted interest rates did not
5 materialize and resulted in 163
6 million in premium deficiencies."

7 Do you see that, sir?

8 MR. LUKE JOHNSTON: I do.

9 MR. RAYMOND OAKES: And we'll speak
10 about interest rates, and whether they're now
11 materializing, and how that affects the rate
12 indication.

13 The second bulleted is:

14 "Unprecedented and unforeseeable
15 hail claims significantly above the
16 historical trend resulting in
17 comprehensive claims being \$89
18 million over budget."

19 And as I usually trying and do, throw
20 you a softball over there and just have you confirm
21 that that is not a part of the motorcycle experience
22 since the motorcyclists are not insured under Basic
23 insurance for hail coverage; is that correct, sir?

24 MR. LUKE JOHNSTON: That's correct.

25 MR. RAYMOND OAKES: All right. So if

1 we could leave that and move to page 8 of the
2 overview, please. And I think -- yeah, the second
3 paragraph starting at line 3 reads:

4 "Prior to the most recent transfer
5 of 27.8 million the Board of
6 Directors was faced with the
7 possibility of reporting Basic in
8 unsatisfactory financial status and
9 seeking an approximate 2.8 RSR
10 rebuilding surcharge over and above
11 the currently sought rate increase."

12 Next line is:

13 "This would be considered a rate shock."

14 And the use of the words "rate shock"
15 in connection with a 2.8 percent increase seems
16 incredulous to the CMMG, considering its experience
17 through the years.

18 And, Mr. Johnston, you got promoted
19 from the back row to the front row approximately nine
20 (9) years ago, but I believe you started around the
21 time that PIPP started in this province I want, if we
22 can, to go to CMMG-1-3 and just talk about those
23 difficult years. As I get into my late 30s I seem to
24 want to look at historical perspectives more.

25 So back in 2004, the Corporation came

1 to this Board and asked for a 19.93 percent increase
2 and the Board, ultimately, approved 14.82 percent.

3 And, Mr. Johnston, do you recall back
4 at that time that the concept of rate shock was front
5 and centre and that a definition of rate shock in --
6 at that time was approximately 15 percent.

7 MR. LUKE JOHNSTON: So in terms of the
8 rate-making methodology, you're correct in that we had
9 to determine appropriate bounds for -- for the
10 movement of rates in a given application. So there's
11 the overall rate in this year's application 2.7
12 percent, but not all vehicles move at 2.7 percent.

13 There's a -- there's a range of
14 outcomes. I can't remember the year that the -- that
15 the caps were put in place, but at -- at one point in
16 time we decided with the regulator that plus or minus
17 15 percent for experience was a cap on how much a rate
18 could move based on experience in a given year.

19 MR. RAYMOND OAKES: All right and the
20 following year 2005 the Corporation accepted that
21 direction from the Board at 15 percent and sought that
22 rate indication. Do you see that, sir?

23 MR. LUKE JOHNSTON: Yes, 15 percent, I
24 do.

25 MR. RAYMOND OAKES: And subsequently

1 you spoke about rate caps and subsequently, the
2 Corporation I believe looked at the experience capping
3 at 10 percent.

4 Is that correct, sir?

5 MR. LUKE JOHNSTON: Can -- can you
6 repeat the question?

7 MR. RAYMOND OAKES: Is the Corporation
8 now using 10 percent as a rate cap as opposed to 15?
9 Was there a change?

10 MR. LUKE JOHNSTON: No, there's --
11 there is no change. We actually have -- we continue
12 to have the plus or minus 15 percent for experience
13 and then if there's any other factors such as changes
14 in rate groups or any -- any of the modelling was to
15 push it over that number, there is an absolute cap of
16 plus or minus 20 percent.

17 MR. RAYMOND OAKES: And -- so I think
18 the Corporation used that 2.8 percent to -- and
19 identified it as a rate shock, but you agree with me
20 that's not the kind of rate shock that was used
21 previously in the examples we spoke about?

22 MR. LUKE JOHNSTON: So the -- the 2.8
23 percent is discussed in the context of the overall.
24 So, remember, the Board is faced with the overall 7.7
25 percent and then with the information on the rate

1 stabilization reserve, looking at additional 2.7
2 percent -- pardon me, 2.8 percent on top of that
3 number. On an overall rate basis, we would consider
4 that rate shock. We're talking a combined increase in
5 excess of 10 percent.

6 On individual rates, we have rate-
7 making rules in place as we -- as I just discussed,
8 the plus or minus 15 percent per experience; that
9 every year there are vehicles that, unfortunately, hit
10 that cap.

11 What we have to remember here is that
12 what MPI is coming forward with is the indicated rate
13 for all classes of vehicles. If experience indicates
14 a certain rate is required, MPI will calculate that
15 rate with the PUB approved caps and put that forward.

16 And in some cases like in last year
17 with the -- with the motorcycles, we thought that that
18 rate had -- was an appropriate based on a certain year
19 of experience. We made alternate application but, in
20 most cases, the rates are driven completely by -- by
21 the data. And we apply for those rates based on the
22 rules we have for ratesetting.

23 MR. RAYMOND OAKES: I want to look
24 specifically at the claims experience of motorcyclists
25 in the last year. And if I can ask Diana to put up

1 CMMG-2-1. And the question starts dealing with
2 information that was produced in CMMG-1-2. We don't
3 need to go there. It talked about the 2016 accident
4 benefits.

5 Now, accident benefits are the majority
6 of the claims experience for motorcyclists, isn't that
7 correct, sir?

8 MR. LUKE JOHNSTON: That's correct,
9 about 80 to 90 percent of motorcycle claims would be
10 from the personal injury protection program. Accident
11 benefits is another word for that.

12 MR. RAYMOND OAKES: And the data that
13 was produced in CMMG-1-2 showed that total to be
14 approximately \$5,651,891. Do you see that, sir?

15 MR. LUKE JOHNSTON: Yes, I do.

16 MR. RAYMOND OAKES: And then if you --
17 if, Diana, if you go down to figure 1, that number
18 when it's trended out to an ultimate number for 2016
19 become some 9,230,715.

20 Do you see that, sir?

21 MR. LUKE JOHNSTON: I do.

22 MR. RAYMOND OAKES: So the -- below
23 that it talks about the confidence interval and the
24 standard normal distribution.

25 Would you would agree with me that the

1 9,230,000 number is a projection, it's an estimate,
2 and there would be some swing in that number versus
3 the actual.

4 MR. LUKE JOHNSTON: Yeah, I can tell
5 you what the 9.2 million -- two point -- 9.23 million
6 represents.

7 So, we have a certain amount of losses
8 reported at -- in 2016 for -- for injury claims that
9 would be considered early in their claims' lifecycle,
10 particularly for lifetime claims.

11 Then there is a historical behaviour of
12 how claims develops that we have to forecast in order
13 to put up an appropriate ultimate loss estimate. So
14 what I mean by that is, you -- say, we get a hundred
15 motorcycle injury claimants, if someone is seriously
16 injured, we'll -- and we know that right away, we can
17 book lifetime reserves. Other claims will close.

18 And then there'll be a -- another group
19 of claims that there's a lot of uncertainty. If they
20 continue to stay on benefit beyond twenty-four (24)
21 months, for example, we'll have to put up greater
22 reserves and all this number is saying that,
23 historically, if we have about \$6 million reported at
24 this time, that would have grown to about 9 million.

25 But, I agree with you, that's a

1 variable number and as time passes we'll become --
2 we'll become more confident in the number.

3 MR. RAYMOND OAKES: But that's your
4 educated guess based on your actuarial formulations?

5 MR. LUKE JOHNSTON: That is our best
6 estimate based on actuarial science that we used to
7 calculate this information.

8 MR. RAYMOND OAKES: All right. So
9 just popping, if we can, to the response in CMMG-1-1.
10 And forgive me for jumping around a little, but just
11 looking to hit some of the high points.

12 And at the extreme right-hand side, the
13 total column at the bottom it shows an actual loss
14 ratio for the motorcycle experience at 75.2 percent.

15 Is that correct, sir?

16 MR. LUKE JOHNSTON: So the 75 percent
17 would be purely the motorcycles on -- on their own,
18 and then -- what the pool loss means is just that
19 there's certain accidents when we did the loss
20 transfer hearings and the injury claims allocation
21 process, certain claims are put in a pool and -- and
22 divided out among all the classes.

23 The motorcycles get an allocation to
24 that too but, purely, only the motorcycle claims 75.20
25 percent.

1 MR. RAYMOND OAKES: And what are you
2 estimating these days for the claims administration
3 load and the other parts of the premium.
4 Historically, I always understood it was about 15 to
5 20 percent.

6 Is that accurate, sir?

7

8 (BRIEF PAUSE)

9

10 MR. LUKE JOHNSTON: So in the table
11 here we have just the direct reported claims that we
12 can identify to a particular claimant.

13 Claims expenses are about 15 to 18
14 percent. I can check the exact number, if you want,
15 and then in our application this year, I spoke during
16 the -- our presentation that claims and claims --
17 claims expenses are about 88 percent of the overall
18 rate in this application.

19 So the remaining 12 percent would be
20 all other operating, regulatory, commission, premium
21 taxes, those items.

22 MR. RAYMOND OAKES: Okay. And you'll
23 have to forgive me again for jumping around. Diana,
24 if we could go to CMMG-2-8, 2-8, in Figure 1.

25 And this table talks about the effect

1 of interest rates on the motorcycle claims req -- or
2 premium requirement and it shows the extreme
3 sensitivity to the rate requirement based on the
4 interest rates experienced by the Corporation.

5 Would you agree that motorcyclists have
6 a greater sensitivity to interest rate changes than,
7 say, private passenger?

8 MR. LUKE JOHNSTON: Yes, I would. And
9 so we -- when we calculate rates, we have to assume an
10 investment return; motorcycles being about 85 percent.
11 Injury claims have a longer -- our cashflows go out
12 longer in the -- into the future on -- relative to
13 other classes -- or the proportion that do,
14 motorcycles having more injury claim.

15 So, when you're taking present day
16 values of that the motorcycles are a lot more
17 sensitive to -- to the assumed investment return,
18 that's true.

19 MR. RAYMOND OAKES: And we've already
20 seen an increase in the basis point for interest rates
21 vis-a-vis the time that this application was produced?

22 MR. LUKE JOHNSTON: Yes. Yes, we
23 have.

24 MR. RAYMOND OAKES: And how many basis
25 points was it to date?

1

2

(BRIEF PAUSE)

3

4

MR. LUKE JOHNSTON: Subject to check,
5 and we may not have even filed this PreAsk yet, but I
6 believe the overall rate is just under 2 percent,
7 about 1.95 percent based on the update.

8

So, I would expect that to translate
9 across the table to motorcycles at 1 percent. So I'll
10 check that. But, my recollection is 40 to 50 basis
11 point change.

12

I'll get more specific on that answer.
13 Forty-six (46) basis points.

14

MR. RAYMOND OAKES: All right, and
15 you're referring to the PUB PreAsk 1, I think?

16

MR. LUKE JOHNSTON: I am, yes.

17

MR. RAYMOND OAKES: All right. And
18 we'll come back to that but what -- the point I want
19 to make is that based on an average loss ratio of 75
20 percent for motorcyclists over the last decade, if we
21 do see continued interest rate changes that -- like we
22 have had since the date of application, the
23 Corporation very likely could find itself with a
24 significant profit on motorcycle insurance?

25

MR. LUKE JOHNSTON: Okay, I'll try to

1 separate the -- the question into two (2) parts. So,
2 to your specific question, if interest rates rise,
3 will we get more investment income on the motorcycle
4 premium and have a better loss ratio than we expected?
5 Yes, we will.

6 And then, in regards to that
7 assumption, in general, the Corporation is trying to
8 address the impact of interest rates on a best
9 estimate of this application. One of the methods for
10 doing -- to ensuring that the best number is used, is
11 the idea of the compliance filing that we've put
12 forward.

13 So for motorcycles, per this chart that
14 we're looking at, a compliance filing approach would
15 address the drop from 2.8 percent to one -- 1 percent,
16 and that -- that would be our -- our best way of
17 addressing interest rate changes by the time the
18 application is filed.

19 MR. RAYMOND OAKES: And, of course,
20 we've spoken about it in this hearing already, there
21 would be no way for CMMG or other Intervenors to
22 determine if that was appropriately done.

23 MR. LUKE JOHNSTON: Is the question
24 in regards to the compliance filing?

25 MR. RAYMOND OAKES: Yes.

1 MR. LUKE JOHNSTON: So, I can
2 describe it better. So when we come to these
3 hearings, particularly in the last three (3) years,
4 obviously the Board and all the stakeholders are aware
5 that our financial results are impacted by interest
6 rates. So, a typical question in -- at the hearings,
7 or in the IRs would be, Please update your rates for
8 the latest interest rates, and we've done that, I
9 think every year for the last three (3) or four (4)
10 years, and again this year.

11 So what we've -- again -- what we've
12 prefo -- proposed, is essentially to give that exact
13 same update that we've been giving to the Board, just
14 as late as possible in the process so we can have the
15 most accurate rate indication.

16 MR. RAYMOND OAKES: You'd agree with
17 me, there's no way for an Intervenor to test that.

18 MR. LUKE JOHNSTON: I would not agree
19 with that. And the reason being, is that we are as --
20 as in the way -- when -- let me start over. When the
21 question is asked to update for interest rates, we're
22 not changing any other aspect of the rate application,
23 we're just updating our current application for
24 interest rate changes.

25 So today we could provide a full table

1 of what the rate would be at -- essentially all
2 interest rates and Intervenors could test that that
3 methodology and calculation is correct. And then all
4 we'd be asking of the -- the Board is to use that
5 methodology, and we'll provide them an updated
6 statements, based on the November 30 interest rate.

7 MR. RAYMOND OAKES: With respect to
8 the time between now and November 30, buzzing around
9 the Bank of Canada site, it indicated that there is a
10 scheduled announcement date, the next one being
11 October 25.

12 Are you aware how many announcement
13 dates for possible rate increases there will be
14 between now and November 30?

15 MR. LUKE JOHNSTON: I'm -- I'm not, I
16 could ask our investment manager if he knows, but I'm
17 not aware off the top of my head.

18 MR. RAYMOND OAKES: If you could
19 provide us that information if it's known to the
20 Corporation.

21 MR. LUKE JOHNSTON: I will if I have
22 it, hopefully I'll just get an email, I can let you
23 know in a few minutes.

24 MR. RAYMOND OAKES: Thank you. Yes.
25 The Corporation is to advise if there are scheduled

1 announcement dates from the Bank of Canada that they
2 are aware of between now and November 30, 2017, and if
3 so, what dates they are.

4

5 --- UNDERTAKING NO. 25: The Corporation is to
6 advise if there are
7 scheduled announcement
8 dates from the Bank of
9 Canada that they are aware
10 of between now and
11 November 30, 2017, and if
12 so, what dates they are.

13

14 MR. LUKE JOHNSTON: So we'll do that
15 for you. And in just to be clear, whatever
16 announcements are made prior to November 30th. We
17 would have that reflected in our updated interest
18 rate.

19 MR. RAYMOND OAKES: Thank you. I want
20 to talk about an issue that comes up every year and
21 we haven't talked in detail about it, and that's the
22 issue of subsidization between rate classes. And,
23 Diana, if I could ask you to put up 2-6, CMMG-2-6.

24 And based on the application, the
25 Corporation is looking for an additional 2.7 percent

1 for motorcyclists, that equates to three hundred and
2 forty-three thousand, six hundred and forty-two
3 dollars (\$343,642), do you see that, sir?

4 MR. LUKE JOHNSTON: Yes, I do.

5 MR. RAYMOND OAKES: And, the answer
6 went on to indicate that private passengers for a rate
7 requirement of three hundred and forty-three thousand,
8 six hundred and forty-two dollars (\$343,642) would
9 only have to pay forty-three cents each.

10 Is that correct, sir?

11 MR. LUKE JOHNSTON: That's correct.
12 I'm not sure the relevance, but that is mathematically
13 correct.

14 MR. RAYMOND OAKES: Sure. And, the
15 Corporation in its response indicates, and I'm
16 paraphrasing, that subsidization isn't something that
17 the Corporation is interested in providing between
18 different user classes.

19 MR. LUKE JOHNSTON: In -- in general
20 our rates are set on the experience per the PUB
21 approved methodology, and that -- by -- by basing it
22 on the experience, the goal is to avoid cross
23 subsidization subject to moving towards that rate in -
24 - based on the caps and controls we have for -- for
25 rate shock, right.

1 MR. RAYMOND OAKES: All right. So, if
2 we can just jump from there, back to CMMG-MPI-1-1.

3 And if we look at the years 2011, 2012
4 for a second. We had loss ratios for motorcycles
5 47.71 percent and 51.05 percent, respectively.

6 Do you see that, sir?

7 MR. LUKE JOHNSTON: I -- I think
8 you're specially identified these two (2) years, based
9 on looking at the -- the entire spectrum. We don't
10 set rates on the two (2) best years of the last ten
11 (10) years we use the -- the longer-term average. But
12 I do see the two (2) numbers you referenced.

13 MR. RAYMOND OAKES: All right. So for
14 those years, the Corporation received more premium
15 than they paid out for losses as identified by the
16 actual loss ratio, and at least those two (2) years
17 the motorcyclists were subsidizing other classes of
18 drivers.

19 MR. LUKE JOHNSTON: No, that's not
20 true. Rates are per -- perspective, when we come to
21 these hearings, we're tested that we're making best
22 estimates for each rate. It's never going to work out
23 to exactly what we forecast, it's insurance, the --
24 and in these particular years you're referencing,
25 maybe motorcycles had less serious loss claims than --

1 than a typical year and their experience was -- was
2 good, relative to historical averages. All we can do
3 with that new information is incorporated into future
4 years rate indications. So a good year would add, you
5 know, would lower the historical average and gradually
6 be expected to impact rates.

7 But, to say that I made a hail forecast
8 this year and we didn't have any hail, so I forced
9 everybody to subsidize each other for, you know, for
10 the lack of hail losses, isn't -- isn't correct, cause
11 it's again, rating's perspective. The -- the goal is
12 to not, by design, subsidize different classes, but
13 aft -- after the experience comes in, it is what it
14 is, and it will vary and will vary a lot for
15 motorcycles, as you see.

16 MR. RAYMOND OAKES: So, just -- again
17 on the issue of subsidization, emergency vehicles and
18 long-distance truckers in Manitoba never contributed
19 to PIPP costs, is that correct? They didn't pay PIPP
20 premiums.

21 MR. LUKE JOHNSTON: That's correct.

22 MR. RAYMOND OAKES: All right. So all
23 the other motorists and the insured of Manitoba were
24 subsidizing those type of vehicles.

25

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: I agree with you
4 that those particular classes are not contributing
5 premium. All I can really speak on is the classes
6 that I -- as the actuary, have ability to set the
7 rates for, and we set those rates per accepted
8 actuarial practice.

9 MR. RAYMOND OAKES: All right. And,
10 similarly, the Corporation pays out PIPP benefits to
11 pedestrians and cyclists; is that correct, sir?

12 MR. LUKE JOHNSTON: That's true in
13 that that is some of this pool fund that we're talking
14 about that has to be divided up among the classes
15 because as you -- as you mentioned, there isn't a
16 ratepayer for pedestrians, it has to come -- the money
17 has to come from somewhere.

18 MR. RAYMOND OAKES: And I'm not
19 picking on the bicyclists just because their counsel
20 has left for the morning, but does the Corporation
21 have a rough estimate of what it pays out in benefits
22 to pedestrians and cyclists?

23 MR. LUKE JOHNSTON: One moment,
24 please.

25

1 (BRIEF PAUSE)

2

3 MR. LUKE JOHNSTON: Maybe for any --
4 everyone's benefit, I believe Bike Winnipeg 1-2, has
5 the information you're looking for, if you don't mind
6 bringing that up. There should be a chart attached to
7 this response. Can you, scroll down, so we have the
8 counts here.

9 So, there is a unknown vehicle, there
10 is pedestrian, cyclists in this table farther down.
11 And if you scroll down, on the previous page you had,
12 there was four (4) -- yeah, could you scroll down on
13 that, please. Okay, so there you go, there's paid
14 amounts, so, pedestrians is on the right side,
15 cyclists, is there. So that's approximately the --
16 the amounts that have been paid to date.

17 MR. RAYMOND OAKES: Could you, just
18 for the record, just identify those numbers, please?

19 MR. LUKE JOHNSTON: Sure, so, under
20 "vulnerable road users," "pedestrians" from 2001 to
21 2017/'18, we've paid \$126 million to pedestrians. to
22 date. Over the same time period, 2001 to 2017,
23 cyclists, we've paid about 35.2 million.

24 MR. RAYMOND OAKES: All right. So,
25 when we look at the three hundred and twenty-three

1 thousand dollars (\$323,000) of additional revenue
2 you're looking for motorcyclists, and it equates to 43
3 percent for every private passenger.

4 It really pales in comparison as some
5 of the other subsidization that's going on, would you
6 agree?

7 MR. LUKE JOHNSTON: I -- I'm
8 struggling with the word "subsidization" because the -
9 - again, I don't have a form to charge a pedestrian,
10 automobile insurance. There is a -- there is an
11 amount that comes on the driver's license for example,
12 but, based on the rating structure we have, these
13 monies have to be allocated and we try to do that in
14 the most equitable way through the -- through the pool
15 fund.

16 MR. RAYMOND OAKES: You agree with me
17 that forty-three cents is roughly the price of half of
18 a stamp; would you agree with me, sir?

19 MR. LUKE JOHNSTON: I honestly have no
20 idea how much a stamp costs anymore. But, that would
21 seem like a reasonable price for a stamp, yes.

22 MR. RAYMOND OAKES: Can you think of
23 anything you can buy for forty-three cents?

24 MR. LUKE JOHNSTON: I -- you --
25 nothing that I buy.

1 MR. RAYMOND OAKES: All right. Just
2 going back, if we can to CMMG-MPI-1-1. When we look
3 at the projected losses on the left side of the column
4 or the actual losses, are those net of reinsurance
5 monies?

6 MR. LUKE JOHNSTON: No, they are not
7 They are the gr -- they are the gross losses.

8 MR. RAYMOND OAKES: And yet, in
9 addition to the sums charged for the rate requirement,
10 you've talked about the additional load, which
11 combined is probably about 25 percent, in that 25
12 percent you're charging the motorcyclists the premium
13 for the reinsurance; is that correct, sir?

14 MR. LUKE JOHNSTON: We -- so, as you
15 mentioned earlier, motorcycles don't have
16 comprehensive coverage. So we d -- we don't pass
17 through the cost of the catastrophe reinsurance, which
18 recognizes basically for hail. But, we do allocate
19 the casualty insurance, which would be applicable for
20 large -- for MPI's book, large injury claims. So we
21 saw that as appropriate.

22 Just one (1) other comment, just to
23 make sure the -- everyone understands, 75 percent loss
24 ratio excludes the claims expenses. If we were to put
25 the claims expense load in here, I would expect that

1 to add 15 to 20 percent to this ratio, which would
2 bring it close to 90 percent, which would be basically
3 what the overall book is getting in this application.

4 MR. RAYMOND OAKES: All right, but,
5 getting back to the issue of reinsurance on --
6 personal injury reinsurance, serious loss reinsurance,
7 why, if we're paying the premiums are we not seeing a
8 reduction of the actual losses for rate-making
9 purposes, reflecting that the Corporation's receiving
10 that -- those reinsurance benefits?

11

12 (BRIEF PAUSE)

13

14 MR. LUKE JOHNSTON: So what -- what we
15 do is on an overall basis, will -- we forecast with
16 and without reinsurance. When we have to balance at
17 the -- at the end to -- for the claims costs to match
18 our forecasts, we'll bounce back to the number after
19 the impact of -- of reinsurance recoveries.

20 We don't attempt to go into each
21 classification and adjust every calculation for every
22 claims reinsurance, due to the complexity of that. We
23 do it on a global basis.

24 MR. RAYMOND OAKES: I'd suggest to
25 you, Mr. Johnston, that's incorrect, and it produces

1 an equity, because you're asking the motorcyclists for
2 premiums based on actual losses the Corporation's not
3 paying, because it's receiving reinsurance prem --
4 benefits.

5 MR. LUKE JOHNSTON: Okay. I
6 understand the question. So every class would be
7 calculated this way as you -- have you -- and then at
8 -- at the end of the process, we would balance back to
9 the expected number after applying the impact of
10 reinsurance.

11 So every class, we just put in the
12 actual claims experience as the basis for determining
13 the relative costs, and then an -- an overall basis to
14 make sure we have break-even net income -- or, sorry,
15 break-even rates, we make the adjustment for
16 reinsurance. So I think you're -- you're cor -- no, I
17 don't think, I know, you're correct that we don't have
18 each claim adjusted for any reinsurance recovery that
19 we've had in this chart, but that's the same for every
20 -- every class.

21 MR. RAYMOND OAKES: The motorcycle
22 class would be different, though, Mr. Johnston, would
23 it not, in that motorcyclists have a greater frequency
24 of serious personal injury losses that might involve
25 the recovery by the Corporation of reinsurance

1 benefits?

2 MR. LUKE JOHNSTON: If you're asking
3 if we should increase the reinsurance load on the
4 motorcycle class, then that would be a good case for
5 doing so. In terms of this history, and I don't know
6 what the specific effective reinsurance, if it's
7 greater or -- or lower than average.

8 MR. RAYMOND OAKES: I'm going to ask
9 some questions generally on the revenue requirements
10 from the investment side. So, Mr. Yien, you may get
11 your opportunity.

12 And, Diana, if I could, I'm going to
13 ask you to go to page 9 of 92 of the investments.
14 Thank you. And just down at the bottom, we're showing
15 for the year 2000...

16

17 (BRIEF PAUSE)

18

19 MR. RAYMOND OAKES: Well, the -- let's
20 look at the current year. It's showing -- showing
21 total investment income of 119 million, I assume,
22 seven hundred and thirty-one (731). Is that correct,
23 sir?

24 MR. PETER YIEN: Yeah. That's
25 correct.

1 MR. RAYMOND OAKES: And then for the
2 year of the application, \$93,029,000. Is that
3 correct, sir?

4 MR. PETER YIEN: Yes.

5 MR. RAYMOND OAKES: So to the man on
6 the Clapham omnibus, or the man in the street, those
7 look like pretty robust insurance, or pretty robust
8 investment returns. Could you just speak to that?

9 MR. PETER YIEN: I can't -- I'm not
10 understanding the question by "robust." We determine
11 investment returns based on a risk appetite, and it
12 needs to match the risk appetite.

13 MR. RAYMOND OAKES: Well, just looking
14 at them historically, you know, the -- both years are
15 showing a -- a positive investment income. Is that
16 correct?

17 MR. PETER YIEN: Yes.

18 MR. RAYMOND OAKES: And when you are
19 approaching a hundred million dollars, that seems
20 substantial?

21 MR. PETER YIEN: I -- I'm not sure
22 what you mean, but maybe if I can answer it this way.
23 If I measure 119 million in 2017/'18 and compare it to
24 2014/'15 of 226 million, it would not be robust. I
25 guess it's -- all depends on what you measure it

1 against.

2 In terms of the overall investment
3 portfolio of billions of dollars, I'm not sure I would
4 -- I would conclude whether it's robust or not. I --
5 I think -- I think, really, the way I look at it is
6 we're earning the right risk-weighted adjusted return
7 that meets the risk profile of our Corporation. And
8 we're not taking -- at this point, we're not taking
9 that unnecessary risk. If we did, I guess we would
10 have a more robust income.

11 MR. RAYMOND OAKES: Well, you're
12 projecting out a number of years, and the -- the
13 farthest projection is 2021/'22 at 105,774,000.

14 Do you see that, sir?

15 MR. PETER YIEN: I do.

16 MR. RAYMOND OAKES: So through your
17 forecast period, all of those returns are relatively
18 similar and slightly increasing over the forecast
19 period?

20 MR. PETER YIEN: Yes.

21 MR. RAYMOND OAKES: Okay. If -- so
22 there -- there's certainly nothing untoward in the
23 total investment income the Corporation's going to be
24 receiving of some \$93 million for the forecast for the
25 next GRA period?

1 MR. LUKE JOHNSTON: Maybe if I could
2 comment here. So I think the original question was 96
3 million and 119 million sound like a lot of money to a
4 person on the street. That's paraphrasing.

5 What I would say that person is, Yes,
6 it is, and we use that money to lower your rates. On
7 a typical year, we're not -- we're break -- we're
8 breaking even, and actually recently were -- we're
9 losing money. So it's not that MPI is just rolling in
10 the hundred million dollars of investment income.
11 It's used to lower rate -- to lower rates. We -- we
12 set -- we issued policies that underwriting loss, and
13 they're generally offset by the investment income.

14 MR. PETER YIEN: If I may add to that,
15 investment income, from the Corporation's perspective,
16 is used to pay for future claims as they become due,
17 so while it looks like a -- a large dollar amount, we
18 do keep that to ensure that we have the right cash to
19 pay for those claims in the future.

20 MR. RAYMOND OAKES: I wonder, Mr.
21 Yien, can you speak to the timing of taking profits on
22 its investments. Earlier in the week, the Corporation
23 talked about you moving comprehensive income to net
24 income, and specifically, with the timing, would you
25 agree that the financial position of the Corporation

1 when it comes before this Board can be materially
2 affected depending on whether MPI is taking profit on
3 its investments, and primarily the equities?

4 MR. PETER YIEN: Overall, we as a
5 Corporation do not believe in market timing. We are
6 not in the business of betting and thinking we're
7 buying low. This is the whole purpose, as I mentioned
8 earlier, about completing the asset liability
9 management study, and it's important to match our
10 liabilities with our investments. And if we were to
11 simply target on market timing, it will be completely
12 irresponsible to do so.

13 MR. RAYMOND OAKES: And who make the
14 decision of the timing to take profit on its
15 investments for the Corporation?

16 MR. PETER YIEN: The timing of that
17 buying and purchase of bonds is completely -- it's all
18 about segregating our assets, about matching our
19 liabilities with the cashflows of the investments as
20 they come due so that we can use that cash and pay the
21 liabilities.

22 Yes, we will take advantage of higher
23 yields if we -- if we could. And that's the purpose
24 of the asset liability management study. And to the
25 extent that we do so, we do that.

1 Now, one (1) thing that's really
2 important is we don't realize gains on equities. The
3 external -- the external managers actually make these
4 decisions.

5 MR. RAYMOND OAKES: And if your
6 external managers had realized the gains, recognizing
7 that the stock market seems to be at a relative all-
8 time high, certainly that could have affected the
9 financial position of the Corporation coming before
10 this Board?

11 MR. PETER YIEN: Could you define
12 "affecting the financial position"?

13 MR. RAYMOND OAKES: Yes. You could
14 have had additional revenue realized that perhaps
15 would have addressed the amount of premium that the
16 Cor -- the Corporation's seeking before this Board.

17 MR. PETER YIEN: Just -- just one (1)
18 second.

19

20 (BRIEF PAUSE)

21

22 MR. LUKE JOHNSTON: So I'm -- I'm
23 struggling a bit with the line of questioning, but
24 from a -- from a rate-making perspective, all our
25 marketable bonds would be reported at fair value and

1 flow through the financial results. And then for our
2 equities, we'd just use a normal historical turnover
3 assumption of 20 percent. So we don't -- the -- the --
4 -- again, the equity managers make the decision on how
5 they buy and sell. But for rate-making purposes,
6 those decisions have already been made in the past.

7 Going forward, we're basically
8 projecting expected return of 7 plus percent and the
9 normal turnover ratio. So there's not really any way
10 to manipulate the rate indication. Like,
11 prospectively, not -- I -- I don't quite understand.

12 But gains and losses are taken on -- on
13 the equity portfolio, but that's -- that's done by the
14 -- the managers. And -- and in our investment section
15 rate, we would show the historical turnover rates.

16 MR. RAYMOND OAKES: All right. I'm
17 going to move from the macro down to the micro, if I
18 might. And if we could have page 13 of the overview
19 up on the screen. And keep -- if you could keep
20 scrolling, please. And down. So we're looking at
21 lines 19 and following.

22 I was -- we see the four (4) bullets
23 indicated, and the very first one, I was very
24 surprised to find it highlighted so prominently in
25 this year's application. And it's showing that the

1 rodents claim strategy resulted in a 1 percent
2 decrease in the premium requirement. Is that what I'm
3 seeing?

4 MR. LUKE JOHNSTON: Correct. Our
5 expected impact of that strategy is worth 1 percent of
6 the rate.

7 MR. RAYMOND OAKES: Okay. So -- and
8 in CMMG-IR-1-9, if we could go to that, please.

9

10 (BRIEF PAUSE)

11

12 MR. RAYMOND OAKES: We've asked for
13 details of that rodent claim strategy, and how does
14 this ser -- save that very unexpected sum? And we
15 just received the bare-bones answer telling us to keep
16 reading the application.

17 So we followed that up with CMMG-2-2,
18 Diana, if I could prevail upon you. And we are able
19 through persistence to get to a little more
20 information. And I'm not sure which of the executives
21 are the expert in rats and mice claims, but what it
22 seems to be telling us is that instead of taking apart
23 vehicles to deal with mice, you are having an
24 exterminator set traps or something on the outside to
25 draw them out and -- and to save the Corporation some

1 money. Is -- that's what is -- that what's going on
2 in this scenario?

3 MR. LUKE JOHNSTON: At a high level,
4 what you've -- yeah, you described our response to
5 part A. Instead of what we call mandatory intrusive
6 disassembly of vehicles -- it's a -- a complex way of
7 saying that we've had to tear the vehicle apart. So
8 that's basically correct, yes.

9 MR. RAYMOND OAKES: All right. So --
10 and then we don't have to go there, I don't think, but
11 page 27 of the introductory remarks by the
12 Corporation's witnesses said that it adopted Health
13 Canada guidelines as part of this change. Is --
14 anyone there have any information relative to that?

15 MR. LUKE JOHNSTON: I don't know the
16 specifics of the Health Canada guidelines, so I would
17 -- I would need to get that information.

18 MR. RAYMOND OAKES: If you could do
19 that as an undertaking, and if you could also indicate
20 when that information first became available to the
21 Corporation?

22 MR. LUKE JOHNSTON: We will do that.

23 MR. RAYMOND OAKES: All right. Diana,
24 if I could ask you to go back to page 13 of the
25 overview, then, please. I'm sorry, going back to the

1 undertaking, it would be the Corporation will indicate
2 the source of the Health Canada guidelines that are
3 relative to rodent infestation of vehicles and -- and
4 its treatment and also indicate when that publication
5 became available.

6 MR. LUKE JOHNSTON: Agreed.

7

8 --- UNDERTAKING NO. 26: MPI to indicate the source
9 of the Health Canada
10 guidelines that are
11 relative to rodent
12 infestation of vehicles
13 and its treatment and also
14 indicate when that
15 publication became
16 available

17

18 CONTINUED BY MR. RAYMOND OAKES;

19 MR. RAYMOND OAKES: All right. So if
20 we go back to page 13 of the overview. And we're
21 looking at the -- the initiatives brought by the
22 Corporation to reduce the ask.

23 What you're telling us here is that the
24 rodent claims strategy was more effective than two (2)
25 of the other expense reduction targets and twice as

1 effective as -- as some of the other management
2 actions. Or more -- more effective than the other
3 management actions.

4 MR. LUKE JOHNSTON: I -- I'm not sure
5 of the relevance. Like, 1 percent is -- is bigger
6 than point-nine (.9) and point-eight (.8). But in
7 terms of the forecasting of this, the ideas brought
8 forward obviously had to be credible and had to be
9 part of a best estimate forecast to the -- to the
10 Board. So what made -- or what allowed us to include
11 the rodent strategy was some initial indication that -
12 - the savings we were going to get.

13 And in claims incurred, page 15, after
14 two (2) months we had seen an average reduction in
15 these claims of approximately twenty-four hundred
16 dollars (\$2,400) per claim. And this allowed us to
17 make a pretty good estimate about -- on terms of what
18 this would -- would save us without, you know, just
19 we're not making something up here. We had two (2)
20 months of data that said twenty-four hundred (2,400),
21 and it seemed reasonable to project that forward.

22 MR. RAYMOND OAKES: All right. So the
23 Corporation's hoping to save \$10 million. And I
24 appreciate you weren't here yesterday. But we heard -
25 - and the information's in CMMG-IR-1-10. No need to

1 go there. But we have in evidence that wildlife
2 collisions have screamed up to \$47.9 million in claims
3 costs, which is an increase of some \$10 million.

4 So really the Corporation's not ahead.
5 It's saved 10 million on the -- on the rats and mice
6 and -- and had to pay out another 10 million in terms
7 of the larger targets that the Corporation should have
8 in road safety.

9 MR. LUKE JOHNSTON: Yeah, the --
10 the comparison really is invalid in the sense that --
11 that the rodent strategy has a pretty clear cost
12 benefit. The cost of changing the claims processes is
13 pretty minor with a known savings already
14 demonstrated. The cost of trying to prevent all or
15 most future wildlife claims, I would expect to be
16 significantly larger and very difficult to implement.

17 MR. RAYMOND OAKES: So what I think we
18 can conclude is that this juggernaut of a Corporation
19 with \$2.66 billion worth of assets under
20 administration has finally come to the point where
21 it's conquered the mighty mouse, but it hasn't been
22 able to conquer larger ungulates like deer and the
23 like.

24 MR. PETER YIEN: Yeah, I think it's
25 important to put the 2.6 million in focus. The 2.6

1 million is to protect the future claims liabilities of
2 claims that are to be due. And from a Board of
3 Directors perspective, it's important that we hold
4 that money in prudence and making sure that we have
5 the money to pay for those claims when they come due.

6 I will go back to the value management
7 process that involves a -- there's two (2) pieces that
8 I said earlier. There's a full business case and a
9 thin business case. And through our discussions that
10 -- that's collaborative in nature, it was viewed that
11 the cost benefit -- the cost far exceeds the value of
12 doing some of the things that has been suggested.
13 Versus the cost that is involved in revising the way
14 we treat rodent claims, the cost is so simply very low
15 compared to the benefits, so the business case is
16 extremely strong and so therefore we proceeded to do
17 so.

18 MR. RAYMOND OAKES: I guess someone
19 may ask the question, if it's such a simple thing to
20 do, and obviously so very common sense based on the
21 discussion we had about you just put the traps on the
22 outside of the vehicle instead of taking the vehicle
23 apart. Why didn't the Corporation do this earlier and
24 save \$10 million each year?

25 MR. PETER YIEN: I think that as part

1 of the undertaking, we can address that question with
2 Health Standards's changes. My understanding is
3 there's a virus involved that was somewhat unknown in
4 terms of what consequences to health would be. As a
5 corporation, it would be irresponsible to us to simply
6 assume that there was no impact of that virus, and we
7 definitely had to wait for that notification, if you
8 will, or announcement of what the potential impacts
9 are. It is simply prudent to take -- not take all
10 Manitobans' health and assume that there's no impact.

11 So it does take time. I don't want to
12 belittle the rodent claim strategy in that it's
13 perfect, but I will say this. Any solution, even
14 technology solutions, when you look at it, it seems
15 simple in nature just like the iPhone that I
16 mentioned. But it took a lot of effort to create
17 that.

18 So simple elegant solutions don't
19 simply happen. It involves a collaboration of
20 understanding what the process is, perhaps maybe even
21 the nature of what things are being fixed, including
22 the entire process. So we do have to go through that
23 process to discuss and finally agree that the net
24 impact to both the claimant, the repair, as well as to
25 the Corporation from a liability and future potential

1 liability needs to be. So it's essentially a very
2 balanced approach and does take some time.

3 MR. RAYMOND OAKES: Well, I thank you
4 for that long answer. There's obviously a very good
5 reason the Corporation flies you in from Toronto. You
6 certainly put things in a very good overall context.
7 I appreciate the answer.

8 MR. PETER YIEN: Thank you.

9 MR. RAYMOND OAKES: I'm looking at the
10 clock, Mr. Chairman. I just want to get into the last
11 issue and ask some questions about the RSR, and then
12 I've fulfilled my mandate to take us to the lunch
13 hour.

14 The definition of the rate
15 stabilization reserve has been given a number of
16 times. It's in -- reflected in Board Order 151.13, if
17 -- again, no need to go there. But it's to protect
18 motorists from rate increases made necessary by
19 unexpected events and losses arising from nonrecurring
20 events or factors.

21 Does the Corporation still accept that?

22

23 (BRIEF PAUSE)

24

25 MR. LUKE JOHNSTON: Mr. Oakes, I just

1 -- just as you read it, I know we cha -- there was a
2 change put forward by the Corporation in the -- in the
3 last couple years. I just wasn't clear if -- if you
4 were reading the -- the new version, or the previous
5 version that was used. One (1) second, please.

6

7

(BRIEF PAUSE)

8

9 MR. LUKE JOHNSTON: So dot -- point-
10 three (.3) is the purpose of the RSR. So as long as
11 that matches what you said, then that's fine.

12 MR. RAYMOND OAKES: Yes, I believe it
13 does. And, Mr. Johnston, you and I look back
14 historically a little bit. We talked about the
15 introduction of the PIPP. And do you recall, sir? My
16 recollection is at that time the RSR was around -- the
17 target was around \$50 million?

18 MR. LUKE JOHNSTON: I've been here
19 since early 2000's -- 2002. The previous RSR
20 methodology relied on 10 percent to 20 percent of
21 premiums. So in today's world, that would be a hun --
22 a hundred to 200 million. So in the past with half
23 that amount 50 million 100 million likely would have
24 been what it was.

25 MR. RAYMOND OAKES: Right. And that

1 was the Kopstein formula, 10 to 20 percent of
2 premiums. Is that correct?

3 MR. LUKE JOHNSTON: It was, and if --
4 actually if you ever -- I'm sure you have --
5 interested in how that -- those numbers were arrived
6 at, the private sector methodology was really used and
7 then adjusted to -- to reflect something that might be
8 appropriate for a monopoly. So the private sector
9 doesn't use the percentage of premiums approach
10 anymore. But that was what was there at the time for
11 Kopstein to make that decision.

12 MR. RAYMOND OAKES: Right. And
13 sticking with a historical perspective, Mr. Johnston,
14 you'll agree with me that there's a number of years
15 since the introduction of PIPP where the RSR in
16 Manitoba had little or no positive balances.

17 Would -- would you agree with that?

18

19 (BRIEF PAUSE)

20

21 MR. LUKE JOHNSTON: There was a
22 difficult stretch in the, I believe, the late '90s
23 where the RSR balance was at or close to depletion,
24 and rate rebuilding fees were required. They grew
25 from 2 percent upwards to 6 percent before being

1 pulled back.

2 MR. RAYMOND OAKES: Right.

3 MR. LUKE JOHNSTON: If we need the
4 exact dates of that I could -- I could find that for
5 you.

6 MR. RAYMOND OAKES: Well, at the
7 conclusion I was going to ask for some undertakings.
8 But you'll agree with me that in those problematic
9 years where there was little or no positive balances
10 in the RSR, each of those years the Corporation
11 fulfilled its mandate to provide insurance to
12 Manitobans?

13 MR. LUKE JOHNSTON: Yes, we did.

14 MR. RAYMOND OAKES: All right. So the
15 undertakings I would ask the Corporation to provide
16 would be setting -- indicating what the set RSR rate
17 was over the last fifteen (15) years.

18 MR. LUKE JOHNSTON: Okay.

19

20 --- UNDERTAKING NO. 27: The Corporation to provide
21 the set RSR rate over the
22 last fifteen (15) years

23

24 MR. RAYMOND OAKES: And the second
25 undertaking in this series would be detail how many

1 times an unforeseen, catastrophic event required a
2 drawdown on the RSR by the Corporation.

3 MR. LUKE JOHNSTON: The definition of
4 "unforeseen, catastrophic" might cause us some
5 difficulties, but we'll do our best to show -- or --
6 or identify larger variances on the downside, if
7 that's what you're implying.

8 MR. RAYMOND OAKES: Well, what I
9 should do is rephrase that, then, and say -- ask the
10 Corporation to detail how many times unexpected events
11 and losses arising from nonrecurring events or factors
12 caused the Corporation to draw down on the RSR.

13 Would you accept that, sir?

14 MR. LUKE JOHNSTON: Maybe just
15 possibly -- maybe I'll just say one (1) thing. So
16 there's the Corporation's historical experience and
17 the conditions that it operated in at those times.
18 For the modelling we're doing you're looking -- maybe
19 looking at a fifteen (15), twenty (20) year window of
20 time. You may have a one (1) in forty (40) year event
21 in there. You may not.

22 The purpose of our current modelling,
23 which has largely been collaborative with the parties,
24 is to take our current wrists and model what could
25 happen based on credible historical data that

1 encompasses, you know, for example, the entire history
2 of the stock market, or our claims variability, or
3 interest rates, or any other factor that we see as
4 relevant.

5 Whether that particular event occurred
6 in the last ten (10) to fifteen (15) years is
7 irrelevant to the exercise because we're measuring
8 risk going -- going forward. So while some things
9 will be in the history, so a big drop in the interest
10 rates happened recently. But in the next three (3)
11 years, a big drop in interest rates isn't really seen
12 as a major risk because we're already kind of at the
13 bottom.

14 So looking at the history, I -- I
15 understand the point you're trying maybe to make about
16 what's actually happening with the RSR, and just so
17 you -- you know, that can be on the record then we can
18 do that. But I just want everybody to know that this
19 is a forward-looking item, and that there's a lot more
20 that goes into this than just looking at what happened
21 here in the last fifteen (15) years. So if you don't
22 mind repeating your request, I -- can -- I can let you
23 know if we can do that.

24 MR. RAYMOND OAKES: All right. And
25 since you're asking me to repeat it, maybe we'll amend

1 it. Since inception, if you can detail how many times
2 an unforeseen, catastrophic -- oh, I'm sorry. Since
3 the inception of the RSR, if you could indicate how
4 many times the Corporation required to make a drawdown
5 from the RSR in connection with unexpected events and
6 losses arising from nonrecurring events or factors.

7

8

(BRIEF PAUSE)

9

10 MR. LUKE JOHNSTON: My only change, as
11 you've -- as you've read the request would be "since
12 inception" is probably too far. We're not going to
13 have the same level of data we have. And 1982 is --
14 may -- so how about we start with 1994 to present,
15 being the PIPP years. And if it is possible to get
16 before that we'll provide it. But maybe 1994 or
17 earlier if available.

18

19 MR. RAYMOND OAKES: I'm fine with
20 that, Mr. Johnston.

21

22 --- UNDERTAKING NO. 28: The Corporation to provide
23 data indicating how many
24 times since 1994 the
25 Corporation required to
make a drawdown from the

1 RSR in connection with
2 unexpected events and
3 losses arising from
4 nonrecurring events or
5 factors

6

7 CONTINUED BY MR. RAYMOND OAKES:

8 MR. RAYMOND OAKES: The last question
9 you may have more difficulty with. The evidence
10 before this Board is that MPI has transferred \$27.8
11 million into the RSR. My question of the Corporation
12 is how much more could they have transferred? How
13 much is available?

14

15 (BRIEF PAUSE)

16

17 MR. PETER YIEN: If I can refer to my
18 testimony, I believe -- if I remember correctly on
19 Wednesday, as per the financial statements last year,
20 2016/'17, in Extension. We had available of \$98.5
21 million worth of equity. And the required minimum
22 equity is sixty-seven-point-five (67.5). If I take
23 that difference there would be 31 million left.

24

25 MR. RAYMOND OAKES: And, Mr. Yien,
when you say the "required equity," could you just

1 elaborate on that, please?

2 MR. LUKE JOHNSTON: Yes, we also
3 perform DCAT and MCT comparisons for our competitive
4 lines of business. So -- and the way I would present
5 the Basic DCAT and MCT results to our board, I would
6 do the same for Extension. And then the board would
7 select a target based on that information.

8 So the -- the numbers just -- the
9 dollar values just quoted are the amounts above what
10 the Board considers the minimum amount they would want
11 to hold in the Extension line of business. So just --
12 yeah, just to be clear that it's not a maximum that --
13 that we're talking about. It's a minimum.

14 MR. RAYMOND OAKES: You've piqued my
15 interest. What would be the maximum?

16 MR. LUKE JOHNSTON: We don't have a
17 maximum target for the competitive lines just -- just
18 a minimum.

19 MR. RAYMOND OAKES: All right. Mr.
20 Chairman, I've taken us to the lunch hour. I have no
21 further questions at this point.

22 THE REPORTER: Excuse me, was that
23 last one (1) an undertaking or did you get your
24 answer?

25 MR. RAYMOND OAKES: I received an

1 answer. Thanks.

2 THE CHAIRPERSON: I have one (1)
3 question for you, Mr. Oakes. You -- you referenced a
4 Board Order. I didn't get it down. When you were
5 talking about the definition out of Board order...

6 MR. RAYMOND OAKES: One (1) fi --
7 151.13 at --

8 THE CHAIRPERSON: Thank you.

9 MR. RAYMOND OAKES: -- page 33.

10 THE CHAIRPERSON: Thank you. We'll
11 adjourn until 1:10.

12

13 --- Upon recessing at 12:07 p.m.

14 --- Upon resuming at 1:14 p.m.

15

16 THE CHAIRPERSON: Okay, Mr.

17 Williams...?

18 DR. BYRON WILLIAMS: Yes, and good
19 afternoon members of the panel. We have some exhibits
20 to introduce and one I'll correct a quite embarrassing
21 typographical error on the first page but we have a
22 series of Board Orders, ranging from 1 and 20 -- 22
23 and 2010 up -- up to 2015. We'll properly title this
24 Manitoba Public Insurance 27/18 (sic) GRA, and that
25 should include CAC Exhibit-10, CAC Exhibit-11, CAC

1 Exhibit-12, -13, -14 and -15.

2

3 --- EXHIBIT NO. CAC-10: Board Order 122/10

4

5 --- EXHIBIT NO. CAC-11: Board Order 145/10

6

7 --- EXHIBIT NO. CAC-12: Board Order 162/11

8

9 --- EXHIBIT NO. CAC-13: Board Order 151/13

10

11 --- EXHIBIT NO. CAC-14: Board Order 135/14

12

13 --- EXHIBIT NO. CAC-15: Board Order 128/15

14

15 DR. BYRON WILLIAMS: After some
16 generous collaborate -- collaborative discussions with
17 MPI, in the brown manila folder we have two (2) other
18 exhibits, one is an excerpt from the evidence of Mr.
19 Viola from last year's General Rate Application and
20 we'll suggest it be marked CAC-16.

21

22 --- EXHIBIT NO. CAC-16: Excerpt from the evidence
23 of Mr. Viola from last
24 year's GRA.

25

1 DR. BYRON WILLIAMS: And I do not want
2 to be accused of imaginative accounting, but we did
3 pull a couple of exhibits for today, which we'll come
4 to next week. So there's also an investment income
5 comparison which the Board secretary advises we can
6 market CAC-19. And we will catch up with 17 and 18.

7

8 --- EXHIBIT NO. CAC-19: Investment income comparison.

9

10 DR. BYRON WILLIAMS: If that's
11 satisfactory, we're always at the --

12 THE CHAIRPERSON: That's fine.
13 That's fine, thank you.

14

15 CONTINUED CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

16 DR. BYRON WILLIAMS: Good afternoon,
17 Mr. Yien and Mr. Johnston.

18 MR. PETER YIEN: Good afternoon.

19 DR. BYRON WILLIAMS: And I'll do my --
20 I -- I've some -- have -- times have trouble with Mr.
21 Johnston's last name. I'll try to focus on the 'T',
22 but if I forget I apologize. And my questions unless
23 they're specifically directed to a witness, can go to
24 anyone on the pan -- panel.

25 And let's just start with first

1 principles. When we're dealing with the -- the rate
2 process, we're dealing with Basic compulsory
3 insurance, Basic Autopac; agreed?

4 MR. PETER YIEN: Agreed.

5 DR. BYRON WILLIAMS: And basic Autopac
6 provides coverage for physical damage sustained by
7 vehicles involved in accidents; that's one (1) of the
8 coverages it offers; agreed?

9 MR. PETER YIEN: Agreed.

10 DR. BYRON WILLIAMS: And it also
11 includes the personal injury protection plan which
12 provides no-fault coverage for all Manitoba residents
13 injured in automobile accidents in Canada or the
14 United States, correct?

15 MR. PETER YIEN: Correct.

16 DR. BYRON WILLIAMS: And I'm not
17 asking for a legal opinion just a reality check. MPI
18 has a legislative monopoly when it comes to basic
19 insurance.

20 MR. PETER YIEN: Yeah, given that
21 Manitobans must buy that insurance through us, yes.

22 DR. BYRON WILLIAMS: Competition is
23 statutorily prevented; agreed?

24 MR. PETER YIEN: Yes.

25 DR. BYRON WILLIAMS: And

1 simplistically speaking, would you agree with the
2 definition of "premium risk" is a risk that an insurer
3 will lose premiums if rates are increased?

4 MR. LUKE JOHNSTON: If you could just
5 -- if you could repeat that one more time.

6 DR. BYRON WILLIAMS: Just a simplistic
7 definition of "premium risk." A risk that an insurer
8 will lose premiums if rates are increased.

9 MR. LUKE JOHNSTON: That's a -- yeah,
10 that's not a definition I -- I think I heard a risk
11 that the insurer will lose premiums --

12 DR. BYRON WILLIAMS: Well, let me --

13 MR. LUKE JOHNSTON: -- if rates
14 decrease?

15 DR. BYRON WILLIAMS: Let me try it
16 again, Mr. Johnston, in -- in a different way. As a
17 monopoly the customers of Manitoba Public Insurance
18 have no place else to go in the event that rates are
19 increased; agreed?

20 MR. LUKE JOHNSTON: Okay, now I
21 understand. Our -- our loss of market share through
22 competition does not exist. So there's no -- there's
23 no marketshare risk.

24 I -- I interpret "premium risk" as --
25 that we might set the wrong premiums and -- yeah.

1 DR. BYRON WILLIAMS: So we'll use the
2 word "marketshare risk," and thank you for that
3 clarification.

4 MR. LUKE JOHNSTON: Sure.

5 DR. BYRON WILLIAMS: And in addition
6 to the basic product -- project -- Autopac, Manitobans
7 can also choose other MPI products such as lower
8 deductibles and high -- higher third-party liability;
9 agreed?

10 MR. PETER YIEN: Agreed.

11 DR. BYRON WILLIAMS: That would be the
12 Extension side of the business?

13 MR. PETER YIEN: Correct.

14 DR. BYRON WILLIAMS: And there is no
15 legislative monopoly with regard to Extension?

16 MR. PETER YIEN: Correct?

17 DR. BYRON WILLIAMS: And there's also
18 special risk expo -- Extension primarily for
19 commercial fleets; agreed?

20 MR. PETER YIEN: Yes.

21 DR. BYRON WILLIAMS: And, again, no
22 legislative monopoly?

23 MR. PETER YIEN: Correct.

24 DR. BYRON WILLIAMS: I wonder if,
25 Diana, if I could ask you to pull PUB-MPI-2-16 and, in

1 particular, Figure 3, see -- P -- PUB-2-16(c), Figure
2 3. Thank you. And if you make that bigger, that's
3 great. That's -- location's perfect. Thank you,
4 Diana.

5 And it's fair to say that when we look
6 at the monopoly and competitive side of the business,
7 they often work off of the same information technology
8 platform?

9 Would that be fair?

10 MR. PETER YIEN: Can you repeat the
11 question?

12 DR. BYRON WILLIAMS: In terms of the
13 monopoly, and Extension side of the business, they
14 often work off the same information technology
15 platform?

16 MR. PETER YIEN: Yes, that would be
17 true.

18 DR. BYRON WILLIAMS: And so, for
19 example, on line item number 35 AOL, that stands for
20 Autopac Online; agreed?

21 MR. PETER YIEN: Yes.

22 DR. BYRON WILLIAMS: And that's a
23 service that connects MPI with brokers and,
24 ultimately, with -- with consumers; agreed?

25 MR. PETER YIEN: Yes.

1 DR. BYRON WILLIAMS: And it is key to
2 both the operations of Basic and Extension --

3 MR. PETER YIEN: Yes.

4 DR. BYRON WILLIAMS: -- correct? We
5 also see on that same line, sir, CARS replacement.
6 And I wonder if you can remind me of the definition --
7 or the -- what CARS is the acronym for?

8 MR. PETER YIEN: Yep --

9 DR. BYRON WILLIAMS: Is it the claims
10 reporting --

11 MR. PETER YIEN: No. It's Claims
12 Administration Reporting System -- and Reporting
13 System.

14 DR. BYRON WILLIAMS: And it's also a
15 key platform for both the Basic and Extension side of
16 the business, sir?

17 MR. PETER YIEN: Yes.

18 DR. BYRON WILLIAMS: And what this
19 table shows us, if we look to the -- it -- it looks at
20 some pending or current project budgets and the
21 division of costs between Basic and other lines of
22 business; agreed?

23 MR. PETER YIEN: Yes.

24 DR. BYRON WILLIAMS: And so, for
25 example, for the budget for AOL CARS at line 35, we

1 see that of that 62 million, about 11.4 million is
2 going to non Basic; correct?

3 MR. PETER YIEN: That's correct.

4 DR. BYRON WILLIAMS: And over 50
5 million is going into Basic deferred devel --
6 development; correct?

7 MR. PETER YIEN: Yes.

8 DR. BYRON WILLIAMS: And if we move a
9 little further up the -- that's fine there, Diana,
10 line 10. You'll see a reference to the customer
11 claims reporting system. Do you see that, sir?

12 MR. PETER YIEN: I do.

13 DR. BYRON WILLIAMS: And that's a
14 project that MPI in collaboration with Mitchell is
15 still developing with regard to the physical damage
16 re-engineering project; correct?

17 MR. PETER YIEN: That's correct.

18 DR. BYRON WILLIAMS: And we see of the
19 23 million there about 21.5, 21.6 million is assigned
20 to Basic; agreed?

21 MR. PETER YIEN: Agreed.

22 DR. BYRON WILLIAMS: With a modest
23 amount going to total non Basic; correct?

24 MR. PETER YIEN: Yes.

25 DR. BYRON WILLIAMS: Now, currently

1 Manitoba Public Insurance estimates that it has over
2 95 percent of the Extension market; agreed?

3 MR. PETER YIEN: Approximately, yes.

4 DR. BYRON WILLIAMS: And I'd like to
5 refer you to Tab 2 of the bound selection from the
6 prior Board Orders being Order 145/10, and in
7 particular, page 6. Do you see that, sir?

8 MR. PETER YIEN: I do.

9 DR. BYRON WILLIAMS: And you'll agree
10 that this is the Board pack -- talking way back in
11 2010?

12 MR. PETER YIEN: Yes.

13 DR. BYRON WILLIAMS: And it's noting
14 that -- its conclusion that MPI held -- held 95
15 percent of the Extension market at that point in time
16 with no private insur -- insurer having even a 0.5
17 percent share?

18 MR. PETER YIEN: Do you see that
19 document in here?

20 DR. BYRON WILLIAMS: And MPI has no
21 reason to challenge the Board's conclusions there?

22 MR. PETER YIEN: I -- I don't see any
23 reason why.

24 DR. BYRON WILLIAMS: And if you could
25 turn to -- to the next tab being Order 162/11 and in -

1 - in particular, page 6, you'll see as well, sir, the
2 Board is concluding again in 2011 that MPI holds over
3 95 percent of the Extension market?

4 MR. PETER YIEN: Yes.

5 DR. BYRON WILLIAMS: Giving it what
6 has been described by the Board and Intervenors, a
7 near monopoly; agreed?

8 MR. PETER YIEN: Correct.

9 DR. BYRON WILLIAMS: And you see the
10 observation by the Public Utilities Board as well that
11 the non Basic lines of business are dependent on its
12 basic platform. Do you see that, sir?

13 MR. PETER YIEN: Yes.

14 DR. BYRON WILLIAMS: And if you're not
15 able to answer this, that is fine, but you understand,
16 sir, that -- that when a consumer goes into a broker's
17 office they can have a seamless transaction in getting
18 Basic and Extension, at the same time off the same
19 platform?

20 MR. PETER YIEN: Yep, that's my
21 understanding. However, I do understand that they do
22 have a choice to choose an alternative.

23 DR. BYRON WILLIAMS: And are you in a
24 position to indicate to me whether MPI has ever
25 audited broker's offices to determine whether

1 consumers are actually being offered that choice?

2 MR. PETER YIEN: I need to check.

3

4 (BRIEF PAUSE)

5

6 MR. PETER YIEN: I don't have that
7 answer right now, but if needed, we can certainly have
8 -- take -- have an undertaking to answer that
9 question.

10 DR. BYRON WILLIAMS: Sir, I'm not sure
11 we require it. But if -- if MPI wishes to come back
12 with it, I'm not going to require an undertaking on
13 that though.

14 MR. PETER YIEN: Okay. So if -- if
15 you don't I'd rather not create work; if that's okay
16 with you.

17 DR. BYRON WILLIAMS: That is okay with
18 me on that specific question. And to the panel, it's
19 fair to sha -- say that, apart from platforms Manitoba
20 Public Insurance also shares certain risks with the
21 other lines of business; agreed?

22 MR. PETER YIEN: Can you define what
23 you mean by "risks"?

24 DR. BYRON WILLIAMS: Well, without
25 asking you to elaborate in any great -- great detail,

1 we can agree that both the Basic and Extension lines
2 of business are exposed to interest rate forecasting
3 risk; correct?

4 MR. PETER YIEN: That would be true.

5 DR. BYRON WILLIAMS: And again,
6 without asking you to elaborate, one (1) of the tools
7 that we employ to mitigate interest rate risk is
8 matching duration liabilities and assets on a
9 corporate basis; agreed?

10 MR. PETER YIEN: Yes, that's one (1)
11 of the tools

12 DR. BYRON WILLIAMS: And, Diana, I
13 wonder if you can turn to PUB-MPI-1-43 and page 3 of
14 3. And maybe you can stop at the bottom of page 1
15 just for a second, Diana. Sorry for that.

16 You see in question (b) MPI was asked
17 to look at the impact of 100 basis point plus or minus
18 change in terms of the Basic claims liabilities for
19 both corporate and Basic. Do you see that, sir?

20 MR. PETER YIEN: I do.

21 DR. BYRON WILLIAMS: So, Diana, if you
22 can go to the third page, please. Sir, just to
23 orientate us in terms of the Board, we're looking at
24 the -- the fiscal years from 2012/13 out to the
25 forecast of 2021/22; agreed?

1 MR. PETER YIEN: That's correct.

2 DR. BYRON WILLIAMS: And we are -- on
3 figure 2, we are examining on a corporate basis the
4 impact of -- at -- towards the top on the left 100
5 basis point positive shift and 100 basis point
6 negative shift; agreed?

7 MR. PETER YIEN: Agreed.

8 DR. BYRON WILLIAMS: And one (1) is
9 trying to get at the net in -- impact by comparing the
10 impact on marketable bonds and the impact on claims
11 interest rates; agreed?

12 MR. PETER YIEN: Correct.

13 DR. BYRON WILLIAMS: And the same type
14 of analysis towards the left on the -- on the bottom
15 is being done for Basic, correct?

16 MR. PETER YIEN: Yes.

17 DR. BYRON WILLIAMS: With the bottom
18 line being the historical or forecasted duration gap;
19 agreed?

20 MR. PETER YIEN: Correct.

21 DR. BYRON WILLIAMS: All other things
22 being equal, sir, I'll suggest to you that rising
23 interest rates tend to be better news for MPI, in that
24 the decrease in the expected claims liability
25 outweighs the reduction in the marketable bond gains.

1 MR. PETER YIEN: Correct, given our
2 current accounting policies and principles.

3 DR. BYRON WILLIAMS: Thank you. And
4 again, I don't need you to elaborate on this, but
5 going towards the bottom, we -- we see, starting in
6 '17/'18 that, we're looking at a -- a forecast
7 duration gap of zero. Do you see that, sir?

8 MR. PETER YIEN: I do.

9 DR. BYRON WILLIAMS: And that carries
10 out all the way to 2021/'22, the forecast year,
11 correct?

12 MR. PETER YIEN: Yes.

13 DR. BYRON WILLIAMS: And again, I'll
14 give you a chance to elaborate on this later, but we
15 also know that in '17/'18 the Corporation is planning
16 a significant investment in corporate bonds, correct?

17 MR. PETER YIEN: That's correct.

18 DR. BYRON WILLIAMS: Lets focus on the
19 '18/'19 year. The -- the test year, sir. And in
20 terms of -- I just want to focus on the adverse
21 effects. We see at a -- on a corporate basis, the
22 estimated net impact of a negative 100 basis points
23 shift is about \$21 million, agreed?

24 MR. PETER YIEN: Sir, which line are
25 you looking at?

1 DR. BYRON WILLIAMS: So Line 9, sir,
2 for 2018/'19.

3 MR. PETER YIEN: That would be
4 correct.

5 DR. BYRON WILLIAMS: And, moving down
6 to line 18 for 2018/'19, we can see that, for Basic,
7 the estimated net impact of a minus 100 basis point
8 shift is 44.7 million.

9 MR. PETER YIEN: That's correct.

10 DR. BYRON WILLIAMS: Roughly twice as
11 much, sir.

12 MR. PETER YIEN: Roughly.

13 DR. BYRON WILLIAMS: Moving along Line
14 9, again, for '19/'20, we see again a negative impact
15 of a negative 100 basis point shift on corporate of
16 about 13.8 million, sir.

17 MR. PETER YIEN: Yes.

18 DR. BYRON WILLIAMS: And for Basic,
19 about 40.8 million, going to line 18.

20 MR. PETER YIEN: Yes.

21 DR. BYRON WILLIAMS: And that, similar
22 pattern extends out to 2021/'22, sir?

23 MR. PETER YIEN: That's right.

24 DR. BYRON WILLIAMS: And, if we look
25 at the Line 9, for 2021/'22, on the corporate side we

1 see the impact of a negative 100 basis points shift as
2 being around 4 million, sir.

3 MR. PETER YIEN: Yes.

4 DR. BYRON WILLIAMS: And for the Basic
5 program, the net negative impact would be 39 mil --
6 million.

7 MR. PETER YIEN: Yes, that's correct.

8 DR. BYRON WILLIAMS: I suspect these
9 questions would be better for Mr. Johnston, but I
10 leave them open to either witness as you may decide.

11 Mr. Johnston, I'd like you -- to take
12 you to CAC Exhibit 13, which is in Tab 4 of the bound
13 version of the CAC exhibits, and towards the bottom of
14 the page, Page 32 of 62. Right there, Diana.

15 Mr. Johnston, you were around for these
16 rate hearings?

17 MR. LUKE JOHNSTON: Yes, I was.

18 DR. BYRON WILLIAMS: And, you'll
19 recall the conversation and the Board Order in which
20 the Board took the position -- the advice that the
21 Corporation's current approach to duration mismatching
22 made it too vulnerable to interest rate risk.

23 You recall that?

24 MR. LUKE JOHNSTON: I do.

25 DR. BYRON WILLIAMS: And the Board

1 ultimately directs MPI in this hearing to submit a
2 discussion paper of the durm -- duration matching of
3 its claims liabilities, and investments for the next
4 General Rate Application, sir.

5 MR. LUKE JOHNSTON: I see that.

6 DR. BYRON WILLIAMS: And you recall
7 that as well, sir?

8 MR. LUKE JOHNSTON: Yes, I do.

9 DR. BYRON WILLIAMS: And, if we could
10 turn to the next tab being Board Order 135/14, Page
11 39, at the bottom of that page. Diana, if you could
12 go there.

13 You'll see the -- the Board observing,
14 in the course of that proceeding, that Manitoba Public
15 Insurance was taking a position -- continuing to
16 position itself such that the average durations of
17 bonds is less than the average duration of claims
18 liabilities in the expectation that interest rates
19 would increase, sir. You see that?

20 MR. LUKE JOHNSTON: Yes, I do.

21 DR. BYRON WILLIAMS: With the
22 expectation that an increase in interest rates would
23 benefit Basic's net income, sir.

24 MR. LUKE JOHNSTON: That would be
25 true, based on what the first sentence says, yes.

1 DR. BYRON WILLIAMS: And, the Board's
2 characterization of Manitoba Public Insurance
3 positioning, you'll accept it for the -- at that point
4 in time, sir?

5 MR. LUKE JOHNSTON: Correct.

6 DR. BYRON WILLIAMS: Going, sir, to
7 the next tab being Board Order 128/15, and
8 specifically Page 75. And going to recom -- Order
9 Number 10.11 at the bottom. Thank you, Diana.

10 Mr. Johnston, again in 2015, you see
11 the Board expressing an interest and concern with the
12 current asset mix, duration matching strategy and
13 strat -- strategy to manage int -- Basic interest rate
14 risk of Manitoba Public Insurance.

15 MR. LUKE JOHNSTON: Yes, I see that.

16 DR. BYRON WILLIAMS: And, it's seeking
17 an update for the next General Rate Application.

18 MR. LUKE JOHNSTON: Yes.

19 DR. BYRON WILLIAMS: And, also
20 flagging an interest in the update on the status of
21 the use of corporate bonds.

22 MR. LUKE JOHNSTON: Correct.

23 DR. BYRON WILLIAMS: Now, it's fair to
24 say -- well, let's backup. In terms of the rate
25 indicator Manitoba Public Insurance is putting forth a

1 proposal in this -- or not a proposal it's putting
2 forth an application, based upon its interpretation of
3 actuarially accepted practice.

4 MR. LUKE JOHNSTON: That's true.

5 DR. BYRON WILLIAMS: Focused on the
6 insurance year or accident year, as compared to the
7 practice in years past of setting rates based upon the
8 indicator for the fiscal year; agreed?

9 MR. LUKE JOHNSTON: I would say the
10 "policy year" instead of the "fiscal year," but,
11 that's what you're getting at, I believe.

12 DR. BYRON WILLIAMS: Thank you. And,
13 one (1) of the positive consequences of this shift to
14 actuarially accepted practice, in terms of the rate
15 indicator, is that it reduces the interest rate
16 forecast risk in the rate-setting year; would that be
17 fair, sir?

18 MR. LUKE JOHNSTON: It would reduce
19 the interest rate risk embedded in the rate indication
20 calculation, and so, just to make sure everybody
21 understands what I'm saying, we've calculated AAP-
22 based rates for a few years now, the Pro Forma
23 financial statement forecast would be the same, but,
24 your rate indication would be -- have a lesser impact,
25 because you're only focusing on the policy year claims

1 instead of the -- everything that flows through net
2 income.

3 DR. BYRON WILLIAMS: And in -- in
4 essence, you're also temporally, sir, shortening the
5 duration of the forecast period, you'll agree with me,
6 looking out only to the end of what you term the
7 policy year?

8 MR. LUKE JOHNSTON: That's true, and
9 a lot of the interest rate risk is created by the
10 claims liabilities which, of course, by definition are
11 not related to the new policy year, so those are very
12 long-duration and interest rate sensitive. So that's
13 that's the other reason, yes.

14 DR. BYRON WILLIAMS: And just to
15 elaborate on that, sir, under the old approach, in
16 terms of the forecasting risk, it would be extending
17 out three (3) years; agreed?

18 MR. LUKE JOHNSTON: That's correct.
19 The old approach took -- since we're applying for
20 rates a year in advance, and then -- then those rates
21 are effective over two (2) fiscal years. The way we
22 calculate a break-even was just to take the average or
23 those -- the net income from those two (2) fiscal
24 year, so three (3) years out.

25 DR. BYRON WILLIAMS: And, so, we've

1 agreed now, sir, that in terms of interest rate
2 forecast risk, there is a -- a reduction due to the
3 adoption of AAP, or actuarially accepted practice for
4 the rate indicator; agreed, sir, for the policy year?

5 MR. LUKE JOHNSTON: I would
6 characterize it as a reduction and a pricing-risk from
7 interest rates, so the -- the forecasting risk on our
8 net income continues to exist, but the pricing of the
9 current policy -- policies is -- is now just focused
10 on -- on -- on that policy year rather than the entire
11 balance of the claims liabilities, and any other admin
12 effects.

13 DR. BYRON WILLIAMS: I'll take that
14 Mr. Johnston, thank you.

15 And if we could go to, again, to Tab 4
16 of the -- of the Order being's CAC Exhibit 13, Order
17 151/13, sir.

18 And first of all at Page 5, I'll
19 suggest to you, at the third paragraph down you see
20 the beginning of that dialogue in which the Public
21 Utilities Board is encouraging Manitoba Public
22 Insurance to move to accepted actuarial practice in
23 terms of its rate indications; agreed?

24 MR. LUKE JOHNSTON: Agreed.

25 DR. BYRON WILLIAMS: And at Page 43 of

1 that same Order -- actually, it says the same thing,
2 sir, so I won't drag you there needlessly. But, if we
3 can go to CAC-14 which is Order 135/14 and Page 58,
4 sir, towards the -- under Board findings. Diana,
5 towards the bottom. That's perfect.

6 Again, sir, you see encouragement from
7 the Public Utilities Board in terms of the continued
8 development of the rate-making model in accordance
9 with accepted actuarial practice; agreed?

10 MR. LUKE JOHNSTON: Agreed.

11 DR. BYRON WILLIAMS: And going to the
12 top of the next page, being Page 559, the Board is,
13 indeed, encouraging Manitoba and directing Manitoba
14 Public Insurance to file updated rate indication, as
15 well as an accompanying discussion paper addressing
16 the revenue expense match -- matching principles;
17 agreed, sir?

18 MR. LUKE JOHNSTON: Agreed.

19 DR. BYRON WILLIAMS: And finally, and
20 I'm sure to the relief of many, at CAC-15, sir, we'll
21 see Board Order 128/15 at Page 6.

22 And, sir, you'll just agree with me. I
23 can go through the citations. But again, the Board is
24 encouraging Manitoba Public Insurance to move to an
25 AAP, being accepted actual practice, approach in terms

1 of rate indications; agreed?

2 MR. LUKE JOHNSTON: Agreed.

3 DR. BYRON WILLIAMS: I wonder if we
4 can turn to CMMG-MPI-1-5, and this question,
5 obviously, can go to anyone here.

6 If you can just sit the question for a
7 minute, Diana. Perfect. Here you see, and I'm not
8 presuming that this is within the Basic program's
9 authority, but here you see CMMG, our Friend from
10 CMMG, thoughtfully suggesting that the Corporation
11 delete hail as a basic com -- cover -- coverage,
12 comprehensive coverage, and instead offer it as an --
13 a special risk extension or Extension product.

14 You see that suggestion?

15 MR. LUKE JOHNSTON: I do.

16 DR. BYRON WILLIAMS: And directing
17 your attention to the second and third line of the
18 response, you see the Corporation making the argument
19 and the point that a reduction in Basic coverage would
20 not address such risks for the Corporation or its
21 customers; agreed?

22 MR. LUKE JOHNSTON: Agreed.

23 DR. BYRON WILLIAMS: And, as I
24 interpret that, it doesn't matter how I interpret it,
25 sir, as we look -- would you agree that the point of

1 the Corporation's commentary there is that
2 transferring from the Basic program to the Extension
3 program would not reduce risk for the Corporation, it
4 would merely transfer it to another line of business.

5 MR. LUKE JOHNSTON: Part -- partially.
6 So, on the assumption that the Extension customers
7 would get to decide if they wanted that coverage. And
8 so, the partially being, the percentage of customers
9 that decide they want to continue with that coverage.

10 DR. BYRON WILLIAMS: The point being
11 of the Corporation's answer though, sir, in terms of
12 that risk, the Corporation, the Basic and Extension
13 line stand together, whether it's on one line of the
14 business or the other, it's faced by the Corporation;
15 agreed?

16 MR. LUKE JOHNSTON: For hail, yes, if
17 we just transfer the exact amount of coverage to
18 Extension and everybody bought it then your statement
19 is true, and to a partial except as well.

20 DR. BYRON WILLIAMS: We're turning now
21 to investments and, Mr. Chair and members of the
22 panel, I hope I've timed this right. I won't finish
23 today just for the Board's information, just so you...

24 Just for efficiency reasons we looked
25 at information technology, and also issues related to

1 driver safety rating and a couple questions about
2 interest rates that we were planning to defer to next
3 week, so I -- I think I've got enough to take us
4 through to the end of the day, but we did let Mr.
5 Crozier and the MPI panel know that the IT folks, we
6 do have quite a few questions. We thought would be
7 more efficient to address them on the...

8 THE CHAIRPERSON: Thank you.

9

10 CONTINUED BY DR. BYRON WILLAMS:

11 DR. BYRON WILLAMS: I can provide a
12 reference from the annual report, but would you
13 accept, subject to check, that the investment income
14 for Basic and '16/'17 was 82,897,000?

15 MR. LUKE JOHNSTON: Subject to t --
16 check, sure, yes.

17 DR. BYRON WILLAMS: And would it be
18 fair, subject to check, to suggest that in 2015/'16,
19 the Basic program suffered a loss of about \$4 million
20 in terms of investment income?

21 MR. LUKE JOHNSTON: Yes.

22 DR. BYRON WILLAMS: And that would be
23 on a portfolio in ex -- in the range of \$2 billion,
24 sir?

25 MR. LUKE JOHNSTON: Yes, over \$2

1 billion.

2 DR. BYRON WILLIAMS: I was being too
3 modest, wasn't I? And, we don't need to go into a
4 detailed dissection of what happened in '15/'16, but
5 we can -- you will agree with me that one of the
6 causes was interest rates -- factors; agreed?

7 MR. LUKE JOHNSTON: Maybe just a
8 little bit of context here is helpful. So, just for
9 simplicity, let's say the Corporation expects to earn
10 \$100 million of investment income in a year. The
11 interest rate sensitivity on our bond portfolio of a
12 10 basis point increase in rates, could cause a loss
13 in the neighborhood of about \$15 million.

14 So, if we had a 30, 40, 50 basis point
15 increase in interest rates, it could wipe out a large
16 chunk of the investment income in that year. On the
17 long-term basis, we want the higher interest rates
18 but, looking only at investments, not reco --
19 recognizing that we have an offset on claims, it would
20 look like the investment income was very low in that
21 year.

22 DR. BYRON WILLIAMS: Thank you for
23 that, that helpful ans -- and, sir, the other major
24 driver of that loss on a -- on a portfolio in excess
25 of \$2 billion was a significant write-down of impaired

1 Canadian equity; agreed? In excess of \$25 million,
2 sir.

3 MR. LUKE JOHNSTON: Subject to check,
4 but that's my understanding, yes.

5 DR. BYRON WILLIAMS: And during the
6 course of last year's General Rate Application, you'll
7 recall considerable discussion regarding the
8 Corporation's investment portfolio, sir.

9 MR. LUKE JOHNSTON: That would be
10 pretty normal course for these hearings, yes.

11 DR. BYRON WILLIAMS: Well, sir, in
12 last year's General Rate Application, you'll recall
13 that Mr. Viola testified as an expert witness on
14 behalf of the Consumers Association of Canada, the
15 Manitoba branch, sir.

16 MR. LUKE JOHNSTON: Yes, I'm sorry,
17 that would be not normal course, that would be
18 something new, yes.

19 DR. BYRON WILLIAMS: And, you'll awa -
20 - accept as well, and you'll recall that Mr. Viola
21 testified that he had had a lengthy career, both with
22 the Teachers Pension Fund and the Canada Pension Fund,
23 sir.

24 MR. LUKE JOHNSTON: I don't remember
25 all my recollections in that regard, but that sounds

1 reasonable, yes. He had -- he was -- seemed to be
2 very experienced, yes.

3 DR. BYRON WILLIAMS: And perhaps
4 through the other additional, not-regular element was
5 the presence, as well of Aon, A-O-N, an advisor in
6 terms of that had worked with MPI in the past, in
7 terms of its investment portfolio.

8 MR. LUKE JOHNSTON: Yes, that's right.

9 DR. BYRON WILLIAMS: You're so busy,
10 Mr. Johnston, that it all blurs together, doesn't it?

11 MR. LUKE JOHNSTON: It -- it is busy,
12 yes. Yeah.

13 DR. BYRON WILLIAMS: And so indeed,
14 the discussion in last year's General Rate Application
15 was not the usual course of business in terms of the
16 investment portfolio?

17 MR. LUKE JOHNSTON: That's fair. Yes.

18 DR. BYRON WILLIAMS: And one (1) of
19 the consequences of the dialogue between the Public
20 Utilities Board, Intervenors, and the Corporation was
21 a direction from the Public Utilities Board to
22 Manitoba Public Insurance to file an ALM or assets
23 liability matching study for the purposes of the
24 2018/'19 General Rate Application, agreed?

25 MR. LUKE JOHNSTON: Agreed.

1 DR. BYRON WILLIAMS: And we'll
2 certainly do our best not to trespass on questions the
3 Board already went through last week, but that request
4 for proposal for the asset liability study has been
5 filed as an exhibit in this hearing as MPI Exhibit 14;
6 agreed? Do you have that with you, Mr. Johnston,
7 because we're going to spend a bit of time on it.

8 MR. LUKE JOHNSTON: I believe the
9 reference is correct, and I'll make sure I have in
10 front of me, yes.

11 DR. BYRON WILLIAMS: And do you need a
12 couple minutes with it, sir, or have you memorized it?

13 MR. LUKE JOHNSTON: I -- I haven't
14 memorized it, but we have it now, so yeah, you can
15 proceed.

16

17 (BRIEF PAUSE)

18

19 DR. BYRON WILLIAMS: And, sir, perhaps
20 we can start with turning to page 5 of the request for
21 proposal towards the top. Thank you, Diana.

22 And we see the release of the request
23 for proposal on September 12th, 2017, sir?

24 MR. LUKE JOHNSTON: That's correct.

25 DR. BYRON WILLIAMS: And the -- the

1 due date being September 22nd, 2017, sir?

2 MR. LUKE JOHNSTON: Yes.

3 DR. BYRON WILLIAMS: Subject to check,
4 eight (8) working days?

5 MR. LUKE JOHNSTON: That sounds
6 correct. I'll accept that.

7 DR. BYRON WILLIAMS: And with the
8 decision to be made in early October -- scrolling down
9 the page, Diana, thank you -- of 2017, correct?

10 MR. LUKE JOHNSTON: Correct.

11 DR. BYRON WILLIAMS: And my
12 understanding based upon the discussion from Wednesday
13 is that Mercer's has been selected. Is that correct?

14 MR. LUKE JOHNSTON: That's correct.

15 DR. BYRON WILLIAMS: And, sir, has
16 Mercer's commenced work?

17 MR. PETER YIEN: Yes they have.

18 DR. BYRON WILLIAMS: If we scroll down
19 a bit lower on this page, under Section 5.01 -- yeah.
20 Keep going, Diana. Thank you.

21 We'll see, Mr. Yien, what day -- when -
22 - it was -- when was Mercer's accepted, early October?

23 MR. PETER YIEN: I don't have the
24 exact date, but it was --

25 DR. BYRON WILLIAMS: Fair enough.

1 MR. PETER YIEN: -- it was earlier,
2 yes.

3 DR. BYRON WILLIAMS: Okay. And your -
4 - it's correct to suggest that there were three (3)
5 parts to the asset liability study, agreed?

6 MR. PETER YIEN: Yes.

7 DR. BYRON WILLIAMS: And Phase I and
8 II of that study are to be completed by November 30th,
9 2017, correct?

10 MR. PETER YIEN: That's correct.

11 DR. BYRON WILLIAMS: And with an
12 aspirational goal that Phase III would also be
13 completed by that date, sir?

14 MR. PETER YIEN: Yes, or as close to
15 that as possible.

16 DR. BYRON WILLIAMS: And sir, would it
17 be fair to say that the timeline for bidders to
18 support proposals was very tight, being eight (8)
19 working days?

20 MR. PETER YIEN: It is tighter, but
21 not unusual for vendors to have done this many times
22 before.

23 DR. BYRON WILLIAMS: Okay. And would
24 you say that the timeline to -- for MPI to review the
25 responses was also tight?

1 MR. PETER YIEN: Yes, it was tight,
2 and from a risk management perspective, we had a team
3 dedicated to ensure that we clear off what's on our
4 plate to ensure we can do it within the insuring
5 timelines.

6 DR. BYRON WILLIAMS: And the
7 aspiration -- aspirational time limit for the
8 completion of Phase III by November 30th, 2017 is also
9 quite tight, sir; agreed?

10 MR. PETER YIEN: It -- it is -- it is
11 tight compared to the amount of time when normally
12 we'd have to take to to finish that.

13 DR. BYRON WILLIAMS: I'll direct your
14 attention to page 6, about halfway down the page for
15 just a second, and then we'll move on to page 7. But
16 stay there for a minute, Diana.

17 You see here we're now talking about
18 Phase II, Section 5.03, sir?

19 MR. PETER YIEN: Yes.

20 DR. BYRON WILLIAMS: And as we go to
21 the next page under 5.03(h), will -- you'll see that
22 Mercer's will be directed by November 30th to respond
23 to these elements of -- or to certain elements of the
24 -- of the recommendations of Mr. Viola, including
25 items such as the return risk def -- definition,

1 pension fund, Canadian equities, et cetera.

2 You see that, sir?

3 MR. PETER YIEN: I do. It's all of
4 the elements, yes.

5 DR. BYRON WILLIAMS: Sir, just to be
6 clear, that's not all of the elements. That's eight
7 (8) of the elements that Mr. Viola has recommended.

8 MR. PETER YIEN: Or all of the -- yes,
9 the -- it's all of the elements that's listed, but
10 eight (8) of them, yes.

11 DR. BYRON WILLIAMS: And sir, in Phase
12 III, you'll agree with me, Mercer's is to respond to
13 the rest of Mr. Viola's recommendations, correct?

14 MR. PETER YIEN: Yes.

15 DR. BYRON WILLIAMS: And if we could
16 turn to page 33 of this document for a moment.

17

18 (BRIEF PAUSE)

19

20 DR. BYRON WILLIAMS: And actually, to
21 page 34 at the top, you'll see a -- a reference to de-
22 linking discount rates as one (1) of Mr. Viola's
23 recommendations, sir?

24 MR. PETER YIEN: I do.

25 DR. BYRON WILLIAMS: And you'll

1 accept, subject to check, that that's being deferred
2 to the third phase of the analysis?

3 MR. PETER YIEN: Yes.

4 DR. BYRON WILLIAMS: And, similarly,
5 Section 8, or recommendation 8, the evolved risk
6 framework, I'll suggest, subject to check, has been
7 deferred to Phase III?

8 MR. PETER YIEN: Yes.

9 DR. BYRON WILLIAMS: And Phases IX and
10 X being Explicit -- Explicit Risk Management, and
11 minimum risk portfolio have also been deferred to
12 Phase III?

13 MR. PETER YIEN: Correct.

14 DR. BYRON WILLIAMS: Right?

15 MR. PETER YIEN: Yes.

16 DR. BYRON WILLIAMS: And Mr. Yien, I'm
17 not sure how familiar you are with these portfolios,
18 but would you be in a position to agree that those
19 four (4) elements that I just identified are elements
20 of the risk framework?

21 MR. PETER YIEN: Let me check.

22

23 (BRIEF PAUSE)

24

25 DR. BYRON WILLIAMS: And if it helps

1 MPI, and it's up -- up to you, but certainly exhibit
2 CAC-16, which is a PowerPoint of Mr. Viola's evidence,
3 puts his recommendations in a conceptual framework, if
4 that helps you. It -- it may or may not assist you in
5 answering the question.

6 MR. PETER YIEN: Thank you. On page
7 23, it clearly lists as within the framework. So,
8 yes.

9 DR. BYRON WILLIAMS: Page 23, Diana.
10 And Mr. Yien, you would not have been there, and --
11 and Mr. Johnston, you may not recall, but I'll suggest
12 to you that the advice of Mr. Viola was to start with
13 the framework, get the -- solve the problem, and then
14 get to the other issues, being portfolio metrics and
15 oversight.

16

17 (BRIEF PAUSE)

18

19 MR. LUKE JOHNSTON: I believe the
20 question was how Mr. Viola described the process, and
21 that is my -- that's our understanding of -- of how
22 the prop -- I don't know if it was a recommended
23 approach, or just how we described the approach, but
24 that's our understanding.

25 DR. BYRON WILLIAMS: And has MPI

1 consulted with Mercer's on whether it might be
2 analytically preferable to address the risk frame --
3 framework in Phase II rather than Phase III?

4 MR. PETER YIEN: I'll answer that.
5 We've kicked off the process, and as part of the
6 process, we will definitely address it. Mercer has
7 done this -- has done hundreds of these, if -- if not
8 more, for sure, and we will definitely be working
9 collaboratively to listen to their recommendations and
10 what to best achieve this.

11 DR. BYRON WILLIAMS: And based on your
12 own experience or your discussions with Mercer, it
13 would be fair to suggest that framework discussions
14 are fundamental and should involve the board of
15 Manitoba Public Insurance?

16 MR. PETER YIEN: I would absolutely
17 agree with that. In fact, when we describe the board,
18 I'm assuming you're referring to a subcommittee of the
19 board, being the Investment Committee, and absolutely
20 we have them involved.

21 DR. BYRON WILLIAMS: And based upon
22 your experience and/or your discussions with Mercer,
23 those framework discussions -- those fundamental
24 framework discussions would normally be expected to
25 require two (2) or three (3) meetings?

1 MR. PETER YIEN: I -- I'm not sure
2 exactly to the extent two (2) or three (3) meetings,
3 but I would say generally one (1) or two (2) for sure.
4 We've -- we -- as we speak, we are finalizing the
5 working schedule and so I've already seen a couple of
6 meetings already.

7 DR. BYRON WILLIAMS: Does Manitoba
8 Public Insurance expect all three (3) phases to be
9 completed by November 30th, 2017?

10 MR. PETER YIEN: As stated in the RFP,
11 our preference would be to get everything done. The
12 good news is we've gotten external feedback that
13 Mercer is indeed in a position to complete it within
14 that timeframe. So basically Phase I, II and III will
15 be completed by November 30th.

16 DR. BYRON WILLIAMS: So in essence,
17 from mid September to November 30th, a period of less
18 than three (3) months, sir?

19 MR. PETER YIEN: Yeah. That would be
20 correct.

21 DR. BYRON WILLIAMS: And is there
22 magic, sir, in the date of November 30th, 2017?

23 MR. PETER YIEN: Maybe you could
24 define "magic". I'm not sure what you mean.

25 DR. BYRON WILLIAMS: So does -- to the

1 extent that you're able to share, does Manitoba Public
2 Insurance have a particular reason why it's aiming for
3 November 30th, 2017, sir? Is it part of the planning
4 process? Is it -- where does it fit within the
5 planning process of MPI?

6 MR. PETER YIEN: Sure. That's a --
7 that's a great question. There's been lots of
8 discussion to date in this hearing talking about our
9 business strategy. Part of our business strategy does
10 involve, Where do we invest and how do we invest? And
11 that's -- that's a very -- the ALM study, the asset
12 liability matching study, is a critical input to that.
13 Another critical input would be the PUB order.

14 So the magic, if -- if I could define
15 it, is having all of that come together. So we have
16 enough information for the Board to exercise -- to do
17 governance under decisions. The decision on asset
18 liability matching also hinges on the PUB Order.

19 And I had said this earlier, of having
20 the right rate stabilization lower limit, rate
21 stabilization reserve upper limit, and when we have
22 all of that in front of us, including the charging the
23 right rates that I talked about earlier, applying the
24 actually accepted principles that you talked about
25 earlier, as well, then yeah, that's the magic.

1 We have to have all the ingredients at
2 the same time, call it information, in front of the
3 Board to make an informed and prudent decision to
4 drive the fiscally responsible actions that one needs
5 to take.

6 DR. BYRON WILLIAMS: So the asset
7 liability matching exercise as conducted by Mercer you
8 expect to be critical to the deliberative processes of
9 your board, sir, fair enough?

10 MR. PETER YIEN: Critical
11 deliberation, can you --

12 DR. BYRON WILLIAMS: Of the board's
13 decisions, your board?

14 MR. PETER YIEN: Absolutely, it is.

15 DR. BYRON WILLIAMS: And in the course
16 of this hearing, Manitoba Public Insurance has
17 indicated that they have a plan to significantly alter
18 the investment in corporate bonds.

19 Do you recall that, sir?

20 MR. PETER YIEN: Yes, I do.

21 DR. BYRON WILLIAMS: And given the
22 important deliberative value that you expect Mercer to
23 provide, has that plan on corporate bonds been put on
24 hold while you're waiting for Mercer's advice?

25 MR. PETER YIEN: Can you elaborate?

1 What do you mean by "put on hold"?

2

3

(BRIEF PAUSE)

4

5 DR. BYRON WILLIAMS: The evidence of
6 Manitoba Public Insurance in this proceeding, subject
7 to check, is that it's looking to move to an
8 investment portfolio. In terms of corporate bonds,
9 it's -- it's, what, 18 percent?

10 MR. PETER YIEN: That's exactly right.
11 So to answer your question --

12 DR. BYRON WILLIAMS: So that's --
13 sorry. I just -- you asked me -- so it's a
14 significant move?

15 MR. PETER YIEN: It is.

16 DR. BYRON WILLIAMS: And it was a
17 significant move made without the advice of -- or --
18 excuse me. It was a significant move that you are
19 undertaking now right in the midst of a major asset
20 liability matching study, agreed?

21 MR. PETER YIEN: The intended purchase
22 of 18 percent. Yes, it is a -- a significant move,

23 DR. BYRON WILLIAMS: And so my
24 question is: In terms of proceeding with that
25 intended move, is it being put on hold? Is there a

1 decision to wait until after you receive Mercer's
2 advice before you proceed?

3 MR. PETER YIEN: Okay. I'm going to
4 answer that question in two (2) parts, so it's "yes"
5 and "no."

6 Within our current investment policy
7 statement, it -- it might sound funny, but -- but it's
8 actually very strategic. Within our current
9 investment policy statement, we are allowed to buy
10 upwards of 10 percent of our portfolio and hold it in
11 corporate bonds. So we will do that and take it up to
12 8 percent.

13 We also understand that we need a
14 runway of approximately three (3) months to go from 8
15 percent to 18 percent. That's the piece that we're
16 putting on hold and we're waiting for the results of
17 the asset liability matching study and all the other
18 things that I talked about earlier for the board to
19 make an informed decision as to whether they spe --
20 should proceed to buy the remaining 10 percent after
21 December 15th. So the answer is yes and no.

22 DR. BYRON WILLIAMS: Thank you, and I
23 appreciate that. So just so I -- I understand your
24 answer, you've committed to moving to 8 percent as --
25 of corporate bonds as a percentage of your total

1 portfolio, correct?

2 MR. PETER YIEN: That is correct.

3 DR. BYRON WILLIAMS: In terms of the
4 second iter -- second step of -- of moving to 18, that
5 portion of your analysis will await the Mercer's
6 report?

7 MR. PETER YIEN: That's exactly right.

8

9 (BRIEF PAUSE)

10

11 DR. BYRON WILLIAMS: So when the Board
12 is looking at a rate indication for the test year, is
13 MPI suggesting it still should be looking at a -- the
14 results from a portfolio with 18 percent corporate
15 bonds?

16 MR. PETER YIEN: Can you repeat that?
17 I'm not sure I understand.

18 DR. BYRON WILLIAMS: I'll come back to
19 that question a little more elegantly in a few
20 minutes.

21 MR. PETER YIEN: Okay. Thank you.

22 DR. BYRON WILLIAMS: Diana, I wonder
23 if you can turn to the application of Manitoba Public
24 Insurance, page 1241 under investments. I think it's
25 about page 13 of the investments report.

1 (BRIEF PAUSE)

2

3 MR. BYRON WILLIAMS: That's perfect
4 there. I'll suggest to you that what we see here
5 under investment section 2.1, lines 1 to 12, is
6 Manitoba Public Insurance indicating to the Public
7 Utilities Board that it -- it could not meet a filing
8 date for -- to file its asset liability matching study
9 for the purposes of the -- the 2018/'19 General Rate
10 Application. Would that be fair?

11 MR. PETER YIEN: Yeah. That -- that's
12 the way I read it.

13 MR. BYRON WILLIAMS: And going down to
14 line 7, MPI is advising the Public Utilities Board
15 that the RFP process will take between four (4) to six
16 (6) weeks; agreed?

17 MR. PETER YIEN: Agreed.

18 MR. BYRON WILLIAMS: And line 9 and
19 10, it's telling the Public Utilities Board that based
20 on the Corporation's experience with past studies an
21 ALM or asset liability study could not be completed in
22 less than six (6) months; agreed?

23 MR. PETER YIEN: Agreed.

24 MR. BYRON WILLIAMS: And going down to
25 line 13 through 15 there's a suggestion by the

1 Corporation that a revised asset liability study could
2 not be usefully and purposely completed in the absence
3 of RSR capital targets; agreed?

4 MR. PETER YIEN: Agreed.

5 MR. BYRON WILLIAMS: Sir, in terms of
6 the actual process of engaging Mercer and the -- and
7 the current plan, it's fair to say that the RFP
8 proposal did not take four (4) to six (6) weeks?

9 MR. PETER YIEN: That's correct.

10 MR. BYRON WILLIAMS: And it's fair to
11 say that instead of taking six (6) months, you're
12 looking at start to finish a process that is two and
13 a half (2 1/2) months?

14 MR. PETER YIEN: Roughly, yes.

15 MR. BYRON WILLIAMS: And Mercer is
16 proceeding in the absence of PUB direction in this
17 General Rate Application in terms of the RSR capital
18 targets; agreed?

19 MR. PETER YIEN: Yes.

20 MR. BYRON WILLIAMS: In essence, the
21 Corporation's move from suggesting a six (6) month
22 structure to a two and a half (2 1/2) month race
23 against times, sir?

24 MR. PETER YIEN: It is a two and a
25 half (2 1/2) months of the same activity performed

1 normally over a six (6) month period. That would be
2 true.

3 MR. BYRON WILLIAMS: Sir, in
4 circumstances when the Corporation jumps into action
5 like this, is there a risk of moving too fast?

6 MR. PETER YIEN: That's an excellent
7 question. I would say absolutely. And understanding
8 that the Corporation has instituted a number of things
9 that we have never done before. One (1), we are
10 project managing this as a project, and we need to
11 constantly understand what are the deliverables that
12 need to be made to Mercer. It has to be completed on
13 time.

14 Secondly, we are taking to understand
15 all the critical steps. What I mean by that is the
16 steps that we cannot miss, the deadlines that we
17 cannot miss, and if we do it would directly impact the
18 November 30th deadline. So we are watching that very
19 carefully.

20 Third, we're supplementing our own
21 current resources to make sure that we can consolidate
22 the data, provide the right leave -- the right detail
23 of cash flows, for example, to Mercer as to not to
24 hold them up.

25 And then, finally, we have an executive

1 committee in place, a steering committee to watch over
2 the status of the project. So yes, there are
3 absolutely real risk to this, but we are watching it
4 very carefully.

5 Finally, we did consult not only Mercer
6 but other firms that we know in the past that have
7 done this, and we realize that it can be done. I will
8 say one (1) more. This cannot be done without more
9 effort and, in fact, it can be seen through our
10 response from Mercer that they also put in more
11 resources to ensure that this can be done in a timely
12 fashion.

13 There certainly would be an additional
14 risk when things are done in a real hurry, and that is
15 staff members can fall sick. By having a firm like
16 Mercer that have the global resources that they can
17 bring to the table, in addition, highly qualified
18 resources help us to reduce this risk to an acceptable
19 minimum. Therefore, we're able to proceed with
20 accepting the November 30th deadline as a real
21 possibility.

22 MR. BYRON WILLIAMS: Thank you for
23 that. Now, you spoke of supplementing current
24 resources. Were you referring to the Corporation's
25 resources?

1 MR. PETER YIEN: Absolutely. We had
2 to re-allocate and put a little bit more focus on our
3 resources.

4 MR. BYRON WILLIAMS: Sir, I want to go
5 back to -- we don't -- oh, it's actually on the page
6 here, anyways. But Manitoba Public Insurance's
7 initial position that an asset liability study
8 required set capital targets; that was your initial
9 position, right, sir?

10 MR. PETER YIEN: Yes. That was.

11 MR. BYRON WILLIAMS: And I take it
12 that in your discussions with professionals in the
13 field, such as Mercers (sic) and others, they've
14 advised you that the study did not need to be delayed
15 in term -- in terms of the absence of RSR capital
16 targets. That was their advice to you?

17 MR. PETER YIEN: Can you repeat that?

18 MR. BYRON WILLIAMS: Sir, when you
19 went to firms in the field, I'm going to suggest to
20 you that they said that they didn't require those
21 fixed targets, that they could do runs of high -- high
22 risk tolerance and low risk tolerance and in the
23 middle tolerance, and that they could do a robust
24 study in the absence of express RSR capital targets.
25 Is that fair?

1 MR. PETER YIEN: No. Absolutely it
2 would be the contrary. Knowing the limits is a
3 critical input to -- to conducting the asset liability
4 matching study.

5 MR. BYRON WILLIAMS: But you don't
6 know the limits, sir?

7 MR. PETER YIEN: It isn't that we
8 don't know the limits. When this -- this response was
9 created, it was written under the perfect scenario
10 where we would have received the upper and lower rate
11 stabilization reserve targets. And, yes, in a perfect
12 world that's how we would have done it.

13 Having said that, the board has
14 deliberated and understand that we do need to run this
15 corporation safely and soundly. And comparing
16 ourselves to a comparative group, if you will, the
17 board has decided that we are applying for the rate
18 stabilization reserve as indicated in the rate app,
19 which is \$201 million in the lower limit, and \$438
20 million on the upper limit.

21 By doing that the board is now
22 understanding that they do have an upper and lower
23 target and, therefore, we can proceed with the asset
24 liability management study.

25 MR. BYRON WILLIAMS: So just so I

1 understand, sir, that key -- you've -- you've set the
2 RSR capital target as a key constraint for the asset
3 liability matching study?

4 MR. PETER YIEN: It is one (1) of the
5 constraints, but certainly would be one (1) of the key
6 constraints. Yes.

7 MR. BYRON WILLIAMS: And is it fair to
8 say that you're not looking at an analysis that
9 contemplates different scenarios in terms of risk
10 tolerance than reflected in that target?

11 MR. PETER YIEN: Can you define "risk
12 tolerance"?

13

14 (BRIEF PAUSE)

15

16 MR. BYRON WILLIAMS: Let's equate for
17 a moment, sir, a higher and wider RSR -- a higher
18 maximum and a wider range as having low risk
19 tolerance, and the -- a lower maximum range as having
20 higher risk tolerance.

21 Am I correct in suggesting to you that
22 Manitoba Public Insurance is not running multiple
23 scenarios? It will be constrained by the risk
24 tolerance, as expressed in your RSR target range.

25 MR. PETER YIEN: The RSR target range

1 that we are asking for in the upper is below or equal
2 to a maximum of the other insurance companies.

3 MR. BYRON WILLIAMS: I'm not asking
4 for your position on that. I'm just asking: Is that
5 the constraint then?

6 MR. PETER YIEN: It -- it is a
7 constraint.

8 MR. BYRON WILLIAMS: You're not
9 looking at other scenarios of risk tolerance then?

10 MR. PETER YIEN: There are other
11 scenarios, but relative to rate stabilization reserve
12 limits, that is the -- that is what the Board has
13 decided on.

14 MR. BYRON WILLIAMS: Okay. Thank you
15 for that. This may be more appropriate for Mr.
16 Johnston.

17 In terms of corporate bonds, Mr.
18 Johnston, you'll recall that in 2014 Aon is in its
19 previous asset liability matching study phase 2,
20 provided their opinion on corporate bonds; agreed?

21 MR. LUKE JOHNSTON: Agreed.

22 MR. BYRON WILLIAMS: And we've gone
23 through it already, so I don't think we need to turn
24 there. But the Board -- the Manitoba Public Utilities
25 Board also asked Manitoba Public Insurance to look at

1 this issue in Order 128.15, and the page number is
2 page 75, subject to check, I'll suggest to you.

3 MR. LUKE JOHNSTON: That's my
4 recollection. I'll have my back row check that but --

5 MR. BYRON WILLIAMS: Yeah, just to be
6 --

7 MR. LUKE JOHNSTON: -- I'll -- I'll
8 accept that.

9 MR. BYRON WILLIAMS: -- precise with
10 the language because I was a little cavalier with it.
11 The Board sought an update on the status of the use of
12 corporate bonds in the bond portfolio, including
13 insight into their performance.

14 You'll accept that subject to check,
15 sir?

16 MR. LUKE JOHNSTON: I will.

17 MR. BYRON WILLIAMS: There's no
18 undertaking. It's -- he's just accepting it subject
19 to check.

20 MR. LUKE JOHNSTON: Yes. Yeah.

21 MR. BYRON WILLIAMS: And if we could
22 perhaps go to investments, page 16. That's page 1240
23 -- yeah, page 16, Diana, around line 12. In terms of
24 that range or proposed target of 18 percent for
25 Manitoba Public Insurance, it's for corporate bonds.

1 It's suggesting that it aligns well in
2 terms of comparison to the portfolios of Saskatchewan
3 Government Insurance and the Insurance Corporation of
4 British Columbia; agreed?

5 MR. LUKE JOHNSTON: Agreed. Yes.

6 MR. BYRON WILLIAMS: So for the
7 purposes of -- of that analysis, the Corporation looks
8 to Saskatchewan Government Insurance and The Insurance
9 Corporation of British Columbia, as good comparators.

10 Would that be fair?

11 MR. LUKE JOHNSTON: That would be
12 fair.

13 MR. BYRON WILLIAMS: I wonder if we
14 could turn to CAC Exhibit 16, which is an excerpt of
15 the PowerPoint testimony to -- in supplement to Mr.
16 Viola's evidence before the Public Utilities Board in
17 -- twenty (20) -- for the purposes of the 2017/'18
18 GRA.

19 And, Mr. Johnston, you recall that
20 testimony?

21 MR. LUKE JOHNSTON: I'll need your
22 help to recall all of it --

23 MR. BYRON WILLIAMS: Okay.

24 MR. LUKE JOHNSTON: -- but I'm sure
25 you'll do that.

1 MR. BYRON WILLIAMS: Per -- sometimes
2 I think you have more confidence in me than I do, sir,
3 but I appreciate it.

4 If we go to slide 38, in the top right-
5 hand corner, you'll see Mr. Viola's comparison of the
6 public equity mix between Saskatchewan Government
7 Insurance and in Manitoba Public Insurance.

8 Do you see that, sir?

9 MR. LUKE JOHNSTON: Yes, I do.

10 MR. BYRON WILLIAMS: And his concl --
11 observations were at the time of his analysis,
12 Manitoba Public Insurance was concentrated in Canadian
13 equity at 67 percent, sir?

14 MR. LUKE JOHNSTON: That's true.

15 MR. BYRON WILLIAMS: And US equity at
16 33 percent?

17 MR. LUKE JOHNSTON: Yes.

18 MR. BYRON WILLIAMS: And with zero
19 allocation to international equity?

20 MR. LUKE JOHNSTON: Correct.

21 MR. BYRON WILLIAMS: And he contrasted
22 that with Saskatchewan Government Insurance being at
23 47 percent or bit less than half in Canadian equity?

24 MR. LUKE JOHNSTON: Yes.

25 MR. BYRON WILLIAMS: US equity being

1 at 31 percent, sir?

2 MR. LUKE JOHNSTON: Yes.

3 MR. BYRON WILLIAMS: And international
4 equity, being 23 percent?

5 MR. LUKE JOHNSTON: That's right.

6 MR. BYRON WILLIAMS: And just to thank
7 you for that. And just to whether or not one agrees
8 with the direction of Mr. Viola's advice, MPI did not
9 at the time or today take issue with the general
10 presentation of that information since it's reflective
11 of the of the numbers?

12 MR. LUKE JOHNSTON: We have no issue
13 with the numbers presented.

14 MR. BYRON WILLIAMS: And, sir, if you
15 could turn to, again, slide 39 of Mr. Viola's
16 evidence. And what you see there, sir, is his
17 presentation of a comparison of the equity mix between
18 MPI and International World Index and Teachers.

19 You see that, sir?

20 MR. LUKE JOHNSTON: Yes.

21 MR. BYRON WILLIAMS: And on the left-
22 hand side you see the bright red and white Canadian
23 flag of MPI at 67 percent and US at 33 percent?

24 MR. LUKE JOHNSTON: Yes, I do.

25 MR. BYRON WILLIAMS: And if you go to

1 the extreme other side of the column you see that
2 Teachers, at that time of the analysis, was 5 percent
3 in Canada and 95 percent outside?

4 MR. LUKE JOHNSTON: I -- I do.

5 MR. BYRON WILLIAMS: And, sir, as well
6 you see the international fund concentrated in the
7 United States, but also with -- at 59 percent, but
8 also with a significant non-Canadian of 37 percent?

9 MR. LUKE JOHNSTON: Correct.

10 MR. BYRON WILLIAMS: And only 4
11 percent in Canada?

12 MR. LUKE JOHNSTON: Yes.

13 MR. BYRON WILLIAMS: And again, MPI in
14 terms of the accuracy does not take issue with that,
15 sir?

16 MR. LUKE JOHNSTON: I don't take any
17 issue with this. Yeah.

18 MR. BYRON WILLIAMS: And, sir, if we
19 could just go back to slide 3. Diana, if we go back
20 to slide three of CAC Exhibit 60 in the PowerPoint
21 supporting the evidence of Mr. Viola.

22 Mr. Johnston, you'll be relieved to
23 know that I'm not going to drag you through this, but
24 on one (1) slide this is Mr. -- you'll agree this is a
25 summary of some of the significant -- or, sorry, some

1 of the concerns expressed by Mr. Viola, using whether
2 effectively or not, a hockey analogy?

3 MR. LUKE JOHNSTON: Yes.

4 MR. BYRON WILLIAMS: Just to finish up
5 this section, sir -- well, I have about -- Mr. Chair,
6 I have about five (5) to eight (8) minutes on this
7 particular section, so I take it --

8 THE CHAIRPERSON: That's fine.

9

10 CONTINUED BY MR. BYRON WILLIAMS:

11 MR. BYRON WILLIAMS: A small point --
12 well, I guess 1.7 million is not a small point. But
13 MPI incurred a capital loss on its infrastructure
14 investments of 1.7 million in 2016/'17, subject to
15 check, with the source being PUB-1-44?

16 MR. LUKE JOHNSTON: Subject to check,
17 yes.

18 MR. BYRON WILLIAMS: And, Mr.
19 Johnston, you may want to -- maybe we'll pull up that
20 answer just to (a) just to help you out.

21 MR. LUKE JOHNSTON: I've -- my back
22 row confirms that number is correct.

23 MR. BYRON WILLIAMS: And in that
24 particular year there was some foreign-currency losses
25 that adversely affected MPI; agree -- agreed?

1 MR. LUKE JOHNSTON: Agreed.

2 MR. BYRON WILLIAMS: And, Mr.

3 Johnston, I have a source for this as well, but I --
4 which is PUB-1-39. It's infrastructure fund slide 22.

5 But I'm -- I'm going to suggest to you
6 that MPI doesn't hedge its currency exposure on
7 infrastructure investments. Would that be fair?

8 MR. LUKE JOHNSTON: That's correct.

9 MR. BYRON WILLIAMS: And -- and I'll
10 suggest to you for good reason, in that the ongoing of
11 hedging can be a drag on returns; agreed?

12 MR. LUKE JOHNSTON: That's possible.
13 We're talking about one (1) year where currency
14 changes didn't go our way, but that's not necessarily
15 what's been happening every year, so. But to your
16 comment there's a cost to -- to doing the hedging,
17 yes.

18 MR. BYRON WILLIAMS: And one (1) of
19 the reasons MPI chose not to hedge was because it's
20 exposed to multiple currencies, five (5) which provide
21 some offset to this risk; agreed?

22 MR. LUKE JOHNSTON: That's true.

23 MR. BYRON WILLIAMS: And, in essence,
24 they're looking at the randomness and relying upon the
25 randomness of correlations between these currencies,

1 providing the anticipated benefit of the portfolio
2 fact and diversifying risk?

3 MR. LUKE JOHNSTON: In -- in a general
4 sense, yes. The different correlations in multiple
5 currencies would in theory provide diversification
6 benefits, yes.

7 MR. BYRON WILLIAMS: Can we turn to
8 CAC Exhibit 19, which is an -- an investment income
9 comparison. And is it Mr. Johnston or Mr. Yien who is
10 going to help me through this?

11 MR. LUKE JOHNSTON: I'll start.

12 MR. BYRON WILLIAMS: Mr. Johnston,
13 let's start by noting that it's not that -- always
14 that easy to get comparables -- comparables for
15 investment income between MPI, SGI Auto Fund, and --
16 and ICBC.

17 And I'll suggest to you for a couple of
18 reasons. Sometimes the fiscal years don't always
19 align. And secondly, sometimes they're reported on a
20 -- on the monopoly side of the business and sometimes
21 on the corporate side of the business.

22 Would that be fair?

23 MR. LUKE JOHNSTON: That -- or that's
24 some of the reasons, yeah.

25 MR. BYRON WILLIAMS: Are there others,

1 sir?

2 MR. LUKE JOHNSTON: Your -- your dir -
3 - your issues are in regard to collecting the data?
4 Is that correct?

5 MR. BYRON WILLIAMS: Yeah.

6 MR. LUKE JOHNSTON: Assuming we have
7 perfect access -- access to the -- their investment
8 portfolios, and -- and how they're managed. That
9 could be another issue, that we might not exactly be
10 able to do true apples to apples.

11 MR. BYRON WILLIAMS: So I understand
12 your point there being, sir, different corporations
13 have different risk tolerances. They have different
14 levels of -- of investments.

15 And -- and your point is that it's not
16 necessary an apples to apples comparison unless you
17 can dig deeper into the information?

18 MR. LUKE JOHNSTON: That's true.
19 Yeah. And just a real quick example, SGI and MPI have
20 long-term claim liabilities because of their no-fault
21 systems. ICBC has a tort system. There isn't really
22 as -- a need -- as much of a need there to have a
23 long-term fixed income portfolio to match to -- to
24 claims. So they would have, probably, a very
25 different looking fixed income portfolio.

1 MR. BYRON WILLIAMS: Okay. And, sir,
2 just to -- I don't want to spend long on this exhibit,
3 but as we look at it, it is important to note that
4 while we've presented the Basic insurance results for
5 MPI and the SGI Auto Fund, for ICBC it's a corporate
6 result. Would that be fair, sir?

7 MR. LUKE JOHNSTON: That's my
8 understanding of the information, yes.

9 MR. BYRON WILLIAMS: And you're not
10 assuming any ill motive on my -- on my part, you're
11 just assuming that that's the best we could get, sir?

12 MR. LUKE JOHNSTON: Yeah. The -- and
13 -- and since we're talking about motive I guess the
14 only thing missing from this exhibit from -- for me is
15 the denominator, really, because I don't -- these are
16 dollar amounts and investment returns on -- on what?
17 Like, on what total? But otherwise, I don't dispute
18 what you've presented.

19 MR. BYRON WILLIAMS: Okay. And so you
20 don't take issue with the numbers presented, sir?

21 MR. LUKE JOHNSTON: We do not.

22 MR. BYRON WILLIAMS: And just the --
23 the last point about this table, just in fairness to
24 anyone looking at it, we should note that for '15/'16,
25 the S -- the Auto Fund results from Saskatchewan for

1 fifteen (15) months; agreed?

2

3

(BRIEF PAUSE)

4

5

MR. LUKE JOHNSTON: I -- yes, and that
6 -- that's our understanding. One (1) second, please.

7

8

(BRIEF PAUSE)

9

10

MR. LUKE JOHNSTON: We'll accept that.
11 And, of course, if we do have any concerns later
12 identified we'll -- we'll bring them up to you either
13 off the record or on the record.

14

MR. BYRON WILLIAMS: Okay. Thank you
15 for that and for your courtesy in helping me through
16 that. I just want to back to corporate bonds for a
17 moment.

18

19

(BRIEF PAUSE)

20

21

MR. BYRON WILLIAMS: And I'm just
22 trying to understand the position of MPI. If the
23 Public Utilities Board exercises independent
24 professional judgment and selects a different range
25 for the RSR than recommended by MPI, and does not

1 accept the recommendations of MPI with regard to the
2 treatment of cash flow related to the RSR investments,
3 is MPI taking the position that the decision to extend
4 the purchase of corporate bonds from 8 percent to 18
5 percent will be cancelled?

6 MR. PETER YIEN: That is exactly
7 right.

8 MR. BYRON WILLIAMS: Thank you. Mr.
9 Chair, I was -- oh, actually I have one (1) more --
10 actually, this is a good time to step down if that's
11 okay with the Board.

12 THE CHAIRPERSON: Thank you. We'll --
13 we'll take fifteen (15) minutes. Thank you.

14

15 --- Upon recessing at 2:35 p.m.

16 --- Upon resuming at 1:57 p.m.

17

18 THE CHAIRPERSON: Thank you, Mr.
19 Williams, please continue.

20

21 CONTINUED BY DR. BYRON WILLIAMS:

22 DR. BYRON WILLIAMS: Mr. Yien, you're
23 relatively new to Manitoba Public Insurance, would
24 that be fair?

25 MR. PETER YIEN: Very fair.

1 DR. BYRON WILLIAMS: And when you came
2 to M -- Manitoba Public Insurance, did you have the
3 time or the opportunity to review the report of the
4 Autopac Review Commission from 1988, the Kopstein
5 report?

6 MR. PETER YIEN: No, I did not.

7 DR. BYRON WILLIAMS: Just then to Mr.
8 Johnston, just for -- Mr. Johnston, we don't need to
9 go -- we're not going to read the Kopstein report
10 today, you'll be relieved, but you understand that
11 some of the thinking with regard to a reserve
12 surmountable public insurance, including concepts such
13 as the rate stabilization reserve traced their lineage
14 back to the Kopstein report.

15 Would that be fair, sir?

16 MR. LUKE JOHNSTON: That's fair, yes.

17 DR. BYRON WILLIAMS: And to the MPI
18 panel, are you familiar with the term "rate shock" as
19 it is used in the rate regulation context? And I'll
20 note that MPI uses the word "rate shock" in this
21 application at least twice.

22 You're aware of that?

23 MR. PETER YIEN: I am.

24 DR. BYRON WILLIAMS: Okay. And so,
25 maybe let's -- let's do that then. For the purposes

1 of this application, how does Manitoba Public
2 Insurance define "rate shock"?

3 MR. PETER YIEN: Okay. And I'm going
4 to speak on this on behalf of the board and the
5 executive committee.

6 We do quarterly surveys as what Keith
7 has mentioned yesterday, and we understand that
8 affordability is really important to Manitobans. And
9 that's exactly what our mandate is, is to provide
10 affordable insurance to Manitobans.

11 We understand that anything greater
12 than 3 percent is considered a rate shock and we use
13 that as a definition. And I would like to go back to
14 the question about the bonds is -- as hard as it is as
15 a decision -- as -- as much as it looks like a
16 condition of us buying the bonds to have all those
17 conditions met, it was a stretch.

18 But we realized we had to go below 3
19 and that was one (1) of the reasons -- that was not
20 the only reason because, as I said earlier, the asset
21 liability matching is important, and that's why we
22 have to wait for the results of that.

23 But 3 percent is, essentially, what we
24 consider as rate shock.

25 DR. BYRON WILLIAMS: And that concept,

1 and that definition of rate shock, animates this
2 application?

3 MR. PETER YIEN: Sorry, do -- what do
4 you mean by "animates"?

5 DR. BYRON WILLIAMS: Your evidence,
6 sir, was that the focus of the Corporation was driven
7 to a significant degree by the conclusion that rate
8 increases -- general rate increases in excess of 3
9 percent constitute rate shock.

10 Would that be fair?

11 MR. PETER YIEN: That would be fair
12 because we are -- the mandate that has been given to
13 us, we need to fulfil our mandate, yes. So if that's
14 what it means, our mandates is the beginning, if you
15 will, of how we prioritize.

16 DR. BYRON WILLIAMS: And does that
17 definition of "rate shock," is it captured in a
18 corporate policy paper or expression? Is -- is there
19 a document within the Corporation that captures the --
20 the rate shock concept, capping it at 3 percent, sir?

21 MR. PETER YIEN: A document -- are you
22 talking about encapsulating the policy?

23 DR. BYRON WILLIAMS: Well, if -- at
24 the risk of offering evidence and My friend, just for
25 clarification, certain -- yeah. Is there a policy

1 that -- that says that you define rate shock as 3
2 percent or -- or is there a document like that?

3 MR. PETER YIEN: I -- I have not seen
4 any document, no.

5 DR. BYRON WILLIAMS: And is that rate
6 shock calculation of 3 percent, is that affected in
7 any way by the relationship with inflation?

8 MR. PETER YIEN: Absolutely. The 3
9 percent is certainly defining context of current
10 inflation.

11 DR. BYRON WILLIAMS: And so am I to
12 assume then, sir, that if there's a range of more than
13 2 percent above inflation, Manitoba Public Insurance
14 would consider that rate shock?

15 MR. PETER YIEN: Anything greater than
16 3 percent, currently, as we see it, yes, it is rate
17 shock.

18 DR. BYRON WILLIAMS: Okay and just so
19 -- I see -- I see that. What I'm trying to get at,
20 sir, is let's say inflation was 1 percent.

21 What's rate shock?

22 MR. PETER YIEN: In -- it will be
23 roughly 1 percent and slightly above.

24 DR. BYRON WILLIAMS: Okay, and if
25 inflation was 2 percent, rate shock would be 2

1 percent?

2 MR. PETER YIEN: Okay, let me clarify
3 this. I don't want to give an impression that rate
4 shock is defined by inflation.

5 DR. BYRON WILLIAMS: Okay, that's --

6 MR. PETER YIEN: What we do know is an
7 average Manitoban if they see a rate increase greater
8 than 3 percent, that's translated into a rate shock.

9 DR. BYRON WILLIAMS: Okay.

10 MR. PETER YIEN: Because they can't
11 afford it.

12 DR. BYRON WILLIAMS: Mr. Yien, could I
13 persuade you to talk to our friends at Manitoba Hydro
14 and share that definition with them? I'm just teasing
15 you, sir.

16 MR. PETER YIEN: I was going to say, I
17 have no jurisdiction or...

18 DR. BYRON WILLIAMS: They don't listen
19 to me either so. Can we agree that in terms of the
20 rate stabilization reserve an important purpose of it
21 is to mitigate against rate shock?

22 MR. PETER YIEN: We can mitigate rate
23 shock for the elements that are uncontrollable, yes.

24 MR. LUKE JOHNSTON: Maybe I'll just
25 add -- add to that. The rates that -- the

1 Corporation's intent is to file accepted actuarial
2 practice rates with 0 percent profit. So, I would not
3 anticipate the RSR to bridge any sort of gap. If we
4 had an AAP indication above 3 percent, if that's the
5 question being asked.

6 So, as you saw on this application, my
7 job as the chief actuary is to calculate best estimate
8 rates. If those come above -- the result's over 3
9 percent, that is what it is, and the board has --
10 obviously, can do management actions to attempt to
11 mitigate that, as long as they're credible.

12 But in -- in a case where the
13 indication was 4 percent, we wouldn't say, well, don't
14 worry about the RSR, we'll cover anything over -- over
15 3 percent. That wouldn't be our intention.

16 DR. BYRON WILLIAMS: And -- and that's
17 helpful between the two (2) of you.

18 And what I take from that first point
19 is that the Corporation's intent is not to draw down
20 the RSR to cover legitimate inflationary projections;
21 agreed?

22 MR. PETER YIEN: Agreed.

23 DR. BYRON WILLIAMS: But it does
24 conceive of the RSR as being there in the event that
25 there are extreme unpredictable events?

1 MR. PETER YIEN: That's correct.

2 DR. BYRON WILLIAMS: And the purpose
3 of the rate stabilization reserve is not to ensure
4 that future rates are unchanged. So it's -- it's not
5 about making sure that future rates don't change.

6 MR. LUKE JOHNSTON: It's not. The --
7 the rate indication is driven by the experience that
8 we have and there are times where, for example,
9 physical damage growth is more than inflation. It has
10 to be reflected in the rate.

11 DR. BYRON WILLIAMS: Can I direct --
12 ask Diana just to pull up an Information Request, CAC-
13 MPI-1-87. And I think Diana knows the words I'm
14 looking for. And I just want to clarify what I
15 suspect is a misunderstanding.

16 Directing your attention to the last
17 two (2) lines, you see a suggestion here:

18 "to better serve the purpose of the
19 RSR, i.e., prevention of rate
20 increase or RSR rebuilding fees."

21 Is it fair to say that the RSR does not
22 exist to prevent rate increases?

23

24 (BRIEF PAUSE)

25

1 MR. LUKE JOHNSTON: Sorry for the
2 delay. So the -- the purpose of the ranges is,
3 really, as an operating range where you could have
4 variability and wouldn't have to issue RSR rebuilding
5 fees or -- or rebates.

6 So RSR rebuilding fee is -- is -- is
7 like a rate increase, in its -- in its application,
8 but it's not a -- a rate change in the sense of AAP
9 rates.

10 DR. BYRON WILLIAMS: I understand and
11 I thank you for that answer. Just so I understand,
12 though, is Manitoba Public Insurance testifying that
13 the purpose of the RSR is the prevention of rate
14 increase or RSR rebuilding fees?

15 MR. LUKE JOHNSTON: Based on how we
16 calculate rates, I would not anticipate that we would
17 use the RSR to negate a rate -- rate increase and
18 drawdown the RSR in that way. We wouldn't call it
19 that.

20 If we wanted to do that, like, say
21 we're at the top of the RSR range, I would -- at this
22 hearing I would expect we would call it a rebate or a
23 rebate fee or something like that, but not -- not
24 knowingly charge a rate -- a rate less than we need
25 for breakeven.

1 DR. BYRON WILLIAMS: Mr. Johnston,
2 you and I have had too many conversations over the
3 years about the MCT.

4 You'll agree with me on that?

5 MR. LUKE JOHNSTON: I'm hoping this is
6 one (1) of the last one's, but, I'm guessing it's --
7 it's not too many. I would agree.

8 DR. BYRON WILLIAMS: And I apologize
9 for using the acronym. By "MCT," you understand me to
10 mean the minimum capital test.

11 MR. LUKE JOHNSTON: Agreed.

12 DR. BYRON WILLIAMS: And I'm hoping to
13 keep this simple and short, Mr. -- Mr. Johnston, you
14 may recall a conversation that we had last year in
15 terms of the Ontario Superintendent and -- and her or
16 his guidelines in terms of minimum capital test.

17 Do you recall that at all, sir? And if
18 not that's -- that's fine. I'll try and refer --

19 MR. LUKE JOHNSTON: Yeah, not -- not
20 the details about I think you're questioning will
21 probably help me out.

22 DR. BYRON WILLIAMS: Mr. Johnston,
23 would it be fair to say that in Ontario farm mutual
24 insurers are exempt from complying with the MCT
25 because they -- because their membership in -- in the

1 -- the mutual guarantee fund provides support for
2 their capital.

3 Is that your recollection and if you
4 can't answer it, that's fine?

5 MR. LUKE JOHNSTON: I do have some
6 recollection of that discussion. The exact wording
7 I'll let my back row confirmed for now, but I'll
8 accept the -- so you can proceed.

9 DR. BYRON WILLIAMS: And that was the
10 simple point, Mr. -- Mr. Johnston. So, if you'll
11 accept that subject to check.

12 MR. LUKE JOHNSTON: That does -- that
13 is my recollection of that discussion. So, if I have
14 anything to note on that at a later time, I will, but
15 I'll accept that.

16 DR. BYRON WILLIAMS: I want to turn to
17 PIPP, the per -- PIPP being the Personal Injury
18 Protection Plan. And I hope there's not a fine jar
19 for acronyms.

20 And Mr. Johnston, I suspect that's you,
21 would that be fair?

22 MR. LUKE JOHNSTON: Should be me, yes.

23 DR. BYRON WILLIAMS: And, first of all,
24 I just want to start with a few threshold definitions.
25 And, it would be correct to suggest to you that total

1 net claims incurred in a given fiscal year is the sum
2 of reported claims incurred -- incurred in the fiscal
3 year. By that I mean, paid and changing case reserve,
4 as well as the change in the actuarial provisions, the
5 incurred but not reported, as well as the change in
6 claims incurred financial provisions.

7 Would that be fair, sir?

8 MR. LUKE JOHNSTON: That's fair, and
9 if -- if just for ease of understanding, net claims
10 incurred we're talking about the newly reported claims
11 in the year, and then if the actuary has to make some
12 changes to the estimates that would flow through and
13 that would also include the interest rate impacts that
14 -- that change in the year and impact the liabilities.

15 DR. BYRON WILLAMS: Sir, I just want
16 to get to the distinction between "policy year" and --
17 and "fiscal year," definitionally. On a policy-year
18 basis, claims incurred represents the total of paid
19 losses, case reserves and incurred but not reported,
20 for all claims that occur in a given policy year or
21 accident year; agreed?

22 MR. LUKE JOHNSTON: Yes.

23 DR. BYRON WILLAMS: And, that's what
24 you're now using for rate-setting purposes.

25 MR. LUKE JOHNSTON: That is what we're

1 using now, yes.

2 DR. BYRON WILLAMS: And contrast on a
3 fiscal year's basis, claims incurred represents the
4 total of reported claims incurred in the given year,
5 plus the change in the incurred, but not reported in
6 the fiscal year.

7 MR. LUKE JOHNSTON: That's correct.
8 And the problematic piece, particularly when interest
9 rates change, is that second component because it
10 impacts all past claim liabilities.

11 DR. BYRON WILLAMS: And so curren --
12 moving today and moving ahead, we use the fiscal year
13 analysis for financial reporting; agreed, not rate
14 setting.

15 MR. LUKE JOHNSTON: That's right, we
16 still produce separate fiscal year pro forma
17 statements for -- for net income reporting purposes.

18 DR. BYRON WILLAMS: And I'm going to
19 do my very best to not say the words,
20 Bornhuetter-Ferguson very -- very often today, Mr.
21 Palmer, you'll correct me with my mispronunciation
22 when I do so.

23 MR. LUKE JOHNSTON: And -- and -- and
24 my name as well.

25 DR. BYRON WILLAMS: Oh, Mr. Johnston,

1 I'm wishing you were Mr. Palmer.

2 MR. LUKE JOHNSTON: Just a blanket
3 correction statement, yes.

4 DR. BYRON WILLAMS: So, staying away
5 from lost triangles and Bornhuetter-Ferguson
6 methodologies for a second, can we agree or will you -
7 - would you agree that the loss-development technique
8 assumes that historical development patterns in policy
9 year paid and incurred losses can be used to predict
10 the development of paid and incurred losses in future
11 periods; is that fair?

12 MR. LUKE JOHNSTON: That's the
13 underlying assumption of that method, yes.

14 DR. BYRON WILLAMS: And for each
15 coverage grouping, development assumptions are
16 selected, starting from the accident year in which the
17 claim occ -- occurs and extending until all claims
18 from that accident year are assumed to be closed;
19 agreed?

20 MR. LUKE JOHNSTON: Agreed.

21 DR. BYRON WILLAMS: And that's the
22 ultimate.

23 MR. LUKE JOHNSTON: That's the
24 ultimate, yes.

25 DR. BYRON WILLAMS: And it's taken

1 me twenty-five (25) years to pretend to understand
2 this, sir, but it would be fair to suggest that MPI
3 starts by forecasting the policy year ultimate
4 incurred losses and then uses the development
5 assumptions to project backwards the paid and incurred
6 losses from ultimate to twelve (12) months; would that
7 be fair?

8 MR. LUKE JOHNSTON: Okay. So, in the
9 in the actuary report, which -- of -- of policy
10 liabilities, we use various methods to project the
11 ultimate losses of past policy years. So, the loss
12 development method, the Bornhuetter-Ferguson method,
13 et cetera, loss ratio, and that would -- that'll give
14 us a estimate of the ultimate liabilities of all the
15 prior loss years. We then use that history as the
16 basis for projecting the future.

17 So, let's say, income replacement
18 claims historically have an ultimate of around 60
19 million, 70 million, and we thought they we're going
20 to grow at inflation so they would grow from 70 to 80
21 million over time. We would make the forecasts on the
22 ultimate basis, and then we would say, Okay, how does
23 this \$80 million typically report itself over the life
24 of the policy, based on the historical patterns of
25 that.

1 DR. BYRON WILLAMS: Sir, thank you for
2 that. And in that context then, let's focus on weekly
3 indemnity. Can you explain which -- what might be
4 meant by a "tail factor"?

5 MR. LUKE JOHNSTON: I don't know if
6 there's a hard rule on where a tail factor starts or -
7 - or ends, but, they're -- for a collision -- a,
8 sorry, a coverage, like, collision, there isn't
9 really a tail because you have the claim, you pay the
10 claim, you do the salvage, in a couple years it's done
11 with.

12 For income replacement, there is a tail
13 in the sense that a large portion of claims come in,
14 most of them are settled quickly, there's some serious
15 loss, lifetime claims and they extend out for a
16 lifetime. There -- we assume thirty-five (35) years,
17 is the -- is kind of the lifetime. But, we would call
18 a tail, claims that are -- remain open beyond ten (10)
19 years, so and wherever that goes to, about forty (40)
20 -- thirty five (35), forty (40) years.

21 DR. BYRON WILLAMS: And let's take that
22 ten (10) years is a -- a cutting-off point. With
23 these long-lived claims, particularly in areas like
24 weekly and indemnity or accident benefit other, there
25 still will be development on -- on those claims,

1 beyond ten (10) years.

2 MR. LUKE JOHNSTON: That's correct.
3 Claimants will die and the -- all the reserves will be
4 removed. Sometimes they'll have relapses, somebody
5 that was off benefit will have an injury or a relapse
6 in their injury, they will be back on income
7 replacement. So, that's a couple examples of
8 development.

9 DR. BYRON WILLAMS: And those
10 expectations of development beyond the ten (10) years
11 are integral to the analysis of the total estimate of
12 ultimates; agreed, sir?

13 MR. LUKE JOHNSTON: Agreed. One (1)
14 of the most difficult parts of making projections on
15 the original PIPP program was no information about the
16 tail, so we're getting more information now as time
17 passes.

18 DR. BYRON WILLAMS: And mathematically
19 the assumptions you make in terms of the tail factor
20 are included mathematically in -- in the -- in the
21 calculation for each preceding year. If we went
22 through a loss triangle at that, at the bottom, we --
23 could work the math through, sir.

24 MR. LUKE JOHNSTON: That's correct.

25 DR. BYRON WILLAMS: Diana, could you

1 go to claims incurred Page 10, I believe it's Figure
2 CI-2. I'm looking for something that says "percentage
3 of total ultimate paid in each year." You are a
4 miracle; referring to Diana, as well as Mr. -- Mr.
5 Johnston.

6 Sir, what this table attempts to -- to
7 -- or does depict is the Corporation's estimates of
8 total ultimate paid in each year for different
9 coverages; agreed?

10 MR. LUKE JOHNSTON: Agreed.

11 DR. BYRON WILLAMS: At the top, we
12 see, it's going out ten (10) years; correct?

13 MR. LUKE JOHNSTON: Yes.

14 DR. BYRON WILLAMS: And, we look at
15 various cover starting with Line 1, with accident
16 benefit weekly indemnity and going all the way down
17 the Line 9, being property damage; correct?

18 MR. LUKE JOHNSTON: Yes.

19 DR. BYRON WILLAMS: And, sir, let's
20 pick a -- go to Line 7 for a minute. The point you
21 made previously about collision not having, really, a
22 tail factor, we see that in -- in this figure, 74
23 percent of the total ultimate is paid for collision in
24 year one (1).

25 MR. LUKE JOHNSTON: Yes.

1 DR. BYRON WILLAMS: By year two (2),
2 we see that over 98 percent is paid out; agreed?

3 MR. LUKE JOHNSTON: Agreed

4 DR. BYRON WILLAMS: And we can see
5 similar patterns going just down a line for
6 comprehensive; correct?

7 MR. LUKE JOHNSTON: That's right.
8 Physical damage would -- about the same, yes.

9 DR. BYRON WILLAMS: Thank you for
10 that. If we go up to, "accident benefits other," I'm
11 just doing some quick math here, sir, but, three (3)
12 years out, you've paid it's -- it -- you're estimating
13 that about 30 percent of the total will be paid.

14 MR. LUKE JOHNSTON: That's right.

15 DR. BYRON WILLAMS: And at nine (9)
16 years out, the est -- it is approximately 53 percent
17 that you're estimating will be paid, with regard to
18 this long-tail, line of claims; agreed, sir?

19 MR. LUKE JOHNSTON: That's right.
20 Just, take -- basically take 100 percent and minus the
21 10 plus column and you got the number, yeah.

22 DR. BYRON WILLAMS: And, sir, what
23 this is telling us that -- is that, in terms of the
24 total ultimate estimated for any particular policy
25 year for accident benefit weekly indemnity, 47 percent

1 of the total ultimate paid takes place after year nine
2 (9); that's the estimate?

3 MR. LUKE JOHNSTON: That -- that is,
4 yes.

5 DR. BYRON WILLAMS: And, that long-
6 tailed nature of the claim causes this type of claim
7 to be highly sensitive to interest rate changes; that
8 would be fair?

9 MR. LUKE JOHNSTON: That's true, that
10 -- these types of claims really are the whole reason
11 why we have close to 2 billion in claims liabilities
12 and a -- and a fixed-income portfolio to match. Most
13 -- most of that's for PIPP claims like -- of long-tail
14 nature.

15 DR. BYRON WILLAMS: And, Diana, you
16 can go down to the next page, please. This is a
17 similar table, sir, Mr. Johnston, but it's looking at
18 the total ultimate incurred, rather than the total
19 paid; agreed?

20 MR. LUKE JOHNSTON: Agreed.

21 DR. BYRON WILLAMS: And, just focusing
22 on accident benefits weekly indemnity, we see that
23 figure at year ten (10) being 4.17 percent, sir.

24 MR. LUKE JOHNSTON: Agreed, yes.

25 DR. BYRON WILLAMS: And, is that the

1 notorious tail-factor of what -- of which we spoke?

2 MR. LUKE JOHNSTON: Yeah, and, I'll
3 try not to go on too long, but the difference between
4 "paid" and "incurred" is, the case reserves set by the
5 case manager. So, paid is -- paid is paid. There is
6 -- there is nothing to dispute there, is no estimate -
7 - there is no estimate happening in terms of did --
8 did the claimant get paid.

9 On the incurred side, there's amounts
10 that have been paid, and then there's the estimate of
11 -- by the case manager about what the remaining
12 exposure, or cost of that claim is. So, once a claim
13 has been open longer than five (5) years, the case
14 manager will book that claim for -- for life.

15 And so that's why you see, we get to
16 the -- the ultimate a lot faster in terms of the
17 incurred estimates, but then there is still an unknown
18 portion, which claimants are going to relapses, who's
19 live longer or shorter, that type of thing. And
20 that's what -- the tail-factor would cover those --
21 those types of things.

22 DR. BYRON WILLAMS: And the estimate
23 of total ultimate is highly influenced by the
24 estimates of the tail-factor; agreed?

25 MR. LUKE JOHNSTON: The tail-factor is

1 important because it affects all years, essentially,
2 so, from 19 -- 1994 claims are not finished being
3 settled. So, if we do change the tail factor, then it
4 would impact every year of the PIPP program.

5 DR. BYRON WILLAMS: Sir, thank you for
6 that. And, thank you for those thoughtful
7 explanations of complex subjects. Subject to check,
8 in the 2016/'17 fiscal year, Basic policy liabilities
9 experienced a net unfavourable runoff of \$58.7
10 million, sir.

11 MR. LUKE JOHNSTON: I don't think I
12 need to check, that sounds correct, yes.

13 DR. BYRON WILLAMS: And, net
14 unfavourable is a bad thing, especially from the
15 perspective of the financial statement.

16 MR. LUKE JOHNSTON: Net unfavourable
17 basically means the -- what thought it was going to be
18 la -- in last year's estimate was \$58 million off, so
19 not good for the net income.

20 DR. BYRON WILLAMS: And, the
21 unfavourable runoff was driven primarily from a change
22 in the percentage of injury claims remaining open
23 beyond sixty (60) months; agreed? And let me just --
24 Mr. Johnson, especially since the 2010/'11 year; would
25 that be fair?

1 MR. LUKE JOHNSTON: The change -- the
2 -- the change in assumptions made in last year's
3 actuarial -- actuarial reports were -- were mainly
4 driven by deterioration in these longer-term claims,
5 specifically income replacement.

6 DR. BYRON WILLIAMS: And by "income
7 replacement," you mean weekly indemnity income
8 replacement, which we were just discussing within the
9 context of figure CI-2 and figure CI-3; agreed?

10 MR. LUKE JOHNSTON: Yes. Sorry. I
11 use income -- income replacement -- I kind of use
12 interchangeably, but weekly indemnity would include
13 income replacement and retirement income benefits.
14 Basically, income replacement-type benefits, yeah.

15 DR. BYRON WILLIAMS: And indeed, the
16 ultimate loss estimates from 2010/'11 through '15/'16
17 policy years were increased by about 47.8 million over
18 last -- over the preceding year's estimates? I think
19 you can accept that one as well, sir.

20 MR. LUKE JOHNSTON: Let me just have a
21 quick look. It should take a second.

22

23 (BRIEF PAUSE)

24

25 MR. LUKE JOHNSTON: I can't remember

1 your number. We have approximately 44, 45 million.

2 DR. BYRON WILLIAMS: Okay. We were
3 two (2) off, but -- 2 million off, so I apologize for
4 that.

5 MR. LUKE JOHNSTON: Around -- around
6 \$45 million sounds reasonable.

7 DR. BYRON WILLIAMS: And since
8 2010/'11, you've observed an increase in the number of
9 claims remaining open beyond twenty-four (24) to sixty
10 (60) months, agreed?

11 MR. LUKE JOHNSTON: I would calculate
12 it as a percentage, but the percentage of claims
13 remaining open beyond twenty-four (24) months, and it
14 would follow that the number, as well, has increased
15 over the last approximately seven (7) years relative
16 to what we saw prior to 2010.

17 DR. BYRON WILLIAMS: So there's -- one
18 (1) of the issues that's of concern to the Corporation
19 with this line of coverage is the number of claims
20 remaining open longer. That's fair?

21 MR. LUKE JOHNSTON: The -- the math on
22 these claims is -- is -- is pretty straightforward.
23 If they remain open beyond five (5) years, we reserve
24 them for life. So an income replacement claim for a
25 lifetime one is 350, \$400,000 each. So once they get

1 past that point, the -- the case managers continues to
2 work on the claims, but from an actuarial perspective,
3 I -- I asked that they book them for -- for a
4 lifetime.

5 DR. BYRON WILLIAMS: And Mr. Johnston,
6 I hesitate to reference any Bornhuetter-Ferguson
7 methodology, but there have been some changes in the
8 actuarial choices in terms of whether one uses paid or
9 incurred.

10 Without asking you to elaborate much
11 more than that right now, is that fair?

12 MR. LUKE JOHNSTON: What -- I don't
13 want to elaborate too much, but I think in this case,
14 we'd probably need to. In -- if you think about an
15 actuary having multiple methods to -- to measure the
16 same thing, so this being ultimates, we might look at
17 the paid data and say, The -- we're using the paid
18 data; we need 70 million.

19 We -- we might look what the case
20 managers tell us, and the case managers say, We need
21 70 million. We might look at the history of -- of the
22 -- of the coverage, and the loss ratio it has had, and
23 it might say 70 million.

24 If all those things aligned like that,
25 we'd be really confident in the estimate. All

1 indicators and these other methods are all -- are
2 pointing at -- in the same direction. When they start
3 to diverge, so, for example, when claimants start --
4 there's -- when there's more than beyond five (5)
5 years, the paid data might not tell us that there is
6 an increased exposure, because -- has -- not much has
7 been paid yet. But then the case managers would say,
8 Put in the reserves, and that would indicate that
9 there's more lifetime claims. So there -- that would
10 be kind of a flag that maybe exposure is different.

11 And so all those things had to be
12 considered. The Bornhuetter -- Bornhuetter-Ferguson
13 method is -- is a way of kind of considering multiple
14 -- multiple things at the same time.

15 DR. BYRON WILLIAMS: And one (1) of
16 the things that's been driving the actuarial
17 assumptions, October, and then February reports was
18 the increased uncertainty related to case res --
19 reserve levels, especially for less than forty-eight
20 (48) months.

21 Would that be fair, sir?

22 MR. LUKE JOHNSTON: Yes, that's true.
23 So in this case, we have -- I can obviously count the
24 number of claims that are open, and if -- if there's -
25 - or if you want an easy -- real easy estimate of

1 exposure, just count the claims and multiply by a
2 lifetime benefit.

3 So there is kind of a concern there
4 that we didn't have enough reserves. We asked the
5 claims division to look into that issue for us, and it
6 was confirmed that we probably needed an increase in
7 our case reserves. And one (1) of the outcomes of
8 that was to create a centralized reserving department
9 to make sure that all claims in this kind of bucket --
10 would -- being -- the bucket being more than twenty-
11 four (24) months -- were reserved timely and
12 appropriately going forward.

13 DR. BYRON WILLIAMS: And we'll come to
14 that centralized reserving department in just a couple
15 of minutes, sir. In particular, there was a concern
16 and a focus with the years being 2010 through 2012.

17 Would that be fair?

18 MR. LUKE JOHNSTON: The -- the change
19 in -- the -- the pattern that changed has been
20 approximately from -- from that -- that period. But
21 in terms of the -- I think you're referencing the --
22 under the -- the apparent under-reserving, that would
23 have been in more recent years.

24 The older years, more than five (5)
25 years old, those claims should all be reserved for

1 life.

2 DR. BYRON WILLIAMS: And ultimately,
3 my understanding, sir, is that certain claims were not
4 being reserved for life per established reserving
5 guidelines, and as such, were insufficient, agreed?

6

7 (BRIEF PAUSE)

8

9 MR. LUKE JOHNSTON: So we have -- we
10 have two (2) types of claims. There -- there is -- we
11 have more than two (2) types of claims, but in terms
12 of lifetime reserving, there's catastrophic claims.
13 In other words, very obvious that this is a lifetime
14 claim. There's no chance of recovery.

15 And then we have non-catastrophic
16 claims where there's a risk of a lifetime benefit, but
17 there's also high potential of recovery. We have a
18 methodology for non-catastrophic claims, which
19 essentially, that's a lifetime reserve, and then
20 adjust that reserve down for assumed recovery.

21 In the non-catastrophic claim bucket,
22 it appears that there is optimism in terms of the
23 belief that that claimant could get back to work, or -
24 - or the case manager could get that claim back to
25 work, and it would not be a lifetime claim. And in --

1 in those cases, kind of the global average reserve
2 wasn't put up, and we are under reserve for the -- for
3 that reason.

4 DR. BYRON WILLIAMS: And that's with
5 regard to the non-catastrophic, Mr. Johnston?

6 MR. LUKE JOHNSTON: That's correct.

7 DR. BYRON WILLIAMS: And there is
8 somewhere between thirty (30) and forty (40) claims
9 that are now expected to persist beyond sixty (60)
10 months, agreed?

11 MR. LUKE JOHNSTON: Agreed. So -- and
12 again, just in terms of how this experience shows
13 itself, in 2010 we're talking about claims that remain
14 open five (5) years later. So we don't really get to
15 see what happens in 2010 until 2016.

16 So, as -- as you're aware, Mr.
17 Williams, we track the open claims rates, and there
18 was some concern raised that the patterns were
19 changing. But I think the belief early on is that we
20 wouldn't have more lifetime claims. Maybe there was
21 just a change in how -- how many claims are making it
22 to two (2) years, or, you know, there -- as -- as
23 discussed in the application, mental health issues,
24 concussions, things like that. Maybe they needed more
25 care, but I think the initial belief wasn't that we'd

1 have more lifetime claims, but as we've got to
2 2016/'17 and we can see what's actually happening in
3 2010, '11, '12, we have a lot more evidence that this
4 pattern is persisting.

5 And in this actuarial report, we
6 basically said, We have no evidence to suggest that
7 the pattern is changing back -- like, back to the old
8 pattern. So if that's -- if that's what we believe,
9 then we should book -- book the full amount.

10 DR. BYRON WILLIAMS: Thank you, Mr.
11 Johnston. And -- and I will thank the Corporation on
12 behalf of our client for CAC-1-66. We don't need to
13 turn there -- or 1-69, which are very thoughtful
14 answers, and helpful on this -- this subject, sir.

15 You mentioned a centralized reserving
16 department, and on or about March 1st, 2017, case
17 reserving was moved from being the responsibility of
18 benefit administrators and case managers to a
19 centralized reserving unit, sir. Is that correct?

20

21 (BRIEF PAUSE)

22

23 MR. LUKE JOHNSTON: The only -- yeah.
24 The only thing I'd add to that is it's -- we're
25 transitioning that work from case managers to the

1 centralized reserving unit from March 1st of this year
2 to October 31st of -- of this year. October 31st
3 isn't -- isn't by accident.

4 We want to make sure that the
5 centralized reserving unit has done all their work on
6 all applicable prior year claims before the actuarial
7 review. So there's no uncertainty that, you know,
8 we're only 75 percent done or anything like that.

9 MR. BYRON WILLIAMS: And
10 philosophically one (1) of the motivations for that
11 was to improve the -- the consistency and reliability
12 of reserves, case reserves; agreed?

13 MR. LUKE JOHNSTON: Agreed.

14 MR. BYRON WILLIAMS: And ideally as
15 well to allow the case managers to focus more on
16 health and return to work efforts; agreed?

17 MR. LUKE JOHNSTON: That would be an
18 added benefit, yes.

19 MR. BYRON WILLIAMS: Mr. Paul -- Mr.
20 Johnston, I apologize. Perhaps Diana can pull up PUB-
21 1-68(b), Appendix 1, 1-61(b), Appendix 1, page 2.
22 And, Mr. Johnston, you probably don't need to ref --
23 to -- me to refresh your memory, but one (1) of the
24 benchmarks for the injury claims management
25 consolidated balance scorecard -- going down towards

1 the bottom of the page, Diana. Stop there. Page 2.
2 Sorry, Diana, near the bottom of page 2. Second, from
3 -- excuse me just one (1) second.

4

5 (BRIEF PAUSE)

6

7 MR. BYRON WILLIAMS: About seven (7)
8 from the bottom. One (1) of the objectives, one (1)
9 of the benchmarks was to have less than 10 percent of
10 open claims older than five (5) years, sir; agreed?

11 MR. LUKE JOHNSTON: Agreed.

12 MR. BYRON WILLIAMS: And that one (1)
13 of the challenges you're articulating is that the
14 percentage that's remaining open is as of February
15 2017, would be at about 14 percent; correct?

16 MR. LUKE JOHNSTON: Yes.

17 MR. BYRON WILLIAMS: And perhaps, Dian
18 -- Diana, you could just go to the previous page, at
19 the very bottom being, again, the attachment to PUB-1-
20 61. And you'll see a benchmark at the very bottom,
21 Mr. Johnston, of permanent impairments been
22 outstanding for less than twenty-four (24) months.

23 Do you see that?

24 MR. LUKE JOHNSTON: Yes I do.

25 MR. BYRON WILLIAMS: And, generally,

1 as we trace out from the February 2013 year to dates
2 to the February 2017 year to dates, it would be fair
3 to suggest that that benchmark is not being
4 consistently achieved?

5 MR. LUKE JOHNSTON: Just one (1)
6 moment, please.

7

8 (BRIEF PAUSE)

9

10 MR. LUKE JOHNSTON: I can confirm
11 that, yes.

12 MR. BYRON WILLIAMS: And one (1) of
13 the drivers of the challenges in meeting that
14 benchmark has been unforeseen staff turnover and
15 internal resource turn; agreed?

16 MR. LUKE JOHNSTON: Do you have a
17 reference for that?

18 MR. BYRON WILLIAMS: PUB-2-33, sir.

19 MR. LUKE JOHNSTON: Thank you.

20

21 (BRIEF PAUSE)

22

23 MR. BYRON WILLIAMS: Not very
24 eloquently, but PUB-2-33.

25 MR. LUKE JOHNSTON: Yeah, if you --

1 you don't mind scrolling down that would be -- that
2 would help me. Thanks.

3 MR. BYRON WILLIAMS: Right there. Oh,
4 no.

5 MR. LUKE JOHNSTON: Okay. Thank you
6 for that. Yes, I agree with those comments.

7 MR. BYRON WILLIAMS: Mr. Johnston, in
8 terms of the Ernst and Young review of -- and I can't
9 remember the big name, so I'll just say BI3, a
10 program, it would be accurate to say that any longer
11 tail open claims were excluded from that analysis, as
12 they have yet to close, and therefore suggested
13 duration result. Would that be fair, sir?

14 MR. LUKE JOHNSTON: That's fair. The
15 -- the Ernst and Young report is focusing on the --
16 really the first several years. And -- and we
17 wouldn't really expect a -- a claim system to prevent
18 a long tail of claims, so I think it's reasonable to
19 look at the shorter tail claims in terms of how the
20 claims management system impacts how those claims are
21 handled.

22 MR. BYRON WILLIAMS: And thank you,
23 sir. And just so we're clear they wouldn't have
24 looked at the longer tail open claims; agreed?

25 MR. LUKE JOHNSTON: That's my

1 understanding, yes.

2 MR. BYRON WILLIAMS: And it would also
3 be fair to say that only fully developed claim years
4 for each dur -- duration band, were evaluated?

5 MR. LUKE JOHNSTON: That's what --
6 yes, because that's what they -- they would have.
7 Yes.

8 MR. BYRON WILLIAMS: Manitoba Public
9 Insurance is aware that there are North American
10 experts in no-fault who are retained by insurers to
11 offer an independent review of claims reserves and to
12 provide advice on experience elsewhere.

13 Are you aware of that?

14

15 (BRIEF PAUSE)

16

17 MR. LUKE JOHNSTON: I would say aware
18 of and not overly familiar with that.

19 MR. BYRON WILLIAMS: In terms of your
20 awareness, and I don't mean to push you any farther
21 than you're prepared to go, Mr. Johnston, but you're
22 aware that there are offerings in the marketplace of
23 North American experts in no-fault who will come in
24 and assist insurers in examining their reserves and
25 the reserving practices and their -- and -- and share

1 their experience based on experience elsewhere?

2 You're aware of that?

3 MR. LUKE JOHNSTON: I would be aware
4 of that, yes.

5 MR. BYRON WILLIAMS: And at this point
6 in time Manitoba Public Insurance has -- has not
7 considered bringing in that kind of expertise?

8

9 (BRIEF PAUSE)

10

11 MR. LUKE JOHNSTON: So right now we
12 don't -- we haven't done that or -- or have plans to
13 do so. We did just meet with the other Crowns in
14 terms of their injury claims handling practices, but
15 what you're describing sounds more of a consulting
16 type roll where someone comes in and looks at the
17 overall process. We -- we don't have -- we haven't
18 done or we don't have plans to do that right now.

19

20 (BRIEF PAUSE)

21

22 MR. BYRON WILLIAMS: Moving to a
23 related but slightly different topic, Mr. Johnston,
24 you're aware that in -- in Board Order 128.15, the
25 Manitoba Public Utilities Board ordered MPI to gain

1 insight on longer tail experience from outside, and in
2 particular from -- Ms. Dilay will crit -- criticize me
3 for my pronunciation -- but the Societe de la Jerans
4 (phonetic)?

5 MR. LUKE JOHNSTON: Yes, I'm aware of
6 that order.

7 MR. BYRON WILLIAMS: And as of the
8 filing of the rate application, those discussions had
9 not been completed. Would that be accurate?

10 MR. LUKE JOHNSTON: Yes. And just to
11 -- just to make clear, obviously we take the Board
12 Orders very seriously and we do intend to do the
13 study. As you can imagine, with the rate indication
14 this year, the liability review result in general, a
15 new board, a lot of other things going on at the same
16 time we did engage initial discussions with the
17 Saskatchewan Government Insurance and I'll say SAAQ,
18 so I don't have to repeat the pronunciation, Quebec.
19 And there is definitely a willingness to do that.

20 So -- and Saskatchewan has provided
21 information, but to do the this study, we just didn't
22 have the capacity to do that this year. And so we
23 apologize for not bringing that to the Board, but we
24 definitely intend to do it.

25 MR. BYRON WILLIAMS: Mr. Johnston --

1 actually let me -- Mr. Chair, I'm almost done this
2 area, which is kind of my plan for the day and -- and
3 noting the time. So perhaps I'll just finish with a
4 couple of questions.

5

6 CONTINUED BY MR. BYRON WILLIAMS:

7 MR. BYRON WILLIAMS: Mr. Johnston, one
8 (1) of the challenges the Corporation has been
9 experiencing, certainly in the last decade, relates to
10 files where -- which involve an interaction with
11 mental health issues as well.

12 Would that be fair, sir?

13 MR. LUKE JOHNSTON: That's correct.

14 MR. BYRON WILLIAMS: And has the --
15 the Corporation's aware of organizations, such as the
16 Canadian Mental Health Association who have, I'll
17 suggest to you, substantial experience in interacting
18 and -- and working with vulnerable consumers in the
19 marketplace?

20

21 (BRIEF PAUSE)

22

23 MR. LUKE JOHNSTON: I believe the
24 question was just are we aware of -- that these
25 organizations exist. Yes, we are.

1 MR. BYRON WILLIAMS: And -- and, Mr.
2 Johnston, perhaps for another hearing, I wonder if the
3 Corporation has considered approaching these
4 organizations in terms of their guidance based upon
5 their experience in terms of working with vulnerable
6 consumers in the marketplace?

7 MR. LUKE JOHNSTON: Again, this would
8 not -- as the chief actuary this wouldn't be my
9 detailed lev -- area of expertise, but talking to my
10 back row, we obviously have psychiatrists and
11 psychologists and other people that are -- that work
12 with claimants with mental health issues related to
13 their automobile accident.

14 So how those professionals interact
15 with the organizations that you've just spoken of, I -
16 - I don't know. But your request -- sorry -- sounds
17 the reasonable and we'll take it under consideration.

18 MR. BYRON WILLIAMS: Thank you, Mr.
19 Johnston, and -- and thank you to the MPI panel. In
20 terms of -- I can just indicate for myself, I have
21 some questions on information technology for next
22 week, as well as driver safety rating and then just a
23 few forecasting ones. There may be a few knickknacks
24 apart from that, but those are the primary areas. I
25 certainly do -- would not anticipate taking half a

1 day.

2 But at this point in time I'm uncertain
3 how many of my information technology questions will
4 go to Gartner Group versus Manitoba Public Insurance.
5 That's -- but I would estimate in the range of an hour
6 and a half to two (2) hours in -- in additional
7 questions.

8 THE CHAIRPERSON: Thank you. We'll
9 adjourn until 9:00 a.m. on Tuesday. Happy
10 Thanksgiving. For those of you who are travelling,
11 safe -- safe travels. We'll see you Tuesday.

12

13 --- Upon adjourning at 3:53 p.m.

14

15 Certified Correct,

16

17

18

19 _____

20 Cheryl Lavigne, Ms.

21

22

23

24

25