

## MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2019/2020 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Robert Gabor, Q.C. - Board Chairperson

Irene Hamilton - Board Member

Carol Hainsworth - Board Member

Robert Vandewater - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 15, 2018

Pages 1 to 237



“When You Talk - We Listen!”



1 APPEARANCES  
2  
3 Kathleen McCandless ) Board Counsel  
4 Robert Watchman ) Board Counsel  
5  
6 Steven Scarfone ) Manitoba Public  
7 Anthony Guerra ) Insurance  
8  
9 Byron Williams ) CAC (Manitoba)  
10 Katrine Dilay )  
11  
12 Raymond Oakes ) CMMG  
13  
14 Erika Miller (np) ) CAA Manitoba  
15  
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16		allocations - Stochastic modelling and	
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20	PUB-12	Board Order 123-18 re: Seeking	
21		confidential treatment of certain	
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23		the 2019/2020 General Rate Application	
24		- September 12, 2018	
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5		(Manitoba) Inc. For an Order compelling	
6		certain responses to Information	
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8		Application.	
9	PUB-14	Reminder notice of public hearing dated	
10		September 15, 2018	
11	PUB-15	Board Order 130-18 re: Motion by	
12		Manitoba Public Insurance - seeking	
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6	PUB-16-5	PUB to CAC Information Requests.	
7		Investment Portfolio - asset mix -	
8		removing real return bonds.	
9	PUB-16-6	PUB to CAC Information Requests.	
10		Investment Portfolio - asset mix -	
11		investment classes other than RRBS	
12	PUB-16-7	PUB to CAC Information Requests. INV -	
13		real return bonds.	
14	PUB-16-8	PUB to CAC Information Requests.	
15		Capital Maintenance Provisions (CMP) -	
16		CMP and accepted actuarial practice.	
17	PUB-16-9	PUB to CAC Information Requests. CMP -	
18		CMP and capital preservation.	
19	MPI-1	Manitoba Public Insurance Corporation	
20		2019 General Rate Application (filed at	
21		PHC)	
22	MPI-2	Manitoba Public Insurance business case	
23		- 2019 GRA-VM Appendix 3 (filed at PHC)	
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3	MPI-3	2019 GRA Corrections - Part IV -	
4		Information technology (IT) Appendix 1	
5		and Part V - Expenses (EXP) Appendix 19	
6		(filed at PHC)	
7	MPI-4	CV of Charles E. (Chuck) Henry (filed	
8		at PHC)	
9	MPI-5	C of David (Dave) Makarchuk (filed at	
10		PHC)	
11	MPI-6	Revised timetable for 2019 General Rate	
12		Application (filed at PHC)	
13	MPI-7	2019 Application - Part V - Expenses	
14		(EXP) - Appendix 16 Revised - August 8,	
15		2018	
16	MPI-8	2019 Application - Part V - Expenses	
17		(EXP) - Appendix 11 Revised - August 8,	
18		2018	
19	MPI-9	Refiling of redacted Round 1	
20		Information Requests and responses -	
21		PUB-MPI 1-58(a), PUB-MPI 1-59(a)(b),	
22		PUB-MPI 1-61(b)(d), PUB-MPI 1-61 (App.	
23		3-4), PUB-MPI 1-72(a)(b) (App.1), CAC-	
24		MPI 1-60(a)	
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5	MPI-11-1	Manitoba Public Insurance - Rule 13	
6		Notice of motion	
7	MPI-11-2	Manitoba Public Insurance - Rule 13	
8		Motion - motion brief	
9	MPI-12-1	MPI Motion regarding Round 1	
10		Information Requests - Notice of Motion	
11		- June 29, 2018.	
12	MPI-12-2	MPI Motion regarding Round 1	
13		Information Requests - motion brief -	
14		June 29, 2018	
15	MPI-12-3	MPI Motion regarding Round 1	
16		Information Requests - Affidavit of	
17		Service - Notice of Motion and Motion	
18		Brief dated June 29, 2018	
19	MPI-13-1	MPI Motion Brief regarding CAC Motion	
20		to compel answers to Round 1	
21		Information Requests - August 20, 2018	
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4		to compel answers to Round 1	
5		Information Requests - August 20, 2018	
6		- Affidavit of Glenn Bunston - August	
7		20, 2018	
8	MPI-13-3	MPI Motion Brief regarding CAC Motion	
9		to compel answers to Round 1	
10		Information Requests - August 20, 2018	
11		- supplemental affidavit of Glenn	
12		Bunston - September 7, 2018	
13	MPI-14-1	MPI motion regarding Round II	
14		Information Requests - Notice of Motion	
15		- September 14, 2018	
16	MPI-14-2	MPI motion regarding Round II	
17		Information Requests - Notice of Motion	
18		- September 14, 2018 - Motion brief of	
19		MPI Round II Information Requests -	
20		September 17, 2018.	
21	MPI-15	MPI responses to Information Requests	
22		Round 1 CAC-MPI-1-84(f)-85(g) in	
23		response to Board Order 124-18 -	
24		September 25, 2018	
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3	MPI-16	MPI revised response to Information	
4		Request Round II PUB-MPI-II-24 -	
5		October 1, 2018	
6	MPI-17	MPI revised response to Information	
7		Request Round I PUB-MPI-1-27 - October	
8		1, 2018	
9	MPI-18	MPI to CAC Information Requests.	
10	MPI-18-1	MPI to CAC Information Requests. DCAT	
11		- minimum capital test	
12	MPI-18-2	MPI to CAC Information Requests. DCT -	
13		MCT - Crown Corp. Vs. Private Insurance	
14		industry.	
15	MPI-18-3	MPI to CAC Information Requests. DCAT	
16		- Interest rate forecast - long term	
17		yields relationship monetary policy.	
18	MPI-18-4	MPI to CAC Information Requests. CMP -	
19		Alignment with international best	
20		practices.	
21	MPI-18-5	MPI to CAC Information Requests. CMP -	
22		Update of DCAT.	
23	MPI-18-6	MPI to CAC Information Requests. CMP-	
24		Alignment with international best	
25		practices - RSR Range.	

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3	MPI-18-7	MPI to CAC Information Requests. CMP -	
4		DCAT methodology should be used to set	
5		the RSR range.	
6	MPI-18-8	MPI to CAC Information Requests.	
7		Investment portfolio - dollar and	
8		duration matching - length of nominal	
9		duration.	
10	MPI-18-9	MPI to CAC Information Requests.	
11		Investment portfolio - real interest	
12		rate risk.	
13	MPI-18-10	MPI to CAC Information Requests.	
14		Investment portfolio - liability	
15		benchmark portfolio	
16	MPI-18-11	MPI to CAC Information Requests.	
17		Investment Portfolio - recommendations	
18		- inflation expectations.	
19	MPI-19	MPI Investment Policy Statement -	
20		October 12, 2018.	
21	MPI-20	MPI Rebuttal evidence - October 12,	
22		2018	
23	MPI-21	MPI - CEO Overview Presentation -	
24		October 12, 2018	
25	CAA-1	CAA Intervenor Application.	

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4	CAC-1-2	CAC Intervenor Application. Attachment	
5		A - Overview.	
6	CAC-1-3	CAC Intervenor Application. Attachment	
7		B - draft budget	
8	CAC-1-4	CAC Intervenor Application. CV of	
9		Andrea Sherry.	
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12	CAC-1-6	CAC Intervenor Application. CV of	
13		Wayne Simpson	
14	CAC-2	CAC respond to MPI Rule 12 motion -	
15		July 5, 2018	
16	CAC-3-1	CAC motion to compel MPI responses to	
17		CAC-MPI-1-84(f) - August 8, 2018	
18	CAC-3-2	CAC additional information to compel	
19		MPI responses to CAC-MPI-1-84(f) and	
20		85(g) - August 15, 2018	
21	CAC-3-3	CAC additional information to compel	
22		MPI responses to CAC-MPI-1-84(f) and	
23		85(g) - August 15, 2018, Book of	
24		documents.	
25	CAC-4	CAC to MPI Information Requests-Round 1	



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4		1, LA/OV - Consumer/Ratepayer	
5		engagement.	
6	CAC-4-1	CAC to MPI Information Requests - Round	
7		1, LA/OV - consumer/ratepayer	
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10		1, REV - Upgrade factors - vehicle age.	
11	CAC-4-3	CAC to MPI Information Requests - Round	
12		1, AR - gross unearned premiums -	
13		compulsory automobile insurance	
14		statement of operations.	
15	CAC-4-4	CAC to MPI Information Requests - Round	
16		1, INV - historical analysis of the	
17		naive, 50/50 and SIRF forecasts.	
18	CAC-4-5	CAC to MPI Information Requests - Round	
19		1, RSR - best interest rate forecast	
20		estimate.	
21	CAC-4-6	CAC to MPI Information Requests - Round	
22		1, DCAT - naive interest rate forecast.	
23	CAC-4-7	CAC to MPI Information Requests - Round	
24		1, INV - naive interest rate forecast -	
25		not using 50/50 interest rate.	

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5		naive interest rate forecast.	
6	CAC-4-9	CAC to MPI Information Requests - Round	
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8		achieving the new mission of MPI	
9	CAC-4-10	CAC to MPI Information Requests - Round	
10		1, CM - investing in people - employee	
11		opinion survey.	
12	CAC-4-11	CAC to MPI Information Requests - Round	
13		1, BAC - Corporate priority review -	
14		product suite review.	
15	CAC-4-12	CAC to MPI Information Requests - Round	
16		1, RSR - lower threshold.	
17	CAC-4-13	CAC to MPI Information Requests - Round	
18		1, RSR - Minimum RSR target.	
19	CAC-4-14	CAC to MPI Information Requests - Round	
20		1, RSR - establishing MCT ratio as a	
21		dynamic RSR target	
22	CAC-4-15	CAC to MPI Information Requests - Round	
23		1, DCAT - Recommendation Number 3 - MCT	
24		ratio.	
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5		costs event.	
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7		1, DCAT - Maximum capital target	
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9		1, RSR - DCAT modified based scenario	
10		and treatment of capital maintenance	
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12	CAC-4-19	CAC to MPI Information Requests - Round	
13		1, OV - investment risk tolerance	
14	CAC-4-20	CAC to MPI Information Requests - Round	
15		1, OV - RSR amount as at February 28,	
16		2018 for 2018/19	
17	CAC-4-21	CAC to MPI Information Requests - Round	
18		1, RSR - lower RSR target, satisfactory	
19		financial condition and best estimates.	
20	CAC-4-22	CAC to MPI Information Requests - Round	
21		1, RSR - MCT.	
22	CAC-4-23	CAC to MPI Information Requests - Round	
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24	CAC-4-24	CAC to MPI Information Requests - Round	
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16		1, EXP - building closures.	
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18		1, EXP - basic capital expenditures by	
19		projects.	
20	CAC-4-31	CAC to MPI Information Requests - Round	
21		1, EXP - impairment of various projects	
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5	CAC-4-34	CAC to MPI Information Requests - Round	
6		1, VM - capital space plan.	
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9		ultimates - impact on rate indication.	
10	CAC-4-36	CAC to MPI Information Requests - Round	
11		1, SDM - current status of PIPP, Mental	
12		Health and Chronic Plan - growth in	
13		retained claims	
14	CAC-4-37	CAC to MPI Information Requests - Round	
15		1, SDM - centralized reserving.	
16	CAC-4-38	CAC to MPI Information Requests - Round	
17		1, AR - Journey of renewal - focus on	
18		core business.	
19	CAC-4-39	CAC to MPI Information Requests - Round	
20		1, EAR - PIPP review.	
21	CAC-4-40	CAC to MPI Information Requests - Round	
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23		adjustments.	
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4	interest rate impact and investment
5	income-interest rate impact.
6	CAC-4-42 CAC to MPI Information Requests - Round
7	1, 2018 GRA - CAC(MPI) 1-27, shop-
8	specific KPI.
9	CAC-4-43 CAC to MPI Information Requests - Round
10	1, BMK - IT service delivery
11	capability.
12	CAC-4-44 CAC to MPI Information Requests - Round
13	1, BMK - infrastructure and operations
14	spending by cost category - unallocated
15	cost category
16	CAC-4-45 CAC to MPI Information Requests - Round
17	1, BMK - project delivery process.
18	CAC-4-46 CAC to MPI Information Requests - Round
19	1, BMK - CIO scorecard versus Gartner's
20	IT score methodology.
21	CAC-4-47 CAC to MPI Information Requests - Round
22	1, BMK - IT FTEs.
23	CAC-4-48 CAC to MPI Information Requests - Round
24	1, BMK - IT outsourcing and
25	maintenance.

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5		changes, if any.	
6	CAC-4-50	CAC to MPI Information Requests - Round	
7		1, SDM - driver licensing initiative -	
8		failing road test.	
9	CAC-4-51	CAC to MPI Information Requests - Round	
10		1, DSR - primary driver model.	
11	CAC-4-52	CAC to MPI Information Requests - Round	
12		1, DSR - residual risk model.	
13	CAC-4-53	CAC to MPI Information Requests - Round	
14		1, VFH - vehicle for hire rating model	
15	CAC-4-54	CAC to MPI Information Requests - Round	
16		1, OV - technology company -	
17		application of value management caused	
18		projects to be cancelled.	
19	CAC-4-55	CAC to MPI Information Requests - Round	
20		1, VM - Legacy system modernization.	
21	CAC-4-56	CAC to MPI Information Requests - Round	
22		1, VM - Technology risk management	
23		life cycle.	
24	CAC-4-57	CAC to MPI Information Requests - Round	
25		1, VM - B13 IT projects.	

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5	CAC-4-59	CAC to MPI Information Requests - Round	
6		1, VM - B13/Fineos Upgrade 2020	
7	CAC-4-60	CAC to MPI Information Requests - Round	
8		1, VM - finance re-engineering project.	
9	CAC-4-61	CAC to MPI Information Requests - Round	
10		1, IT - corporate re-organization.	
11	CAC-4-62	CAC to MPI Information Requests - Round	
12		1, IT - external IT resources.	
13	CAC-4-63	CAC to MPI Information Requests - Round	
14		1, IT - IBM master service agreement	
15		and HP master service agreement.	
16	CAC-4-64	CAC to MPI Information Requests - Round	
17		1, BMK - application of value	
18		management caused projects to be	
19		cancelled - IT strategic plan.	
20	CAC-4-65	CAC to MPI Information Requests - Round	
21		1, VM - Legacy system modernization.	
22	CAC-4-66	CAC to MPI Information Requests - Round	
23		1, BMK - IT process maturity - item	
24		4.09-IT investment performance	
25		reporting.	



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5	CAC-4-68	CAC to MPI Information Requests - Round	
6		1, VM - monitor project performance	
7		against forecast - IT value management.	
8	CAC-4-69	CAC to MPI Information Requests - Round	
9		1, BMK - IT benchmark and maturity	
10		assessment - executive report - Gartner	
11		analysis.	
12	CAC-4-70	CAC to MPI Information Requests - Round	
13		1, VM - B13/Fineos upgrade 2020	
14	CAC-4-71	CAC to MPI Information Requests - Round	
15		1, Pro Formas - capital maintenance	
16		provision - DPAC related to this need.	
17	CAC-4-72	CAC to MPI Information Requests - Round	
18		1, OV - consensus of requirement of	
19		CMP.	
20	CAC-4-73	CAC to MPI Information Requests - Round	
21		1, OV - on-going CMP requirement - 5	
22		year plan.	
23	CAC-4-74	CAC to MPI Information Requests - Round	
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25		- MCT ratio.	

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5	CAC-4-76	CAC to MPI Information Requests - Round	
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7		in best scenario.	
8	CAC-4-77	CAC to MPI Information Requests - Round	
9		1, DCAT - modified base scenario.	
10	CAC-4-78	CAC to MPI Information Requests - Round	
11		1, LA/OV - need for and methodology to	
12		establish capital maintenance	
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14	CAC-4-79	CAC to MPI Information Requests - Round	
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16		portfolio, no equities in investment	
17		portfolio.	
18	CAC-4-80	CAC to MPI Information Requests - Round	
19		1, INV - duration matching - dollar	
20		weighted yield, claims discount rate.	
21	CAC-4-81	CAC to MPI Information Requests - Round	
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23		portfolios - reporting and disclosure.	
24	CAC-4-82	CAC to MPI Information Requests - Round	
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12		min/max asset class constraints.	
13	CAC-4-86	CAC to MPI Information Requests - Round	
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18		designated amount of floating rate	
19		notes.	
20	CAC-4-88	CAC to MPI Information Requests - Round	
21		1, INV - CAC recommendations - Number	
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23	CAC-4-89	CAC to MPI Information Requests - Round	
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25		concentration.	

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5	CAC-4-91	CAC to MPI Information Requests - Round	
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7	CAC-4-92	CAC to MPI Information Requests - Round	
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9	CAC-4-93	CAC to MPI Information Requests - Round	
10		1, 2018 GRA - CAC(MPI) 1-85 - AR -	
11		Accounting policy changes IFRS 7, 9, 17	
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13		1, 2018 GRA - CAC(MPI) 1-85 - AR - OSFI	
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16	CAC-4-95	CAC to MPI Information Requests - Round	
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18		and 2 - accounting.	
19	CAC-4-96	CAC to MPI Information Requests - Round	
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21		tolerance in Basic and pension.	
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4		of Canada policy rate and Government of
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12		real liability benchmark.
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15		- heading.
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19	CAC-5-6	CAC to MPI Information Requests- Round
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22	CAC-5-7	CAC to MPI Information Requests- Round
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24		Basic and pension - cash liquidity
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10		DSR scale.	
11	CAC-5-11	CAC to MPI Information Requests- Round	
12		2. RSR - update of DCAT, RSR lower	
13		threshold.	
14	CAC-5-12	CAC to MPI Information Requests- Round	
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16	CAC-5-13	CAC to MPI Information Requests- Round	
17		2. Applicability of the MCT ratio as	
18		basis for calculation of Corporation's	
19		requested rate increase.	
20	CAC-5-14	CAC to MPI Information Requests- Round	
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5	CAC-5-16	CAC to MPI Information Requests- Round	
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9		2. Capital maintenance provision.	
10	CAC-5-18	CAC to MPI Information Requests- Round	
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12		methodology required if DCAT is used to	
13		set RSR band.	
14	CAC-5-19	CAC to MPI Information Requests- Round	
15		2. Rate increase required to prevent	
16		depletion in forecast RSR balance.	
17	CAC-5-20	CAC to MPI Information Requests- Round	
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19		necessary when DCAT RSR range is	
20		significantly decreasing - lower	
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5	CAC-5-23 CAC to MPI Information Requests- Round
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10	2. Approach to seek regulatory review
11	and approval of CMP.
12	CAC-5-25 CAC to MPI Information Requests- Round
13	2. Consumer/Ratepayer engagement.
14	CAC-5-26 CAC to MPI Information Requests- Round
15	2. Increase in weekly indemnity
16	ultimates.
17	CAC-5-27 CAC to MPI Information Requests- Round
18	2. Centralized reserving - new
19	reserving methodology.
20	CAC-5-28 CAC to MPI Information Requests- Round
21	2. Bodily injury claims.
22	CAC-5-29 CAC to MPI Information Requests- Round
23	2. De-risking the Basic claims
24	portfolio; no equities in investment
25	portfolio.



1	LIST OF EXHIBITS		
2	Exhibit No.	Description	Page No.
3	CAC-5-30	CAC to MPI Information Requests- Round	
4		2. Satisfactory financial condition and	
5		best estimates - ASOP	
6	CAC-5-31	CAC to MPI Information Requests- Round	
7		2. Staffing and economic negotiated	
8		salary increases - retention of skilled	
9		staff.	
10	CAC-5-32	CAC to MPI Information Requests- Round	
11		2. Decrease in investment income - 1st	
12		quarter May 31, 2018	
13	CAC-5-33	CAC to MPI Information Requests- Round	
14		2. Customer self-service - customer	
15		survey and focus groups.	
16	CAC-5-34	CAC to MPI Information Requests- Round	
17		2. IT spending - PDR - loss of use	
18		models.	
19	CAC-5-35	CAC to MPI Information Requests- Round	
20		2. Monitoring and reporting of project	
21		objectives and benefits - VM process	
22	CAC-5-36	CAC to MPI Information Requests- Round	
23		2. Incident management and business	
24		continuity processes.	
25			

1	LIST OF EXHIBITS		
2	Exhibit No.	Description	Page No.
3	CAC-5-37	CAC to MPI Information Requests- Round	
4		2. IT benchmarking and maturity	
5		assessment - key takeaways from the	
6		analysis.	
7	CAC-5-38	CAC to MPI Information Requests- Round	
8		2. IT benchmarking and maturity	
9		assessment - spending on outsourcing	
10		and maintenance.	
11	CAC-5-39	CAC to MPI Information Requests- Round	
12		2. Customization of off-the-shelf	
13		(COTS) software products.	
14	CAC-6	CAC comments regarding MPI motion Rule	
15		13 - Round 1 Information Requests -	
16		August 22, 2018.	
17	CAC-7-1	CAC motion to compel MPI response to	
18		CAC Round 1 Information Request letter	
19		dated August 28, 2018	
20	CAC-7-2	CAC memo in response to MPI affidavit	
21		and motion - August 28, 2018	
22	CAC-8	CAC responses to MPI Round II	
23		Information Requests Rule 13 motion -	
24		September 18, 2018	
25			

	LIST OF EXHIBITS
1	
2	CAC-9 Role of DCAT and interest rate
3	forecasting - Dr. Wayne Simpson and Ms.
4	Andrea Sherry pre-filed testimony -
5	October 1, 2018
6	CAC-10 Capital maintenance provision proposal
7	- Dr. Wayne Simpson and Ms. Andrea
8	Sherry pre-filed testimony - October
9	1, 2018.
10	CAC-11 Pre-filed testimony of Valter Viola -
11	October 3, 2018.
12	CAC-11-1 Revision 1 pre-filed testimony of
13	Valter Viola - October 3, 2018.
14	CAC-11-2 Revision 2 pre-filed testimony of
15	Valter Viola - October 10, 2018 (Clean)
16	CAC-12 Revised PUB-CAC-1-5 - October 10, 2018
17	CAC-13 CAC Opening statement.
18	CMMG-1 CMMG Intervenor Application.
19	CMMG-2 CMMG to MPI Information Requests -
20	Round 1.
21	CMMG-2-1 CMMG to MPI Information Requests -
22	Round 1. Motorcyclists increase.
23	CMMG-2-2 CMMG to MPI Information Requests -
24	Round 1. Program changes/methodology
25	changes.

1	LIST OF EXHIBITS		
2	Exhibit No.	Description	Page No.
3	CMMG-2-3	CMMG to MPI Information Requests -	
4		Round 1. Breakdown of increased \$65	
5		million revenue.	
6	CMMG-2-4	CMMG to MPI Information Requests -	
7		Round 1. Comparison of projected v	
8		actual losses (2007-2017)	
9	CMMG-2-5	CMMG to MPI Information Requests -	
10		Round 1. Loss distributions for	
11		anomalies.	
12	CMMG-2-6	CMMG to MPI Information Requests -	
13		Round 1. Loss trends - applied v.	
14		rates approved.	
15	CMMG-2-7	CMMG to MPI Information Requests -	
16		Round 1. Loss trends - actual loss	
17		ratios/claim frequency for private	
18		passenger and motorcycle.	
19	CMMG-2-8	CMMG to MPI Information Requests -	
20		Round 1. Investment in motorcycle road	
21		safety.	
22	CMMG-2-9	CMMG to MPI Information Requests -	
23		Round 1. Comparison with other	
24		provinces - 50 year old men with two	
25		vehicles 2004 Harley/GMC.	

1	LIST OF EXHIBITS		
2	Exhibit No.	Description	Page No.
3	CMMG-2-10	CMMG to MPI Information Requests -	
4		Round 1. Progress with new initiatives	
5		on experience rider program.	
6	CMMG-2-11	CMMG to MPI Information Requests -	
7		Round 1. RSR Basic program amounts	
8		over 15 years.	
9	CMMG-2-12	CMMG to MPI Information Requests -	
10		Round 1. Percentage of decreases in	
11		expenses.	
12	CMMG-2-13	CMMG to MPI Information Requests -	
13		Round 1. Sources and factors of RSR	
14		increase.	
15	CMMG-2-14	CMMG to MPI Information Requests -	
16		Round 1. Capital maintenance	
17		provisions (CMP) delay.	
18	CMMG-2-15	CMMG to MPI Information Requests -	
19		Round 1. Wildlife collision program	
20		and initiatives.	
21	CMMG-3	CMMG to MPI Information Requests -	
22		Round 2.	
23	CMMG-3-1	CMMG to MPI Information Requests -	
24		Round 2. PIPP losses - motorcycle	
25		incurred losses.	

1	LIST OF EXHIBITS		
2	Exhibit No.	Description	Page No.
3	CMMG-3-2	CMMG to MPI Information Requests -	
4		Round 2. ITF and ITOF, interest	
5		transfer from retained earnings 2009-	
6		2013	
7	CMMG-3-3	CMMG to MPI Information Requests -	
8		Round 2. Averaged rates of private	
9		insurers in Alberta.	
10	PUB-17	Book of documents of PUB counsel.	67
11	CAC-13	CAC PowerPoint presentation	87
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1	List of Undertakings		
2	No.	Description	Page No.
3	1	To provide how much the yield rate on the Government of Canada 10-year bonds has changed over the period from February 2018 to September 2018 and show what the claims discount rate has changed over that same period	157
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1 --- Upon Commencing at 9:03 a.m.

2

3 THE CHAIRPERSON: Good morning,  
4 everyone. My name is Robert Gabor. I'm the Chair of  
5 the Public Utilities Board. I now call this 2019  
6 Manitoba Public Insurance Corporation General Rate  
7 Application herein to order.

8 I'm joined by three (3) other Board  
9 members at this hearing. Board members are Irene  
10 Hamilton, on my left, your right; Robert Vandewater  
11 and Carol Hainsworth. Also with us today is Darren  
12 Christle, the secretary of the Board, Kristen Schubert  
13 who will manage our electronic document system.  
14 Cheryl Lavigne will act as our court reporter.  
15 Transcripts of this hearing will be recorded by Digi-  
16 Tran and made available on our website.

17 Before we proceed with the application,  
18 I would like to acknowledge, for the record, the  
19 passing of Robyn Gray; a larger-than-life figure who  
20 appeared regularly before the Board at MPI General  
21 Rate Applications where he spoke on behalf of  
22 motorcyclists. Tragically, Robyn was killed in a  
23 motorcycle crash in May of this life.

24 I would like to call upon Ray Oakes to  
25 say a few words about Robyn.



1 MR. RAYMOND OAKES: Thank you very  
2 much, Mr. Chairman, for this opportunity to speak  
3 publically in recognition of the life of Robyn Sefton  
4 Gray who left us at the age of 71 on May 24th, 2018.

5 Robyn was, indeed, a larger-than-life  
6 and colourful figure. He was an outlaw biker; a  
7 successful businessman; an advocate for motorcycle  
8 safety and the founder of the CMMG. He was a  
9 libertarian who took it quite seriously to fight on  
10 behalf of the rights of the individual against what he  
11 saw as large, and sometimes too powerful organizations  
12 including government and other organizations. There  
13 was a two-page spread in the Free Press entitled  
14 Legendary Biker Even Greater Man. I would hope that  
15 when I pass I'd merit some -- some recognition. It  
16 certainly wouldn't be two (2) pages in Winnipeg's  
17 newspaper.

18 Robyn founded the CMMG in 1992 and  
19 pretty much attended every Public Utilities Board  
20 hearings since that time. He was a president of the  
21 Spartan Motorcycle Club. He started Winnipeg's first  
22 Harley Davidson franchise in 1978 and carried that  
23 business on successfully for generations. I was  
24 shocked to receive a text the next morning that Robyn  
25 had passed killed by not one (1) but two (2) cars and

1 his loss leaves all of us a little poorer and a little  
2 less colourful. Thank you, Mr. Chairman.

3 THE CHAIRPERSON: Thank you, Mr.  
4 Oakes. MPI has applied to the Public Utilities Board  
5 for approval of its premiums to take effect on March  
6 1, 2019. This hearing will be conducted in accordance  
7 with the provisions of the Crown Corporation's  
8 Governance and Accountability Act, the Public  
9 Utilities' Board Act and the Board's Rules of Practice  
10 and Procedure. These rules are available for review  
11 on the Board's website.

12 In its application MPI is seeking a 2.2  
13 percent overall increase in basic vehicle premium  
14 revenue, including vehicle-for-hire rates for service  
15 for the 2019/2020 insurance year.

16 This overall increase is comprised of a  
17 0.1 percent increase to the breakeven cost of policies  
18 and a 2.1 percent increase for a net capital  
19 maintenance provision to maintain MPI's capital  
20 provision through the rate year -- through the rating  
21 year as measured by the minimum capital test.

22 We will begin the hearing on each  
23 hearing date at 9:00 a.m. and adjourn at approximately  
24 4:00 p.m. Each day will include a mid morning lunch  
25 and mid afternoon break.

1                   The Public Utilities Board -- the  
2 Public Utilities Board's mandate is to set just and  
3 reasonable rates that are in the public interest. The  
4 public interest has been defined by the Manitoba Court  
5 of Appeal as balancing the impacts of rate increases  
6 on consumers with the fiscal health of the Utility.  
7 In order to set just and reasonable rates that are in  
8 the public interest, the Board will need to hear and  
9 consider all of the evidence that is adduced on the  
10 record of this proceeding and hear submissions from  
11 Manitoba Public Insurance and all approved  
12 intervenors.

13                   Following closing arguments, the Panel  
14 will sequester itself and deliberate -- deliberate to  
15 make our final determinations on the matters before  
16 us. In the end, we may accept, deny or vary MPI's  
17 application.

18                   In reaching our decision, we would be  
19 guided by the evidence, written or oral, in our  
20 determination of what represents the public's  
21 interest. The Board takes its obligation and mandate  
22 of protecting the public interest very seriously. We  
23 are concerned not only with the short-term economic  
24 impact of MPI's operations on both ratepayers and MPI  
25 itself, but also the fairness of that impact on MPI's

1 long-term fiscal and operational well-being. In  
2 addition, the Board views this process as one which  
3 should ensure transparency in terms of the  
4 Corporation's operations and financial position.

5           In its procedural Order 82/'18 issued  
6 following the pre-hearing conference which took place  
7 on June 25th, 2018, the Board approved a final issues  
8 list for this hearing. In accordance with that Order,  
9 the Board looks forward to hearing evidence and  
10 submissions from the parties with respect to the  
11 following issues which are before the Board, among  
12 others.

13           The rate Order sought by MPI, namely,  
14 an overall 2.2 percent rate increase, no rate  
15 stabilization reserve, rebuilding fee and no chang --  
16 changes to other fees and discounts.

17           MPI's financial position, including its  
18 financial forecasting accuracy and projected financial  
19 results.

20           The Dynamic Capital Adequacy Test  
21 Methodology utilized by MPI, together with the  
22 appropriate target capital range for MPI's rate  
23 stabilization reserve or RSR and total equity.

24           Final rates for vehicles-for-hire.  
25 MPI's expenses and cost containment efforts. MPI's

1 claims forecasting and runoff of prior year's claims.  
2 bench marking conducted by MPI. MPI's investment  
3 portfolio performance, the composition of the  
4 portfolio and the asset liability management study  
5 conducted by Mercer. MPI's quarter -- sorry, MPI's  
6 corporate strategic plan and MPI's IT strategic plan  
7 and IT expenses and projects.

8                   We trust the participants at this  
9 hearing will be mindful of cost effectiveness and will  
10 employ a cooperative approach, the common goal being  
11 to put forward useful evidence to assist the Panel in  
12 reaching sound decisions on the matters before it.

13                   We have significant and complex issues  
14 before us and I'm confident that we will approach this  
15 process with a view to benefitting the public  
16 interest.

17                   The Manitoba Ombudsman has issued  
18 privacy guidelines for administrative tribunals. The  
19 Public Utilities Board is mindful of its obligations  
20 under those guidelines. Its decisions in respect of  
21 the application being considered will be sensitive to  
22 the guidelines. Personal information will not be  
23 disclosed until it is appropriate and necessary to do  
24 so, however, the Board advises participants that these  
25 proceedings are public and that as a result, personal

1 information protections are reduced.

2 In addition, two (2) matters of  
3 housekeeping: First, please ensure that all cellular  
4 phones are off or on mute throughout the hearing;  
5 second, all parties and the representatives and  
6 consultants should be aware that the Board hearings  
7 are live-streamed through a link accessible on the  
8 Board's website. As such, for the benefit of the  
9 public, the use of acronyms is to be discouraged. It  
10 will assist in the public's understanding of the  
11 issues and evidence if acronyms are avoided.

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

20 Ms. McCandless...?

21 MS. KATHLEEN MCCANDLESS: Thank you,  
22 Mr. Chair. Good morning. It's Kathleen McCandless,  
23 Board counsel. To my immediate left is my co-counsel  
24 Robert Watchman. We also have with us today Roger  
25 Cathcart and Candace Martyszenko, accounting advisors

1 to the Board and Mr. Brian Pelly. The actuarial  
2 advisor to the Board is not here today. I believe he  
3 is following the proceeding through the live stream  
4 and he will be with us later this week. Thank you.

5 MR. STEVE SCARFONE: Good morning, Mr.  
6 Chairperson, members of the Board. My name is Steve  
7 Scarfone, counsel for Manitoba Public Insurance.  
8 There's a number of people from MPIC here today so I'd  
9 like to go through each of them and introduce them for  
10 the Board.

11 To my immediate left is Luke Johnston,  
12 he's the chief actuary of MPIC and vice-president of  
13 product and risk management. To his left is president  
14 and chief executive officer, Ben Graham; beside him is  
15 Brad Bunko, vice-president of information technology,  
16 business transformation and the chief information  
17 officer. Next to him is Curtis Wennberg. Mr.  
18 Wennberg is vice-president, customer service, and  
19 chief operations officer. Next to him is Mark  
20 Giesbrecht. Mr. Giesbrecht is vice-president of  
21 finance and the chief financial officer for Manitoba  
22 Public Insurance. Immediately behind me is Satvir  
23 Jatana. She is vice-president of Human Resources and  
24 corporate services of MPIC. Beside her is Mr. Keith  
25 Ward -- Mr. Ward Keith, I apologize. You'll recognize

1 him. He's vice-president of business development and  
2 connections and the Chief Administrative Officer.  
3 Next to him is Mike Triggs. MPIC's vice-president and  
4 corporate secretary and general counsel. Just so I  
5 have everybody straight, that's my co-counsel beside  
6 Mr. Triggs; that's Anthony Guerra Lafontaine (sic).  
7 And beside him is Mr. Jeff Crozier, he's director of  
8 Regulatory Affairs. I the analyst beside him is Ted  
9 Meira. He's the analyst of director -- of regulatory  
10 affairs. I apologize.

11 THE CHAIRPERSON: Thank you, Mr.  
12 Scarfone.

13 MR. STEVE SCARFONE: Thank you.

14 THE CHAIRPERSON: Just for people who  
15 have not appeared, we have the microphones which have  
16 buttons that are impossible to put on. You have to  
17 press it hard until the red light -- until the red  
18 light comes on. Thank you.

19 Mr. Williams -- oh, Ms. Dilay...?

20 MR. KATRINE DILAY: Thank you, Mr.  
21 Chair. Good morning, Board members. My name is  
22 Katrine Dilay, lawyer with the Public Interest Law  
23 Centre and together with Mr. Byron Williams to my left  
24 who is the director of the Public Interest Law Centre.  
25 We represent the Manitoba branch of the Consumers



1 Association of Canada and Ms. Gloria DeSorcy,  
2 Executive Director of CAC (Manitoba) is sitting behind  
3 us. Thank you.

4 THE CHAIRPERSON: Thank you.

5 Mr. Oakes...?

6 MR. RAYMOND OAKES: Good morning, Mr.  
7 Chairman. Again, Raymond Oakes, Booth Dennehy &  
8 Associates on behalf of the Coalition of Manitoba  
9 Motorcycle Groups known as the CMMG.

10 THE CHAIRPERSON: Thank you.

11 Ms. McCandless...?

12

13 OPENING COMMENTS BY BOARD COUNSEL:

14 MS. KATHLEEN MCCANDLESS: Thank you.

15 Manitoba Public Insurance is applying to the Public  
16 Utilities Board for approval of premiums to be charged  
17 with respect to compulsory vehicle insurance for the  
18 insurance year 2019 and '20. The rates would take  
19 effect on March 1st, 2019 and are based on overall 2.2  
20 percent rate increase, comprised of a .1 percent  
21 increase to the break-even cost of policies and a 2.1  
22 percent increase for a net capital maintenance  
23 provision.

24 MPI is also applying for final approval  
25 of premiums charged with respect to compulsory

1 vehicles for hire rates for insurance effective March  
2 1, 2018, including vehicles for hire rates for service  
3 for both the 2017/'18 and 2018/'19 insurance year,  
4 based on the rates previously approved by this Board  
5 in Order 162-16 and 130-17.

6                   With respect to the evidence filed in  
7 this proceeding, I note that there were five (5)  
8 exhibits entered on the record at the prehearing  
9 conference in this matter and that prehearing  
10 conference was held on June 25, 2018. Those exhibits  
11 were PUB-1, the Notice of public hearing and  
12 prehearing conference dated June 15, 2018.

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

15                   PUB-3, the proposed hearing timetable  
16 for this GRA.

17                   PUB-4, a letter from Mr. Christle to  
18 MPI and all prospective Intervenors dated June 18,  
19 2018, with attachments.

20                   PUB-5, a letter from Mr. Christle to  
21 MPI and all prospective Intervenors, dated June 22,  
22 2018.

23                   I should say that was six (6) exhibits  
24 entered on the record at the procedural hearing. The  
25 sixth exhibit was 61-18, contained the preliminary

1 issues list for this GRA.

2 Now, in addition, I would like to enter  
3 the following exhibits for the record today. PUB-7,  
4 which is the transcript of the prehearing conference  
5 held on June 25, 2018.

6 PUB-8, the Board's procedural Order  
7 82/'18, dated June 29, 2018, with appendices which  
8 Order approved the final issues list for this GRA.

9 Exhibits PUB-9-1 to 9-86, the PUB first  
10 round Information Request and MPI's responses to those  
11 requests.

12 PUB-10, which was PUB Order 89/'18 in  
13 respect of a motion filed by MPI seeking confidential  
14 treatment of certain information in the GRA.

15 Exhibits PUB-11-1 to 11-39, the PUB  
16 second round Information Requests and MPI's responses  
17 to those requests.

18 PUB Order 123-18 in respect of a motion  
19 filed by MPI seeking confidential treatment of certain  
20 responses to round 1 Information Requests in this GRA.

21 PUB-13, Board Order 124-18 in respect  
22 of a motion filed by Consumers Association of Canada  
23 Manitoba Inc. for an order compelling certain  
24 responses to Information Requests in this GRA.

25 Exhibit PUB-14, the reminder notice of

1 the public hearing dated September 15, 2018.

2 PUB-15, PUB Order 130-18 in respect of  
3 a motion by Manitoba Public Insurance, seeking  
4 confidential treatment of certain responses to round 2  
5 Information Requests in this GRA.

6 And Exhibits PUB-16-1 to 16-9, the PUB  
7 Information Requests of CAC and CAC's responses to  
8 those requests.

9 Lastly, we circulated this morning and,  
10 Panel members, you should have copies before you of  
11 the book of documents of PUB counsel, which I would  
12 ask that be entered as PUB-17.

13

14 --- EXHIBIT NO. PUB-17: Book of documents of PUB  
15 counsel.

16

17 MS. KATHLEEN MCCANDLESS: With respect  
18 to the cross-examination to be conducted on behalf of  
19 the Board over the next number of days, the following  
20 major issues will be addressed: The background to the  
21 rate applied for MPI's financial position; the Dynamic  
22 Capital Adequacy Testing Methodology and the Rate  
23 Stabilization Reserve; MPI's expenses and cost  
24 containment efforts; MPI's claims forecasting; bench  
25 marking conducted by MPI; MPI's investment portfolio

1 and the Asset Liability Management Study conducted by  
2 Mercer; MPI's corporate -- corporate strategic plan  
3 and MPI's IT strategic plan, expen -- IT expenses and  
4 projects; as well as other topics that may arise.

5 I would now refer to the procedural  
6 outline which was distributed this morning and, in  
7 particular, to the bottom of the first page, running  
8 to the second page, in particular, where the order of  
9 the matters to be heard are reflected. Please note  
10 that there is a change in the proceedings this year.  
11 MPI will be putting forward issue specific witness  
12 panels and so at item number 3, on page 2 of the  
13 procedural outline at the top of the page, this is the  
14 first panel from which we will hear today.

15 Tomorrow, at Item 5, we will hear from  
16 the MPI investments capital maintenance provision rate  
17 stabilization reserve, Dynamic Capital Adequacy  
18 Testing panel and that panel will also include Mr.  
19 Dave Makarchuk of Mercer. He is appearing to testify  
20 as to the Mercer ALM study. Mr. Makarchuk, as you  
21 will recall, was pre-qualified as an expert witness in  
22 the Board's procedural Order.

23 With respect to the next panel at item  
24 6, we expect to have the revenue expenses rate-making  
25 panel. Per the procedural outline, they are scheduled

1 to appear on Friday of this week, but depending on  
2 when the previous panel wraps up, they may start prior  
3 to then.

4                   Then beginning at Monday of next week  
5 at item number 7, we have the IT physical damage re-  
6 engineering project value management panel. That  
7 Panel will include Mr. Chuck Henry of Gartner to speak  
8 to the physical Damage Re-engineering Project  
9 evaluation and Mr. Henry was also pre-qualified as an  
10 expert in the Board's procedural Order.

11                   Following that panel there may be a  
12 need for a cleanup cross-examination based on answers  
13 to undertakings and once the MPI panels are complete,  
14 we will hear from CAC witnesses, first, Dr. Wayne  
15 Simpson and Andrea Sherry on Friday, October 26th and  
16 Valter Viola on Monday, October 29th. We will then  
17 hear closing submissions.

18                   In addition, there will be the  
19 opportunity for members of the public to present to  
20 this hearing beginning this afternoon and to finish  
21 this afternoon at 1:30 p.m. We are expecting three  
22 (3) presenters to appear today. As the hearing  
23 proceeds changes to the schedule may be required, but  
24 we will do our best to follow the anticipated  
25 schedule.

1                   One last item, on Friday of last week  
2 we heard from Erika Miller of CAA. She advised that  
3 she would not be present at today's hearing nor would  
4 CAA be in attendance throughout the proceedings this  
5 year. CAA did apply for and was granted Intervenor  
6 status in this hearing and so, accordingly, it is  
7 still listed in the procedural outline as an  
8 Intervenor.

9                   Ms. Miller submitted written remarks  
10 for this morning which I will read into the record  
11 following the opening statements made by the other  
12 Intervenors this morning. Those are -- are my opening  
13 remarks, Mr. Chair. Thank you.

14                   THE CHAIRPERSON: Thank you, Ms.  
15 McCandless. I'm just wondering in terms of the  
16 schedule perhaps counsel can get together at some  
17 point and determine if they want a break between the  
18 evidence and submissions so that we know as we move  
19 forward rather than waiting til the end of the hearing  
20 if -- if we're going to have submissions immediately  
21 following the -- the close of testimony or if there's  
22 going to be a -- a -- a day or -- or -- or whatever,  
23 so. It'd be nice to know, you know, at the end of  
24 this week or sometime next week rather than wait til  
25 the end of the hearing.

1 MS. KATHLEEN McCANDLESS: We will  
2 advise. Thank you.

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

5

6 OPENING REMARKS BY MPI:

7 MR. STEVE SCARFONE: Thank you, Mr.  
8 Chairperson. Mr. Chairperson, members of the Board,  
9 one (1) year ago I was before this Board at the start  
10 of the 2018 General Rate Application and spoke of  
11 prudent fiscal management and rate stability. Not  
12 surprisingly, those two (2) themes will again form  
13 part of the 2019 General Rate Application and I expect  
14 those same two (2) themes to re-appear at next year's  
15 General Rate Application.

16 However, Mr. Chairperson, there is a  
17 difference between this year and last. Last year you  
18 will recall that the Corporation had faced significant  
19 financial challenges in recent years and was seeking a  
20 rate increase of 2.7 percent which management had  
21 reduced through a number of strong actions from an  
22 additional -- from an initial 7.7 percent rate  
23 indication.

24 This year the Corporation is seeking an  
25 increase of .1 percent to the break-even cost of



1 policies. That's just one-tenth (1/10) of a  
2 percentage point. The Corporation has said in its  
3 overview section that financial stability at MPIC  
4 appears promising this year.

5                   Of course, as mentioned earlier, the  
6 Corporation is also seeking a additional 2.1 percent  
7 increase for a net capital maintenance provision for  
8 an overall increase of 2.2 percent.

9                   And I will return to the capital  
10 maintenance provision momentarily, but I want to  
11 highlight to -- for you, Mr. Chairperson and Board  
12 members, the reasons why MPIC brings a more optimistic  
13 message before the Board this year.

14                   Last year the Corporation made a rather  
15 bold prediction provided MPIC was properly capitalized  
16 that it had sufficient funds in its rate stabilization  
17 reserve as mandated under Section 18 of the Manitoba  
18 Public Insurance Corporations Act, the Corporation  
19 could return before this Board year after year seeking  
20 little or no rate increases except in exceptional  
21 circumstances. And the reason for that I would  
22 suggest, Mr. Chairperson, is the means by which the  
23 Corporation naturally grows its revenue through  
24 increases to the driver and vehicle numbers, along  
25 with customers upgrading their vehicles; that revenue

1 growth is 4 percent. So provided expenses and costs  
2 are lower than 4 percent, there will be no need for a  
3 rate increase. And that I would suggest is what's  
4 before the Board this year, delivery on a promise of  
5 little or no rate increases.

6                   Again, there is this year just a .1  
7 percent increase sought for the cost of issuing  
8 policies. Having said that, Mr. Chairperson, the  
9 issue of capital is not yet fully resolved.

10                   In the Order that followed last year's  
11 hearing the Board made two (2) important findings in  
12 our view. The first was the recognition of lower and  
13 upper capital targets; the two (2) of which the  
14 Corporation could operate its reserve fund unfettered.  
15 And the second was allowing the Corporation to retain  
16 the RSR investment income as a means of building the  
17 rate stabilization reserve.

18                   Prior to the retention of RSR  
19 investment income which amounted to approximately \$12  
20 million last year, the balance in the RSR was  
21 comprised entirely of money transferred MPI's  
22 competitive lines of business. This was not  
23 acceptable to MPIC.

24                   As of February 28th, 2019 the balance  
25 in the rate stabilization reserve was \$211 million.

1 The board of directors having transferred \$37 million  
2 from the extension line of business to provide the RSR  
3 with a \$10 million buffer above the minimum amount  
4 required for financial status -- satisfactory  
5 financial status for the 2018/'19 fiscal year. That  
6 is \$10 million above the two hundred and one dollar  
7 (\$201) -- \$200 million lower target.

8                   This year, Mr. Chairperson, I would  
9 suggest that Manitobans are beginning to see the  
10 benefit of the PUB assisting Manitoba Public Insurance  
11 in its capitalization goals. In short order you will  
12 hear from people much smarter than -- than myself  
13 about why a net capital maintenance provision is  
14 needed to maintain the minimum capital required from  
15 fiscal year end 2018/'19 to fiscal year end 2019/'20.

16                   That is the reason why Basic's capital  
17 is expected to deplete if not propped up by a capital  
18 maintenance provision. Indeed, in the Board Order  
19 last year it stated as follows at page 29:

20                   "The Board appreciates the need to  
21                   protect Basic's capital position  
22                   against depletion due to the natural  
23                   growth in Basic's risk profile."

24                   And so the application this year will  
25 also ask for a 2.1 percent increase for a capital

1 maintenance provision.

2                   It's important to note, Mr.  
3 Chairperson, that there are no expected variances --  
4 if there are no expected variances in the next five  
5 (5) years, there will not be an ongoing requirement  
6 for capital maintenance provision, capital build  
7 requirements or transfers from the extension line of  
8 business.

9                   In Mr. Johnston's DCAT section of the  
10 application, the Chief Actuary writes that the  
11 Corporation's business plan, with approval of the 2.2  
12 percent overall increase assumes no additional rate  
13 changes, RSR rebuilding fees or capital maintenance  
14 provisions for policy years 2020 and 2022/'23.

15                   So again, Mr. Chairperson, if this  
16 application is approved and forecasted rates are left  
17 alone, as it were, there will be no additional rate  
18 increases or additional CMP in the 2020 GRA and 2021  
19 GRA. So that is the story that MPIC were presenting  
20 this year on capital.

21                   As you may recall, again from last  
22 year, adequate capital reserves are an essential part  
23 of MPI's commitment to proven fiscal management. The  
24 other two (2) being appropriate premiums and effective  
25 and efficient operations. You will hear shortly from

1 MPI's new President and Chief Executive Officer, Ben  
2 Graham and he will speak more eloquently than I can on  
3 these tenets, but suffice to say that expenses are,  
4 again, this year being managed quite effectively by  
5 MPIC.

6                   And one good exa -- example of that,  
7 Mr. Chairperson, our expenses are expected to decrease  
8 by over \$5 million when compared against last year's  
9 forecast. And I would suggest, Mr. Chairperson, that  
10 the good news and optimism does not end there because  
11 MPIC has a new investment strategy to reveal this year  
12 - this year on the heels of the Asset Liability  
13 Management Study completed in January of this past  
14 year.

15                   You have before you and will hear  
16 evidence about how the Corporation has gone from a co-  
17 mingled investment portfolio to one that segregates  
18 the investment fund into buckets, a Basic claims  
19 portfolio, a portfolio for the rate stabilization  
20 reserve, et cetera.

21                   And we'll also hear evidence about how  
22 the new investment strategy selected a portfolio that  
23 offers considerable protection against the perils of  
24 inaccurate interest rate forecasting. In addition,  
25 the new strategy will have the effect of lowering the

1 capital required to keep MPIC in satisfactory  
2 financial status.

3                   And for reasons that will be later  
4 explained by MPI's Chief Actuary, Luke Johnston, MPI  
5 calculates the lower and upper targets for the  
6 upcoming year to be a hundred and forty-three million  
7 and three hundred and five million as the upper  
8 target. This is a reduction of approximately 30  
9 percent in the RSR range, a direct result, you will  
10 hear, of the new investment strategy.

11                   MPIC is aware that the ALM study and  
12 the new investment strategy will be live issues during  
13 the course of this hearing. And while MPIC will  
14 present witnesses including Dave Makarchuk, the author  
15 of the ALM study, to answer questions the Board and  
16 Intervenors may have, the Corporation asked the Board  
17 to bear in mind two (2) very important considerations  
18 where it concerns the investment strategy:

19                   1. The investment expertise MPIC had  
20 available to it when deciding upon a new investment  
21 strategy; and

22                   2. Whether that investment strategy  
23 selected by MPIC is a reasonable strategy.

24                   MPIC will be asking the Board to defer  
25 to the expertise of its investment committee and its

1 Board of Directors and make a final that the  
2 investment strategy is eminently reasonable. The  
3 Government of Manitoba in whose name the investments  
4 are held also believes the investment strategy to be  
5 reasonable.

6                   You will hear evidence, Mr.  
7 Chairperson, that the new investment strategy was  
8 based upon the risk tolerance as decided upon by the  
9 government appointed MPIC Board of Directors. And  
10 while we may hear evidence from other witnesses during  
11 the course of this proceeding, the challenge of some  
12 of the investment decisions made by MPIC none of those  
13 witnesses, with respect, are able to speak to what the  
14 appropriate risk tolerance for MPIC should be.

15                   Similarly, while not at this time  
16 challenging the credentials of Intervenor witnesses,  
17 this Board need only turn to Appendix 1 of Exhibit 19  
18 in the MPIC rebuttal evidence to appreciate the  
19 investment credentials of the Investment Committee,  
20 Domenico Grestoni, Daniel Bubis, Valerie Wowryk.

21                   And I mention these individuals by  
22 name, Mr. Chairperson, to impress upon you their  
23 expertise and why this Board should defer to the  
24 Investment Committee. To use but one (1) example from  
25 that appendix, Mr. Grestoni before he retired managed

1 a \$17 billion Investors Group dividend fund for eleven  
2 (11) years.

3                   By comparison, the MPIC investment fund  
4 is valued at approximately \$3.3 billion. But I don't  
5 expect you to take my word for it, Mr. Chairperson and  
6 Panel members, you may recall from last year the  
7 testimony of Gary Steski, Assistant Deputy Minister at  
8 Manitoba Finance and you will recall that Mr. Steski  
9 who is co-chair of the MPIC Investment Committee  
10 Working Group described the Investment Committee as  
11 very qualified and highly competent.

12                   Simply put, MPI and its Board of  
13 Directors under the direction of the Government of  
14 Manitoba had a lower risk appetite when deciding upon  
15 the new portfolios particularly as it concern Basic  
16 and this should not come as a surprise to the PUB.

17                   MPIC has made significant transfers for  
18 four (4) consecutive years from extension line of  
19 business. Transfers totaling \$213 million due to the  
20 depletion of the Rate Stabilization Reserve. In  
21 addition, MPIC in compliance with directives from the  
22 Board on interest rate forecasting suffered net income  
23 losses of a hundred and sixty-three million  
24 (163,000,000) between 2013 and 2016.

25                   And so, Mr. Chairperson, the portfolio



1 selected by MPIC and its Board of Directors is one (1)  
2 with -- one (1) -- a hundred percent hedge ratio. And  
3 what that means, members of the Board, is that there  
4 is 100 percent protection against interest rate risk  
5 in the new investment portfolio.

6                   There are, I would suggest, new  
7 investment portfolios and investments available to any  
8 given investor. Ultimately, however, it comes down to  
9 risk tolerance, and the evidence of the investment  
10 witnesses will repeat that premise again and again.

11                   And given the Corporation's risk  
12 tolerance, can it reasonably arg -- be argued that the  
13 portfolio selected by MPI is unreasonable? We would  
14 suggest not. Could the new investment strategy have  
15 maintained a commingled portfolio and decided against  
16 the segregation? Sure. And could the new investment  
17 strategy have increased real estate holdings, rather  
18 than decreased the real estate holdings? Perhaps.

19 And again, could the new investment strategy have  
20 included the purchase of real return values to protect  
21 against long-term rising inflation? Maybe.

22                   But that isn't what MPIC and its Board  
23 of Directors went with. And that does not make the  
24 strategy unreasonable. And perhaps in a few years,  
25 when another ALM study is performed, the purchase of

1 real return values will be indicated, or maybe not.  
2 But there is no evidence to support anything but  
3 inflation in -- in -- at or about 2 percent. And so a  
4 portfolio that included real return -- real return  
5 bonds did not make sense in 2018.

6           Again, there are a myriad of investment  
7 options available. I encourage you, Mr. Chairperson,  
8 to revisit Appendix 1 to the rebuttal evidence of MPIC  
9 and think about the expertise in that investment  
10 committee.

11           For the reasons already stated, the  
12 Corporation is strongly opposed to forecasting  
13 interest rates in anything but the naive forecast.  
14 The Corporation complied with Board Order 130/17 and  
15 made adjustments based on the 50/50 forecast.  
16 However, for the 2018 General Application, MPIC is  
17 again forecasting rates using the Government --  
18 Government of Canada ten (10) year bond yield rate as  
19 of February 28th, 2018.

20           Having said that, to ensure the  
21 interest rate used is as accurate as possible, the  
22 Corporation is not opposed to updating the forecast,  
23 just as it will under PUB pre-asked number 1, which  
24 requested the bench mark bond yield would be updated  
25 to the end of September.

1                   From MPI's perspective, this should not  
2 be an entry -- this should not be an issue, interest  
3 rate risk forecasting. Quite simply, Mr. Chairperson,  
4 if interest rates go up, rates will be adjusted.  
5 Customers will pay less next year. If interest rates  
6 go down, rates again would be adjusted, and customers  
7 will pay more next year, either directly or through  
8 the RSR.

9                   However, and this is the important  
10 point, if rates are forecast based on rise in interest  
11 rates, and rates happen to fall, there could be a  
12 significant shortfall. The naive forecast avoids this  
13 from again happening.

14                   These are a few of the live issues left  
15 for discussion at this year's General Rate  
16 Application. Others include, as Ms. McCandless has  
17 identified, the Physical Damage Re-Engineering  
18 Program, and other information technology capital  
19 projects.

20                   Having said that, the Corporation is  
21 also of the view that the Board has before it a full  
22 and unbiased record, and that questions be limited to  
23 those not already in evidence, and those which could  
24 not reasonably have been asked during the Information  
25 Request process. The Board will hear from panels this

1 year, rather than individual witnesses, as in past  
2 years, and the presentation will form part of each  
3 panel.

4                   And of course, first up today will be  
5 the executive panel, who will begin momentarily. And  
6 the MPI executive will speak to the overview section  
7 of the application, offering the high-level  
8 perspective of MPI's decision making, along with the  
9 direction the Corporation intends to go.

10                   Many of the executives on today's panel  
11 will reappear on other panels to speak to issues  
12 within their areas of expertise and responsibility.  
13 And the panel for the balance of the week will speak  
14 to investments, the CMP, the rate stabilization  
15 reserve, and the Dynamic Capital Adequacy Test. You  
16 will hear from Mr. Johnston, Mr. Giesbrecht, the CFO,  
17 and Mr. Bunston, who is the manager of investments.

18                   As Ms. McCandless indicated, alongside  
19 that panel will be Mr. Makarchuk of Mercer Canada.  
20 He's been pre-qualified to give expert opinion  
21 evidence on institutional investment planning. Early  
22 next week, the panel will deal with information  
23 technology, physical damage re-engineering and value  
24 management, and we'll hear from Brad Bunko, Ben  
25 Graham, Curtis Wennberg, John Remillard, and Lawrence

1 Lazarko of the Information Technology department.

2 Chuck Henry of Gartner Consultant will  
3 be alongside that panel, and he will speak to the  
4 updated Physical Damage Re-Engineering Report as  
5 ordered last year by this Board. Mr. Henry has been  
6 prequalified to give opinion evidence on the use and  
7 the planning of information technology.

8 And lastly, Mr. Chairperson, the third  
9 panel scheduled for the second half of next week will  
10 deal with revenues, expenses, and rate making, and you  
11 will hear again from Mr. Giesbrecht, Mr. Johnston, and  
12 Cynthia Campbell, the Corporation's controller.

13 As in years past, there will be back  
14 row support to assist the panel members while giving  
15 evidence. The intention will be for myself and my co-  
16 counsel, Mr. Guerra, to introduce the back row  
17 personnel at the outset of each appearance.

18 And in conclusion, Mr. Chairperson and  
19 panel members, the relief sought in this application  
20 can be located in the legal application section of the  
21 application, Part 1, which is the very first section  
22 of the application, and includes the following, as  
23 indicated. A 2.2 percent overall increase, including  
24 2.1 percent for capital maintenance, a lower RSR  
25 target of 34 percent MCT, which is the equivalent to

1 \$143 million, an upper RSR target of 85 percent MCT,  
2 or minimum capital test, the equivalent to \$305  
3 million, and again, as Mr. Chairperson had indicated,  
4 final approval of the rates for vehicles for hire in  
5 the interim order dated January 15, 2018.

6 And subject any questions the Chair or  
7 the panel members may have, that concludes the opening  
8 remarks for MPIC.

9 THE CHAIRPERSON: Thank you, Mr.  
10 Scarfone. I've just got one (1) question: Which is  
11 the second panel? Is the second panel the revenue and  
12 expenses, or the -- we're going by the procedural  
13 outline, and -- and I -- I saw it as the revenue and  
14 expenses panel.

15 MR. STEVE SCARFONE: No, I do believe  
16 that the second panel is the investments, capital  
17 maintenance provision, RSR, and the DCAT, which is --  
18 begins tomorrow.

19 MS. KATHLEEN MCCANDLESS: And -- yes.  
20 And just to --

21 THE CHAIRPERSON: Sorry, the -- what -  
22 - what follows that one? Is it --

23 MR. STEVE SCARFONE: That one, then,  
24 is followed by information technology. So the  
25 expenses one is the very last panel, Mr. Chairperson.

1 MS. KATHLEEN MCCANDLESS: I --

2 THE CHAIRPERSON: Which differs from  
3 the outline?

4 MS. KATHLEEN MCCANDLESS: Yes. I -- I  
5 believe what --

6 THE CHAIRPERSON: Yeah.

7 MS. KATHLEEN MCCANDLESS: -- will  
8 happen is because the -- the second panel will not  
9 take the balance of the week, that revenue, expenses,  
10 and rate -- and rate making is ready to go at the end  
11 of this week. That's why the procedural outline is  
12 written the way it is.

13 MR. STEVE SCARFONE: I see. Okay.

14 THE CHAIRPERSON: And -- okay. Well,  
15 no, as long as -- as counsel can --

16 MS. KATHLEEN MCCANDLESS: Yes.

17 THE CHAIRPERSON: -- figure it out. I  
18 just noticed the -- the difference.

19 MR. STEVE SCARFONE: Ms. McCandless is  
20 on top of these things, Mr. Chairperson, is --

21 THE CHAIRPERSON: Yes. Believe me, I  
22 know. Thank you.

23 Now, I -- I'm a little skittish now as  
24 to -- Mr. Williams will speak. Thank you.

25

1 OPENING REMARKS BY CAC:

2 DR. BYRON WILLIAMS: Yes. Good  
3 morning, and I'm pleased to appear on behalf of the  
4 Consumers' Association of Canada, the Manitoba branch.

5 And just to get a bit of housekeeping  
6 out of the way before we start, the Board will have  
7 already recorded CAC (Manitoba) Exhibits 1 through 12,  
8 so I would ask those -- that those be entered and  
9 accepted as exhibits. And we have a PowerPoint  
10 presentation for this morning, which I would ask be  
11 marked as CAC Exhibit 13. Just wait for that to be  
12 pulled up.

13

14 --- EXHIBIT NO. CAC-13: CAC PowerPoint  
15 presentation

16

17 DR. BYRON WILLIAMS: I -- I think  
18 Kristen may be in charge of it right now.

19 So just by way of introduction to our  
20 clients, CAC (Manitoba), while I've got here noted  
21 that they've been at rate hearings for about two (2)  
22 decades, it's actually getting closer to three (3)  
23 decades. I want to assure you that I have not been  
24 here for all those hearings, although My Friend, Mr.  
25 Oakes, may have been here for all those hearings.



1                   Our client, in their Interventions  
2 before the Public Utilities Board, are guided by  
3 certain consumer rights and responsibilities. Those  
4 rights include the right to be informed, the right to  
5 choose, or in this case where we have a regulated  
6 market monopoly, the right to participate in the  
7 regulatory process as a proxy for choice, the right to  
8 have a voice in marketplace decision-making, and the  
9 right to consumer education.

10                   Our clients are often asked how they  
11 developed their position, and as stated in our  
12 clients' notice of application to intervene, they do  
13 so through day-to-day consumer contact, through what  
14 they call now consumer engagement, which the Board may  
15 know better as consumer focus groups, through the  
16 guidance of the CAC (Manitoba) Board, as well as from  
17 advice from its expert advisors.

18                   And it's worth noting in terms of this  
19 hearing, the commitment that each expert witness for  
20 CAC (Manitoba) is asked to undertake, Dr. Simpson, Ms.  
21 Sherry, and Mr. Viola have all been asked to confirm  
22 their duty to provide evidence that is fair,  
23 objective, and nonpartisan, and reminded that their  
24 duty in this hearing is not ultimately to CAC  
25 (Manitoba), but to the Public Utilities Board as

1 independent expert witnesses.

2           As the Board Chair adverted to in his  
3 opening comments, the test before this Board, the  
4 ultimate determination is whether rates are just and  
5 reasonable. And that involves a balancing act between  
6 ratepayers and the Utility, or the monopoly, as well  
7 as between different classes of ratepayers. And the  
8 burden of proof rests with Manitoba Public Insurance  
9 by virtue of Section 84(2) of the Public Utilities  
10 Board Act.

11           This Board has given us guidance on the  
12 five (5) key elements of determining just and  
13 reasonable rates, and these key elements will serve as  
14 an outline for the rest of our opening submission, but  
15 will also guide our clients' ultimate position.

16           Element 1 is ensuring that forecasts  
17 are reasonably reliable. And you heard counsel from  
18 Manitoba Public Insurance this morning say, Don't  
19 worry too much about interest rate forecasts. We'll  
20 make it up sooner or later, whether through the RSR,  
21 or subsequent rates. That's not how the regulatory  
22 process works, with respect. The burden on all of us  
23 in this hearing is to make estimates that are best  
24 estimates based upon this Board's ultimate discretion  
25 and judgment.

1           A second key element in this proceeding  
2 is ensuring that actual and projected costs are  
3 necessary and prudent. I put in the word 'justified',  
4 which I think better reflects Section 24 -- excuse me,  
5 Section 25(4) of the Crown Governance Act. But that -  
6 - that prudence of tests of cost is an -- a critical  
7 and necessary element.

8           A third element is assessing the  
9 reasonable revenue needs of the applicant in the  
10 context of its overall general health. And that's  
11 where questions such as appropriate reserves come into  
12 play.

13           The fourth critical element is the  
14 appropriate allocation of cost between classes, as  
15 well as between driver and vehicle owners.

16           And finally, the ultimate job -- the  
17 ultimate duty on this Board is setting just and  
18 reasonable rates in accordance with the statutory  
19 guidance.

20           In terms of ensuring that forecasts are  
21 reasonably reliable, the key question in this hearing  
22 is the interest rate forecast. And before this Board,  
23 on slide 8 of our PowerPoint, we put some insight from  
24 the Board from last year's hearing, where the Board  
25 expressly rejects the naive forecast for rate-setting

1 purposes and accepts the evidence of Dr. Simpson  
2 expressing a pref -- preference for the 50/50 interest  
3 rate forecast.

4                   So the question for this hearing is --  
5 ultimately, one (1) of the key questions is: Does the  
6 selection of a naive forecast unreasonably inflate the  
7 revenue requirement? And given this Board's findings  
8 last year, has there been any new evidence presented  
9 by Manitoba Public Insurance sufficient to disturb the  
10 Board's findings from last year which expressly  
11 rejected the naive forecast? Alternatively, have,  
12 indeed, effect -- events over the past year simply  
13 reinforced the unsuit -- suitability of naive interest  
14 rate forecasts on a going-forward rate -- rate-setting  
15 basis?

16                   Another issue in terms of forecasting,  
17 although it's less critical, in our clients'  
18 submission, to this GRA, as to keep an eye on for  
19 future GRAs, is the implications of central reserving  
20 on forecasts of Personal Injury Protection Plan costs  
21 and claims. And if we go back to that slide for just  
22 a -- a moment, Ms. Dilay is much more organized than  
23 me. Just in terms of this issue, MPI has clearly had  
24 some challenges in terms of their forecast and in  
25 terms of their management of Personal Injury

1 Protection Plan claims. The move to central reserving  
2 is a relatively new one. It will take a few years, we  
3 suspect, to understand how that plays out into future  
4 costs and into future forecasts.

5                   From our clients' perspective,  
6 necessary and justified expenditures and management  
7 are a key element of this hearing, and one (1) of the  
8 most critical questions relates to the investment  
9 fund. As this Board found last year, the ultimate  
10 responsibility for that fund rests with Manitoba  
11 Public Insurance, and the most critical question in  
12 this hearing, from our clients' perspective, is  
13 whether the design of the asset liability portfolio  
14 for Manitoba Public Insurance and the analysis was  
15 based on a fundamental, and unreasonable, and  
16 erroneous measure of risk.

17                   Ultimately, our clients will ask in  
18 this quest -- in this hearing: Has MPI assumed undue  
19 risk with its Basic insurance investment portfolio  
20 while foregoing significant opportunities? And in  
21 particular, at the bottom of slide 12, has it  
22 justified its decision to assume away real interest  
23 rate risk and focus only on nominal interest rate  
24 risk? It's a fundamental question on which much of  
25 the -- the determinations of this hearing may turn.

1                   Mr. Viola, who this Board has accepted  
2 as an expert evidence for the purpose of this hearing,  
3 and certainly relied on his guidance in the past,  
4 likes hockey analogies. Not everyone here loves  
5 hockey analogies, but I kind of do. And really, one  
6 (1) of the key questions in this hearing will be:  
7 Will we be picking -- sorry, whether the decision of  
8 Manitoba Public Insurance to pick the B team, good  
9 defenceman, i.e., its fixed income portfolio, but a  
10 lousy goalie, inadequate protection for real interest  
11 rate risk, was reasonable and justified, or whether an  
12 alternative as set out in may -- MPI Exhibit 12,  
13 really, the A team, a great forward, and a great  
14 goalie, is preferable.

15                   And MPI Exhibit 12, which was compelled  
16 by virtue of the Board's disclosure order, has  
17 critical evidence and conclusions from Mercers,  
18 assuming a real liability benchmark from modelling,  
19 when moving return bonds significantly reduces an  
20 opportunity for improvement at lower risk levels,  
21 highlighting the fundamental nature of the -- what our  
22 client suggests is MPI's error in terms of measuring  
23 risk in the design of its investment portfolio.

24                   In the course of this proceeding, and  
25 really, towards the end of -- of last year's process,

1 we -- we came to better understand some of the  
2 challenges that MPI has experienced in terms of  
3 Complex Long-term Personal Injury Plan claims. And  
4 certainly there's information on -- on the record in  
5 this proceeding that existing guidelines were not  
6 being followed following the BI3 implementation.

7           So our client, in this hearing, is  
8 seeking to understand the institutional challenges, if  
9 any, which lead to the failure to follow existing  
10 guidelines, and whether there were challenges, as  
11 well, in -- in implementing the centralized reserving  
12 team, that remedy, on a timely basis.

13           A key issue in this hearing relates to  
14 the significant writeoff of information technology  
15 investments. This Board, and our client, has been  
16 expressing concerns about the customer claims  
17 reporting system for a number of years and, certainly,  
18 there was a writeoff for the '17/'18 year of -- in  
19 excess of \$15 million. There's also a significant  
20 writeoff in terms of the high school driver education  
21 fees too. And these are factors that our client  
22 wishes to explore and understand.

23           Not only to understand those specific  
24 arguably and prudent choices but also to understand  
25 where MPI is on a going-forward basis.

1                   The physical damage re-engineering  
2 project was briefly mentioned by MPI in its opening  
3 statement but there's really been a fundamental shift  
4 in what we have been told by this Crown corporation in  
5 terms of the net present value of this project. \$13  
6 million to the positive last year to materially,  
7 materially negative this year.

8                   And from our clients' perspective that  
9 raises fundamental concerns and fundamental issues  
10 about what are the role of external evaluators such as  
11 the Gartner Group in evaluating programs like physical  
12 damage re-engineering? Those types of questions for  
13 external evaluators may also extend to Mercers. And  
14 what, if any, lessons have been learned about the  
15 limits of the reliability of these evaluations?

16                   And from our clients' perspective, one  
17 (1) of the most telling elements in this application  
18 has actually been the commentary of Gartner in terms  
19 of PDR, which is recommended reading for all in this  
20 process.

21                   Ultimately, our clients will ask: Has  
22 MPI demonstrated through external benchmarking that  
23 its information business processes are reasonably  
24 mature?

25                   Affecting customers last year, this



1 year and next year, is the \$81 premium that MPI is  
2 required to pay on all jobs performed by a direct  
3 repair shop, not just direct repair jobs? And  
4 certainly, our client has concerns with the flawed  
5 light vehicle accreditation agreement and its impacts  
6 on consumers.

7                   Can the payments to the repair industry  
8 of that \$81 premium in the period between 2017 and  
9 2019 March to March be considered prudent and  
10 reasonable? To the extent that these expenditures are  
11 imprudent and unreasonable, what is their magnitude?

12                   Our client in -- in the vein of  
13 information technology also wants to look at staffing  
14 level benchmarks. And whether MPI has demonstrated to  
15 the satisfaction of this Board that its information  
16 technology staffing both overall and in terms of  
17 external consultants are reasonable consistent with  
18 industry norms, or are they unreasonably high.

19                   Going forward, there is no doubt that  
20 there are significant costs and significant risks  
21 related to two (2) important MPI information  
22 technology programs, CARS and AOL. AOL standing for  
23 Autopac Online and CARS I would be testing my memory  
24 to address that acronym properly.

25                   What our client is asking this hearing

1 is given the demonstrable challenges that MPI has  
2 demonstrated in managing the physical damage re-  
3 engineering project, and delivering net positive value  
4 to ratepayers, how is it all that MPI intend to update  
5 the Public Utilities Board regarding its investment  
6 decisions outside the formal rate hearing process?

7                   And if we could stop here for a second,  
8 Ms. Dilay. If this Public Utilities Board thinks back  
9 to its prudent oversight behaviour with regard to  
10 physical damage re-engineering, the Board flagged the  
11 risks associated with that ambitious program early on  
12 and while the ultimate expenditure decisions rest with  
13 Manitoba Public Insurance, the Board was alive to the  
14 risk of that program and demanded significant  
15 vigilance through the rate-setting process. And our  
16 client is asking: Given the risks associated with CARS  
17 and with Autopac Online, these legacy systems, how is  
18 the dialogue, the regulatory dialogue, intended to  
19 proceed?

20                   In terms of the value management  
21 process developed at Manitoba Public Insurance, there  
22 are a few examples of business cases that were filed  
23 in support of this application. Without offering a  
24 judgment on the merits of the high school driver  
25 education business case at this point in time, our

1 client does want to explore that business case is an  
2 exemplar of the value management process. And in  
3 particular, whether or not that business case  
4 reasonably assesses the voracity and strength of the  
5 available evidence that the training program is likely  
6 to reduce teen driver crashes or whether caution  
7 should be taken in interpreting the results of the  
8 cost benefit analysis.

9           Turning to the overall health of the  
10 Corporation, the third critical factor, we've had an  
11 ongoing debate over more than a decade about how the  
12 rate stabilization reserve and the appropriate levels  
13 should be calculated. Our client certainly have  
14 interpreted the Board's decisions to suggest that the  
15 dominant tool should be Dynamic Capital Adequacy  
16 Testing. And have interpreted the Board's past  
17 decisions as, in essence, rejecting the minimum  
18 capital test as a primary tool for determining the  
19 rate stabilization reserve.

20           What our client, though, is asking in  
21 this hearing, is whether Manitoba Public Insurance,  
22 through the Capital Maintenance Provision, is  
23 essentially introducing the previously rejected  
24 minimum capital test through the back door as the  
25 dominant tool for determining the actual level of the

1 rate stabilization reserve. That's certainly how our  
2 client interprets the Capital Maintenance Provision  
3 methodology put forward by Manitoba Public Insurance.

4                   And in light of that, our client asks  
5 whether MPI has offered any new evidence to suggest  
6 that the rejected ma -- minimum capital test is  
7 appropriate for determining the actual level of a rate  
8 stabilization reserve in the context of a Crown  
9 monopoly that does not face the type of insolvency  
10 risk of a private company in a competitive  
11 marketplace.

12                   Still focusing on that minimum capital  
13 test as the dominant driver for the level of the Rate  
14 Stabilization Reserve as presented in this  
15 application, our client asks: Does the MCT analysis,  
16 by incorporating a significant cushion for operational  
17 risk, effectively incorporate protection for poor  
18 management that is inconsistent with the stated  
19 purpose of the RSR?

20                   And ultimately our client asks: Does  
21 the Capital Maintenance Provision serve to  
22 unreasonably shield Manitoba Public Insurance from  
23 accountability for unreasonable or imprudent  
24 management choices?

25                   Our client has struggled with the

1 inconsistency -- analytic inconsistency of the MPI  
2 application, as well as its opening statements today.  
3 On the one hand there is this image of ever-growing  
4 risk for the -- for the health of the Corporation  
5 suggesting that reserves should be rising. And then  
6 there are the actual results of the Dynamic Capital  
7 Adequacy Testing for this hearing.

8                   So our client is asking ha -- whether  
9 the hypothesis of ever-increasing risk for the  
10 Corporation has been demonstrated, alternatively, has  
11 the overall risk for Basic program ratepayers been  
12 reduced, as suggested by the most recent dynamic  
13 capital adequacy testing results.

14                   One (1) last comment in terms of the  
15 Capital Maintenance Provision. Our client certainly  
16 will be testing what is the meaning of the word  
17 "consensus"; whether it implies only a meeting of  
18 minds between MPI and PUB advisors, or does  
19 "consensus" envision the intervener perspective as  
20 well.

21                   And certainly if the PUB intends  
22 consensus to include MPI Board advisors and  
23 Intervenors, our client asks why Manitoba Public  
24 Insurance persists in maintaining that a consensus  
25 flowed from the CMP deliberations.

1                   This goes back to slide 27, we ask,  
2 because MPI introduced a flawed measure of risk in its  
3 asset liability matching analysis, and this of course  
4 goes to the issue of whether the liability of the  
5 Corporation and that benchmark should be designed  
6 based upon nominal interest rate risk or real interest  
7 rate risk.

8                   Finally, in terms of the proposed RSR  
9 range presented by Manitoba Public Insurance, our  
10 client asks whether the lower and upper bounds are  
11 consistent with PUB -- Public Utility Board  
12 directions, from the last General Rate Application.

13                   And to the extent that the proposed  
14 range diverges from the PUB directions, our client  
15 asks whether MPI has met its onus of demonstrating the  
16 case for non-compliance.

17                   In terms of the appropriate allocation  
18 of costs between classes or between drivers and  
19 vehicle owners, from our clients' perspective, well,  
20 this issue is always important. It will assume less  
21 importance from our clients' intervention in this  
22 hearing.

23                   We will -- we will look at what is up  
24 next for driver safety rating, which is a critical  
25 tool in terms of the allocation of costs between

1 drivers and vehicle owners, as well as for road  
2 safety. But that's really a dialogue that will take  
3 more prominence in next year's General Rate  
4 Application. For the context of this hearing, our  
5 clients will be focused on MPI's plans to engage both  
6 with stakeholders, as well as with consumers.

7           The final element of the test, in terms  
8 of setting just and reasonable rates is -- we come to  
9 now on slides 31 and 32, and we ask: Has MPI  
10 unreasonably overstated its revenue requirement?

11           And in particular, does its application  
12 inflate the revenue requirement by relying upon a  
13 naive interest rate forecast, and does it inflate the  
14 revenue requirement by relying upon a Capital  
15 Maintenance Provision, especially as dictated by MCT  
16 analysis.

17           Two (2) other key themes that will  
18 appear at -- time to time during this hearing are --  
19 one (1) relates to reconciling transparency and im --  
20 improved disclosure of information. And in this  
21 context our client truly appreciates the sincere  
22 efforts of Manitoba Public Insurance to use the Public  
23 Utility Board Rules of Procedure, Rule 13, to share  
24 with the Public Utilities Board and stakeholders  
25 important information that -- that MPI believes is --

1 is commercially sensitive.

2                   So certainly that's an important step  
3 forward that this process has taken over the last two  
4 (2) or three (3) years and our clients generally  
5 applaud it.

6                   They do warn, and -- and -- and  
7 certainly as our client looks forward to closing  
8 argument, it's quite possible that for the first time  
9 ever in terms of closing argument, our clients, some  
10 of its submissions, may -- may need to be made in  
11 confidence given the undertaking they have made.

12                   And that does raise issues for us  
13 outside this hearing as we move to future proceedings  
14 about public transparency. Our clients don't say this  
15 in a negative way. Our clients simply say that as we  
16 experiment with improved disclosure, including the  
17 improved use of Rule 13, there are challenges in terms  
18 of transparency that certainly we look forward to  
19 grappling with.

20                   And finally, our clients look forward  
21 to a dialogue about good practice consumer and  
22 stakeholder engagement in the rate setting process,  
23 not just during the public hearing process, but in  
24 advance of the public hearing process.

25                   And what does that look like? What



1 should it look like? What are best practice  
2 jurisdictions in Canada currently undertaking?

3 Our client does appreciate the  
4 opportunity to participate in this hearing and the  
5 support of participant funding as well.

6 Subject to any questions, those are our  
7 client's submissions.

8 THE CHAIRPERSON: Thank you, Mr.  
9 Williams.

10 Mr. Oakes...?

11

12 OPENING REMARKS BY CMMG:

13 MR. RAYMOND OAKES: Thank you, Mr.  
14 Chairperson, Members of the Board.

15 This is the CMMG's 26th year as an  
16 Intervenor before this Board. Again, we are asking  
17 this Board to exercise its statutory duties and powers  
18 wisely, fairly and equitably and not deferring to  
19 anyone contrary to the suggestion this morning by MPI.

20 We ask this Board to be vigilant and  
21 recognize the vested interest that's being  
22 demonstrated in this GRA and the Corporation holding  
23 on to more premium cash than is necessary, contrary to  
24 the interests of Manitoba consumers.

25 This application seeks a substantial

1 increase of 3.1 percent for motorcyclists, despite the  
2 rate indication of actuarially indicated calculations  
3 indicating only a rate increase of 1.1 percent.

4           Two-thirds of the rate sought for  
5 motorcyclists is for something called a CMP. Well, we  
6 know that that's not a Capital Maintenance Provision  
7 because the Board doesn't have a capital management  
8 plan and we haven't seen anything from them in that  
9 respect. I suggest that we respond with the same  
10 creativity that they have for cr -- creating these new  
11 cash grabs by calling it the "collect more pesos"  
12 initiative.

13           And they're looking to get additional  
14 funds in this fashion, just like in the previous year,  
15 where they came before this Board with some new  
16 initiative called the IRFR, an Interest Rate Forecast  
17 Risk, only for us a year later to hear that interests  
18 or risks are not something that should cause the  
19 consumers any concern, and this Board doesn't have to  
20 worry about an interest rate risk, despite the fact  
21 that they had this category and told us how important  
22 that was.

23           We hear that the Corporation wants us  
24 to adopt a -- a naive interest rate approach, which in  
25 our opinion would be naive. We have seen rising

1 interest rates in Canada already. We've heard the  
2 pronouncements of the Fed last week that sent the  
3 equity and bond markets into some disarray and suggest  
4 that that's an inappropriate test, just as indicated  
5 by the Board last year. In fact, it's a much better  
6 indication that -- this year than last that that is  
7 not the appropriate test.

8                   So this new CMP, this cushion, my  
9 Learned Friend Dr. Williams put it well this morning  
10 that the CMP could shield the MPI management from poor  
11 choices or just bad luck. This 18 to 20 million  
12 dollar slush fund would certainly relieve them of  
13 difficulties in coming back to this Board to explain  
14 why they need money in future rate applications.

15                   Mr. Scarfone pointed this morning to  
16 the good news and the optimism, and I would suggest  
17 that this Corporation is already in that enviable  
18 place. In fact, it's ripe for release of funds to  
19 preserve the generational equity going forward for  
20 consumers.

21                   Just to be clear, the CMMG does not --  
22 is not a proponent of reserves and rebates. The last  
23 time that it happened when the -- some quarter-million  
24 dollars was found unexpectedly in the reserves of the  
25 Corporation, that release and rebate cost about a

1 quarter million dollars to issue those cheques. Just  
2 to put that in perspective, that's far more than MPI  
3 spends on motorcycle safety initiatives.

4                   With respect to the financial  
5 environment of the Corporation that comes before this  
6 Board with this year, we saw retained earnings  
7 increasing from 261 million to 352 million in the  
8 financial statement. We saw an increase of \$65.3  
9 million in revenues. We saw a decrease, as Mr.  
10 Scarfone pointed out this morning, of \$5 million in  
11 Basic operating expenses. We saw 38.2 million in  
12 investment increase. We saw overall claims costs  
13 decreased by 72.5 million, and overall net income of  
14 the Corporation, \$91.1 million.

15                   So the CMMG is asking this Board to  
16 deny any increase attributable to the CMP as not being  
17 fair, equitable in the -- or in the public's  
18 interests.

19                   We have similar comments about the RSR  
20 that will be forthcoming during the course of this  
21 hearing. This is a hearing in which the -- many of  
22 the issues CMMG is usually involved in, the testing of  
23 evidence, aren't part of this year's proceedings.  
24 There is little in the way of motorcycle program  
25 changes. A large part of our initiative, our

1 intervention, is road safety, and of course that's  
2 being postponed to a technical conference this winter.

3 In any event though, the CMMG looks  
4 forward to testing the Corporation's case and  
5 assisting the Board and representing Manitoba  
6 Motorcyclists to the best of our abilities.

7 In closing, I would ask the Board to  
8 acknowledge the exhibits of the CMMG and we look  
9 forward to participating. Thank you.

10 THE CHAIRPERSON: Thank you, Mr.  
11 Oakes.

12 Ms. McCandless, did you want to deal  
13 with CAA?

14 MS. MCCANDLESS: Thank you.

15 These are the opening comments  
16 submitted on behalf of CAA Manitoba.

17

18 (AS READ)

19

20 OPENING COMMENTS BY CAA MANITOBA (AS READ)

21 MS. KATHLEEN MCCANDLESS:

22 "Good morning, everyone. CAA  
23 Manitoba's representative at these  
24 hearings, Ms. Erika Miller, sends  
25 her sincere regrets that she cannot

1 be here today due to business  
2 commitments. She has asked me to  
3 share the following comments with  
4 you.  
5 CAA Manitoba has engaged in this  
6 annual process for over two (2)  
7 decades, and once again appreciates  
8 this opportunity to participate.  
9 However, due to a change in format  
10 that removes road safety from the  
11 hearings to be covered in a  
12 technical conference in 2019, CAA  
13 Manitoba will be engaged in the  
14 technical conference rather than the  
15 hearings this year.  
16 Like our friends at Bike Winnipeg,  
17 we participate chiefly as an  
18 Intervenor in the interest of road  
19 safety. We do this on behalf of our  
20 members who come to us for  
21 information on the topic.  
22 CAA Manitoba looks forward to  
23 engaging more in the aspects of road  
24 safety at the technical conference,  
25 especially as issues such as

1                   cannabis and distracted driving  
2                   continue to be important in our  
3                   community.

4                   CAA thanks the Board, Board Counsel  
5                   and our learned Intervenor  
6                   colleagues again for this  
7                   opportunity.

8                   Thank you."

9                   THE CHAIRPERSON:    Thank you.

10                   I think it would be an appropriate time  
11 to take the morning break so that we don't affect the  
12 testimony of MPI.

13                   So we will break for fifteen (15)  
14 minutes and then we'll return and have the witnesses  
15 of MPI sworn in.  Thank you.

16

17 --- Upon recessing at 10:20 a.m.

18 --- Upon resuming at 10:40 a.m.

19

20                   THE CHAIRPERSON:    I would indicate I  
21 was just admonished for not speaking loudly enough  
22 into the microphone so I will warn you to -- to do the  
23 same.

24                   Mr. Christle, could you swear the  
25 witnesses in, please.

1 MPI WITNESS PANEL 1 - OVERVIEW PANEL:

2

3 LUKE JOHNSTON, Sworn

4 BEN GRAHAM, Sworn

5 BRAD BUNKO, Sworn

6 CURTIS WENNBERG, Sworn

7 MARK GIESBRECHT, Sworn

8 WARD KEITH, Sworn

9

10 THE CHAIRPERSON: Mr. Scarfone...?

11

12 EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

13 MR. STEVE SCARFONE: Thank you, Mr.

14 Chairperson. So, Mr. Chairperson, the six (6) members

15 just sworn in will be providing some evidence this

16 morning on what's been called an overview presentation

17 by the executive of Manitoba Public Insurance; that

18 particular presentation will be given by MPIC

19 President and Chief Executive Officer Ben Graham.

20 Just before he begins, I'd like to ask

21 him a few questions, if I could, because I know the

22 Board members aren't too familiar with Mr. Graham.

23 This is his first appearance before the -- the PUB.

24 And Mr. Graham, welcome, sir. If I

25 could, Mr. Graham, could you provide for the benefit



1 of the Board and its members, a little bit of  
2 information about your background and experience.

3 MR. BEN GRAHAM: Thanks, Dave. I have  
4 a number of years of consulting experience be it  
5 through Protiviti (phonetic) and Deloitte. I'm  
6 obviously not from around here, as you can obviously  
7 tell.

8 In the insurance industry I've had  
9 direct experience outside of consulting by taking up  
10 the role of chief risk officer of the Abu Dhabi  
11 Insurance Company in the Middle East and I was in that  
12 role for approximately 5 1/2 years. Subsequent to  
13 that for two (2) years I was chief risk officer of QBE  
14 Asia-Pacific. QBE, as you may know, is about the 12th  
15 largest insurance company globally. Large consumer  
16 and commercial exposures across the world. And that  
17 role was a responsibility for not just risk management  
18 but technical underwriting for sixteen (16) countries.

19

20 The reason why I'm here, is because I  
21 lost an argument with my wife about where I should  
22 move to. She's Canadian and hence I have taken on  
23 this role with MPI and have been very grateful for the  
24 opportunity.

25 MR. STEVE SCARFONE: Thank you, Mr.

1 Graham. And, Mr. Chairperson, what I intend to with  
2 respect to the other members of the executive panel,  
3 most of whom will appear on -- on other panels, on IT  
4 and such is hold my comments or my introductory  
5 remarks about each of those individuals until they re-  
6 appear on some of the other panels and just proceed  
7 directly into Mr. Graham's presentation if that -- if  
8 that pleases the Board.

9 THE CHAIRPERSON: That's fine. Thank  
10 you.

11 MR. STEVE SCARFONE: Thank you.

12

13 CONTINUED BY MR. STEVE SCARFONE:

14 MR. STEVE SCARFONE: Mr. Graham, I  
15 understand you have a presentation to present to the  
16 Board this morning?

17 MR. BEN GRAHAM: I do.

18 MR. STEVE SCARFONE: And do you, sir,  
19 adopt the presentation as part of the evidence that  
20 this panel will give this morning?

21 MR. BEN GRAHAM: I do.

22 MR. STEVE SCARFONE: All right. And  
23 you're ready to proceed?

24 MR. BEN GRAHAM: Yes.

25 MR. STEVE SCARFONE: Okay, thank you.

1                   MR. BEN GRAHAM:    Good morning, Chair  
2 and the Board.  I was hoping that I'd be introducing  
3 some new information but obviously after the  
4 Intervenor and Steve have spoken there's not really  
5 too much to talk about.

6                   But I'm planning on about a 20 to 25  
7 minute presentation.  The agenda for the meeting will  
8 be broken up into two (2) major components.  The first  
9 three (3) parts of this will be on the strategic  
10 direction that I foresee MPI undertaking in the few  
11 years ahead and what needs to be done to achieve that  
12 vision; as well as some more specific GRA topics and  
13 discussion on those points that are more relevant to  
14 this -- to this hearing.

15                   First and foremost, I want to state for  
16 the record that MPI is evolving.  We're not in -- in a  
17 stage or revolution.  It is basically I re-focus on  
18 our core insurance fundamentals.  We are a three and a  
19 half billion dollar organization.  We pay \$3 million  
20 of claims per working day of which we process twelve  
21 hundred (1200) claims per day.

22                   I've been given very strict guidance  
23 from the Board of Directors, of which the Chair is  
24 represented here today, that we are to re-focus on our  
25 fundamentals of core insurance.  I've also been very

1 clearly tasked by the board, as well as the  
2 government, to re-evaluate MPI from best practice  
3 principles; be that from Canada -- from Canadian  
4 experience, from the Middle East, from Australia, from  
5 Asia, look at best practice and see where it can be  
6 implemented within MPI.

7 I've spoken to the term, since joining  
8 around a culture of excellence and what best practice  
9 is, and that means that we should ask questions. We  
10 should not be scared to make change where appropriate  
11 and we even make mistakes. I'm sure that some people  
12 in this hearing over the next couple of weeks will  
13 discuss the mistakes that we have made as a  
14 Corporation but everyone in this room has made  
15 mistakes at some time in their life. A culture of  
16 excellence make sure that we learn from those  
17 mistakes; make the changes to make sure it doesn't  
18 happen again. To me, that's a culture of excellence.

19 One (1) of the first things that I -- I  
20 looked at when I first took on the role of CEO was to  
21 look at the mission of the organization, as well as  
22 the values in which we would undertake that mission.  
23 We made some minor tweaks to the mission. And if you  
24 look at the three (3) streams of corporate governance  
25 where the government provides us with a mandate for

1 the services that we must provide, the board then  
2 applies a strategy against the achievement of that  
3 mission. And the panel in front of you today, the  
4 executive of MPI are responsible for the execution of  
5 that strategy.

6                   So in short, the mission unfolds  
7 strategic decisions or direction that we must  
8 undertake. And if you read the new mission, it's  
9 actually fairly close to the original mission of MPI  
10 when it was first established in 1971. So we've,  
11 effectively, come full circle.

12                   From that -- or I've asked the  
13 organization to implement a number -- or act through a  
14 number of values: striving for excellence, provide  
15 value to Manitobans, do what's right and invest in  
16 people. The old values were quite long and  
17 convoluted. These are simple and easy to understand.

18                   Striving for excellence is about the  
19 exceptional coverage and service that we should  
20 provide Manitobans. We've been given a very important  
21 mandate and we should do our best to achieve that.  
22 That also means that we -- means that we should always  
23 look at continuous improvement and we need to evolve  
24 to meet customer needs. And we will talk a little bit  
25 later about what that means from an on-line strategy.

1                   Unfortunately, here in Manitoba, we are  
2 a long way behind when it comes to online  
3 functionality, when it comes to service provision. We  
4 need to do what's right. We need to be transparent,  
5 and we need to be accountable. Again, we will admit  
6 our mistakes and we will make them but we need  
7 everyone's support to make sure that we don't do them  
8 again.

9                   I'd like to think that there has been  
10 greater transparency from MPI throughout this process  
11 and I think Mr. Williams mentioned that when he was  
12 speaking originally. And we plan on paying the right  
13 claims. And what I mean by that, is we don't aim --  
14 if someone is -- they should be paid a thousand  
15 dollars, we will pay them a thousand dollars. We're  
16 not going to pay them twelve hundred (1200) to keep  
17 them happy. We're not going to pay them eight hundred  
18 (800) because we are the big bad monopoly, we will pay  
19 them the thousand dollars (\$1,000) that they deserve.  
20 That also means that we will focus on paying the right  
21 claims from a forward management perspective.

22                   We need to empower and invest in our  
23 people to achieve excellence and empower them to do  
24 that. That also means that we need to invest more  
25 time and understand the needs of the government, our

1 stakeholders and partners, as well as the community in  
2 which we serve.

3                   Which leads to the insurance  
4 priorities that inform the vision for the  
5 organization. The first one is appropriate insurance  
6 rates and service to customers. Key components of  
7 that we will be looking at our product offerings and  
8 re-introducing what I believe is a fundamental on  
9 insurance:

10                   The concept of risk sharing. We will  
11 focus on paying right claims. The right amount for  
12 the right claim. We will be tougher on fraud and we  
13 should be able to provide great online functionality  
14 and provide better service to customers.

15                   Point 2: Efficient operations. We  
16 should update our system. It is in dire need. We  
17 need to be off-the-shelf. When we need to buy an  
18 Accord not a Ferrari. We need to look what the impact  
19 that would have on FTEs and we're introducing stronger  
20 process management through laying principles. We will  
21 continue to focus on expenses, expenses that have  
22 decreased by 15 percent over the last five (5) years.

23                   Fiscal prudence. Mr. Scarfone was very  
24 clear that we need to be fiscally prudent. Internally  
25 our board of directors has made it very clear to me

1 and the executive that all expenditure must be  
2 justified and quantified to the highest degree.

3           We also need to demonstrate that each  
4 of these expenditures are meeting the greater customer  
5 need. So we are learning more about the requirements  
6 of our customers and the evolution of that as we move  
7 forward. But that also means fiscal prudence from our  
8 partnerships. We, as a corporation, have put an  
9 obligation on our partners to demonstrate every dollar  
10 that they earn provides better customer service and  
11 better value to the community.

12           We also need to be more predictable in  
13 our forecasting; that would probably mean a change in  
14 re-insurance structure. It means that we need to look  
15 at stronger at technical pricing and we also need to  
16 look at capital management; something that's already  
17 been discussed earlier this morning.

18           So to try and make all that information  
19 look a bit prettier, you will see that we have our  
20 four (4) insurance priorities or the vision of the  
21 organization at the top. Underneath that we have four  
22 (4) key enablers: Prudent partnerships, re-insurance,  
23 capital and management and products and services.

24           We are looking at two (2) very key  
25 outcomes. The first one is to government who have



1 been very clear to our Board and to myself that they  
2 want a reduction in volatility. And our customers,  
3 through the provision of better services, ideally  
4 through online functionality, as well as lower or more  
5 proven rights. Some of the enablers we are working on  
6 now. Some of them are in the future. Government  
7 outcome on reduced volatility, again, we will look at  
8 things around re-insurance, processing models, MCT and  
9 potential system updates. While a customer outcome  
10 will be focused on product suites, prudent  
11 partnerships and online functionality. And same with  
12 strategic term, I'll continue to walk through some of  
13 the enablers.

14                   So we have been expected by our board  
15 and by government to demonstrate fiscal prudence so it  
16 should be fair that we expect the same from all of our  
17 partners. We are in the process of five (5) key  
18 partnership negotiations of which three (3) have been  
19 closed or have been agreed in principle, and we are  
20 now just waiting final sign-off; two (2) of those are  
21 ongoing.

22                   We are no longer stating a number and  
23 then reverse engineering how that money should be  
24 paid. We are applying value for money principles. We  
25 are paying money for service. And we are asking each

1 of our partners to quantify what is the cost benefit  
2 to our customers here in Manitoba.

3                   We need to look at our re-insurance  
4 structure. I had this conversation when I first  
5 interviewed with the board almost a year ago and one  
6 (1) of the things that stood out to me was that we  
7 could look at our re-insurance structure. And what do  
8 I mean by that? We are currently on a risk event  
9 versus an aggregate re-insurance program. To pain a  
10 picture, if next year we were to have three (3) storms  
11 in one (1) year, hailstorms, one of 14, one of 30 and  
12 one of \$12 million, on a risk event basis those gross  
13 losses would equal \$56 million. We would recover  
14 fifteen (15) of that because it's on a risk event  
15 basis with a \$2 million re-instatement cost on the \$30  
16 million event, leading to a \$13 million recovery on  
17 the 56 million dollar of losses. Through an aggregate  
18 program the gross loss, again, would be \$56 million  
19 but with a \$25 million retention and a stop-plus of  
20 twenty-five (25), we would recover \$41 million. Now  
21 again, that re-insurance coverage will cost a little  
22 more but it will reduce a volatility in our earnings.

23                   I know that we'll be talking a lot over  
24 the next couple of weeks when it comes to capital  
25 management but we are the lowest -- we have the lowest

1 capital of any operational insurance company in  
2 Canada; if not North America. If we were a private  
3 insurance company we would be technically insolvent.  
4 We would not be allowed to take on any further  
5 liabilities. We would be on a very strict regulatory  
6 management plan.

7           Through the work of the board, we are  
8 getting closer to the higher end of the MCT  
9 calculation because of the ALM strategy. But once  
10 again, the government wants a reduction in volatility;  
11 not the idea of bailing out insurance companies.

12           MPI needs to modernize its products.  
13 We cannot have a \$500 deductible on Basic and while  
14 this is not a conversation for this GRA application,  
15 it is something that we need to consider into the  
16 future.

17           The concept of risk sharing is one (1)  
18 that I mentioned very much early on and it's something  
19 that we need to look at. What I mean by risk sharing  
20 is that if you were to have a deductible of a thousand  
21 dollars (\$1,000), you would take more responsibility  
22 and share that risk and take care of that risk more  
23 than if you only had a \$500 deductible. If CPI was  
24 applied to the \$500 deductible, we would currently be  
25 at \$723.

1                   Other considerations will also be  
2 looked at. Again, we are reaching out to our customer  
3 base to understand what it is that they want and that  
4 might be the use of OEM parts on cars for a higher  
5 premium, yes. But it's an option and it's something  
6 that we should provide to customers.

7                   Now we finish the boring part of the  
8 presentation, we'll speak more to the issues at hand  
9 in relation to this GRA. A lot has been discussed and  
10 a lot of what we will talk about today and that's why  
11 the -- the executive panel is here with me today, a  
12 lot of the questions will be regarding decision or  
13 conversations that were made before my appointment.  
14 And I'm very happy to talk about what I see the future  
15 being for MPI but the panel is, obviously, here to  
16 support me in any of those questions.

17                   I want to talk about some of the things  
18 that we've been working on as we move along, and some  
19 of the key changes that we see continuing into the  
20 future, if not addressed here.

21                   I believe that we have a new level of  
22 transparency. I -- I wasn't here in the past, but  
23 there is definitely a mindset now that if an  
24 Information Request comes through, the first question  
25 is why would we not provide that. We should provide

1 everything.

2 I am hoping that that gives greater  
3 insight to the type of decisions that we are making.  
4 Again, I'd like to think that 99.5 percent of them are  
5 accurate and correct, but any guidance on those others  
6 is greatly appreciated.

7 The PUB has greater access to corporate  
8 leadership, which is evident through the panel that we  
9 are presenting here today. And I know that through  
10 conversations through -- with our Board, and as well  
11 as the executive, we continue to value the role of the  
12 PUB as we go on this journey.

13 Transparency, however, does not mean  
14 always greater granularity. Again, we are a \$3.5  
15 billion organization. The questions here should be  
16 based on what are the big-ticket items when it comes  
17 to setting rates as compared to the number of parking  
18 spaces we have in Cityplace.

19 Basic is moving towards stable footing.  
20 Again, through the great work of our Board and our  
21 investment team. There has been an incremental change  
22 on an actuals basis, but through the modeled outcome  
23 we have shifted our MCT, or we will shift our MCT,  
24 much higher in that range. Again, not because of the  
25 actual amount that we have in our RSR but because

1 effectively the ranch has shifted from here back to  
2 here when we look at all of those components around  
3 market, credit, insurance and operational risk.

4                   We have also followed on from some of  
5 the discussions that we have had with the PUB in the  
6 past and technical conferences on the conversations  
7 around the CMP. And we feel that a CMP provides  
8 Basic's ability to hold its ground independent of the  
9 other lines of business.

10                   I don't -- I think it would be remiss  
11 of me not to be -- make an admission that MPI has not  
12 always accurately quantified or validated assumptions  
13 when it comes to strategic projects. Again, we all  
14 make mistakes.

15                   Some of those assumptions, and we'll  
16 talk about things like PDR, are conversations that  
17 occurred in 2012. However, we are here to discuss  
18 them with you.

19                   When it comes to legacy modernization  
20 another mistake of MPI in the past, as we have got a  
21 consultant on board and we put that one up as the  
22 gospel according to Deloitte, PWC, Gartner, whoever it  
23 is.

24                   For such a strategic project of merger,  
25 of legacy modernization, we have engaged two (2)

1 consultants. And I believe that you have both of  
2 those reports with you.

3 One (1) of them has assessed our  
4 potential for legacy modernization from a more  
5 business approach, and the other one from a strong  
6 technical background.

7 I'll be very clear, this is not  
8 Deloitte's business plan, this is not Allianz'  
9 business plan. We will own this business plan and we  
10 will be accountable for it.

11 Trust me when I tell you, that we have  
12 to be, because the gentleman over there to my right,  
13 Mr. Vankeran (phonetic) is on my case, very strongly,  
14 when it comes to driving value management across the  
15 organization.

16 We will focus on car insurance. We're  
17 not going to look at products outside of our core.  
18 We're not going to look at starting to underwrite  
19 business outside of our province. We need to get our  
20 ducks in a row here.

21 We're looking at forward management and  
22 risk sharing. It will not only be with our insureds,  
23 but it will also be with our business partners and  
24 service providers.

25 Our RT investment dollars will target

1 mainstream technologies. We will no longer be in the  
2 business of building base-spoke systems to meet our  
3 needs and our processes.

4                   We are not special, and I've said this  
5 since day one. We need an off-the-shelf solution with  
6 as little customization as possible.

7                   If a software assistant has been  
8 implemented in five hundred (500) companies, and we're  
9 501, I'd like to think that some of our processes can  
10 change to meet the system and not vice-versa.

11                   We need to move online and some of the  
12 key discussions with our government friends have been  
13 on our ability to move more of our transactions  
14 online, and our customers are demanding it.

15                   In a recent customer e-panel, it was  
16 noted that 80 percent of our customers would prefer to  
17 do simple transactions online. For a change of  
18 address, why should they wait fifteen (15) minutes in  
19 a broker office or in one (1) of our service centers,  
20 including a commute and wait time for something that  
21 can be done in two (2) minutes online from the comfort  
22 of their own home.

23                   However, we need to be clear, that our  
24 customer base is immature when it comes to the  
25 understanding of insurance. There is a few, when it



1 comes to bonding new insurance policies, and it is  
2 noted that only 35 percent would prefer online at the  
3 bonding of a new insurance policy, yet 75 percent  
4 would be comfortable renewing their policy online.  
5 That is a hurdle that we will need to overcome and  
6 educate the community as we go through the online  
7 journey.

8                   Now let's talk about some of the  
9 ongoing challenges. We have significantly reduced  
10 risk and it is very clear that investment portfolios,  
11 as Mr. Scarfone pointed out, can be sliced and diced  
12 in a hundred different ways.

13                   We are very happy to hear expert  
14 evidence and learn from others that can provide a  
15 different point of view. I also have great confidence  
16 in the capability of our Board, our investment team  
17 and our government advisors when it comes to  
18 developing and approving our investment strategy.

19                   Yes, we do risk. On our models we  
20 expect income could potentially reduce by  
21 approximately 8 percent. The upside of that is a 47  
22 percent reduction in volatility on a 1:20 year VAR.  
23 Eight percent reduction for 47 percent reduction in  
24 volatility. That's pretty good math in anyone's eyes.  
25 And ultimately the need to do risk because with a low

1 MCT that clearly defines our appetite for risk.

2                   With myself and Mr. Johnston went to  
3 visit one (1) of Winnipeg's sunny casinos and I had a  
4 thousand dollars (\$1,000) in my pocket and Mr.  
5 Johnston had a hundred dollars (\$100) in his pocket,  
6 we would fundamentally have different appetites of  
7 risk, both when we walked through the door and when we  
8 put our money down on the table. Let's just keep that  
9 in mind when we talk about our risk appetite when it  
10 comes to investments and where we sit from an MCT  
11 calculation.

12                   I was tasked by the Board to implement  
13 best practice. I believe that we are starting that  
14 journey, especially when it comes to things around  
15 technical underwriting, online capability and claims  
16 management. So I guess the question that I've been  
17 asking is: Why is our MCT not best practice?

18                   Is Manitoba so unique to the rest of  
19 the world or to the rest of our Crown peers? No, they  
20 should not.

21                   When I hear about the government being  
22 able to bail out MPI if we were to have a bad year, an  
23 interesting topic that I've discussed with the Board  
24 is that in my previous role, as I mentioned I was  
25 responsible for the underwriting and risk management

1 for sixteen (16) countries, in the South Pacific they  
2 would have a number of very small countries and we  
3 were in agreement with the Australian Government that  
4 we were pretty much mandated as the largest commercial  
5 insurer to provide insurance coverage in those  
6 countries. Minimal profitability, high risk exposure.  
7 My first reaction when I took that role was we need to  
8 exit those nations immediately, Vanuatu, Fiji, New  
9 Caledonia, et cetera.

10           The company was mandated by the  
11 government to provide reinsurance and economic  
12 stability in those countries. We did not just have a  
13 low MCT, and expect the government, through storm  
14 relief, to bail us out. We had MCTs in the range of  
15 600 to 1,000 percent. We also had appropriate  
16 reinsurance coverage. Those two (2) things meant that  
17 we had a proven approach to those exposures, despite  
18 the guarantees of the government for bailout.

19           While I understand Manitoba is not  
20 exactly Fiji, as I look out the window, and I recently  
21 learned that Manitoba accepts pesos, there are some  
22 lessons that can be learned through this example.

23           No one at this table would like to walk  
24 with their tail between their legs to the ledge and  
25 ask for a couple hundred million dollars.

1                   Where would I like this to go? I would  
2 like us to have a target. And again, this is not for  
3 this GRA specifically, but in the future I would like  
4 us to have a target. Not a range, a target.

5                   If that target is 100 MCT, as is  
6 prescribed with other Crown corporations in Canada, we  
7 would then be working with the PUB to calculate the  
8 formulas in which we would move around that 100 MCT,  
9 be it through building up capital back to that target,  
10 or releasing capital to get back to a hundred.

11                   Risk management principles when it  
12 comes to interest rate forecasting. I -- from every  
13 discussion that I have had with my team, we have never  
14 disputed that interest rates could rise. We've never  
15 disputed that fact.

16                   But we cannot make assumptions when it  
17 comes to our Basic insurance program. We must be  
18 prudent in the context of it is a break-even program.  
19 It is not for profit. And our appetite is low because  
20 of our low MCT. Our focus should be to rely on a  
21 reduction in volatility, both for the government and  
22 ratepayers.

23                   Those three (3) topics that I've just  
24 mentioned will be discussed at length through  
25 individual panels over the next couple of weeks.

1                   So where does that leave us? Our  
2 mission is very clear. I feel that both MPI and the  
3 PUB and aligned when it comes to the mandate of  
4 providing value to Manitobans. If we can strive for  
5 excellence, do what's right and invest in our people,  
6 I believe that inherently we will do that.

7                   We're making good progress, especially  
8 when it comes to focussing on the core business and  
9 insurance principles are first and foremost, and I  
10 believe that with the makeup of the new executive,  
11 some of us with a lot more private industry  
12 experience, some of us with long experience with MPI  
13 and public insurance experience, as well as looking at  
14 what our peers are doing and seeing if it can fit in  
15 the Manitoba landscape, that we will continue on this  
16 journey into the future.

17                   Volatility is key. If I had a dollar  
18 for every time that I heard the term "volatility" over  
19 the ledge, I probably wouldn't need this job.

20                   We need acceptable capital targets. We  
21 are not unique. It should be based on best practice  
22 and best estimates. The Capital Maintenance Provision  
23 allows Basic to hold its ground, and that's an ask  
24 that we have in this GRA.

25                   Again, a reduction in volatility must

1 be looked at when we look at interest rate forecasts,  
2 instead of betting on something that may or may not  
3 happen.

4 I now look forward to any questions.  
5 Again, this is my first GRA so I hope that I can  
6 answer, and if I can't I have a heap of people to my  
7 left and right who will be happy to jump forward and  
8 answer your questions. Thank you.

9 THE CHAIRPERSON: Thank you, Mr.  
10 Graham. I -- I just -- before we go further, I just  
11 want to confirm with the Board secretary that this  
12 presentation's already filed as an exhibit.

13

14 (BRIEF PAUSE)

15

16 MR. DARREN CHRISTLE: Yes, Mr. Chair,  
17 it is.

18 THE CHAIRPERSON: Okay. And what  
19 number is it?

20

21 (BRIEF PAUSE)

22

23 THE CHAIRPERSON: Is that --

24 MR. DARREN CHRISTLE: MPI-21.

25 THE CHAIRPERSON: Thank you. Okay. I

1 didn't have it marked. Okay. Ms. McCandless...?

2

3 CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

4 MS. KATHLEEN MCCANDLESS: Thank you.

5 Good morning, Mr. Graham and members of the MPI panel.

6 Mr. Scarfone, before I begin, I

7 understand that the members of this panel are prepared

8 to answer questions regarding the rate applied for and

9 the financial overview?

10 MR. STEVE SCARFONE: That's correct,

11 Ms. McCandless. I might just remind My Learned

12 Friends that with the exception of Mr. Keith, all of

13 the panel members, including Mr. Graham, will re-

14 appear at some later point to speak directly to the

15 issues on the issues list, but your understanding is

16 correct.

17

18 CONTINUED BY MS. KATHLEEN MCCANDLESS:

19 MS. KATHLEEN MCCANDLESS: Thank you.

20 My first set of questions is for you, Mr. Graham. I

21 take it that the Corporation accepts that it bears the

22 onus of proof to substantiate the General Rate

23 Application?

24 MR. BEN GRAHAM: Yes, I do.

25 MS. KATHLEEN MCCANDLESS: And that the

1 Corporation bears the onus of establishing that the  
2 proposed rates and fees are just and reasonable?

3 MR. BEN GRAHAM: Absolutely.

4 MS. KATHLEEN MCCANDLESS: Another way  
5 of stating the test is that the rates are to be  
6 actuarially sound and statistically driven?

7 MR. BEN GRAHAM: Correct.

8 MS. KATHLEEN MCCANDLESS: Thank you.  
9 Just some questions with respect to the rate  
10 application to confirm for the record.

11 The Corporation is seeking a 2.2  
12 percent increase in Basic vehicle premium revenue,  
13 effective March 1, 2019?

14 MR. BEN GRAHAM: Correct.

15 MS. KATHLEEN MCCANDLESS: And a  
16 minimum lower rate stabilization reserve total equity  
17 target of 34 percent minimum capital test, that's  
18 total equity equivalent of 143 million as at February  
19 29, 2019?

20 MR. BEN GRAHAM: Correct.

21 MS. KATHLEEN MCCANDLESS: And that is  
22 based on a 1:40 probability Dynamic Capital Adequacy  
23 Test scenario, yes?

24 MR. BEN GRAHAM: Correct.

25 MS. KATHLEEN MCCANDLESS: And a legal



1 application is before you for your assistance at item  
2 3, a maximum upper rate stabilization reserve target  
3 of 85 percent minimum capital test, a total equity  
4 equivalent -- equivalent of \$305 million as at  
5 February 28, 2019?

6 MR. BEN GRAHAM: Correct.

7 MS. KATHLEEN MCCANDLESS: And that is  
8 based on a two (2) year 1:40 Dynamic Capital Adequacy  
9 Test scenario with no management action; "yes"?

10 MR. BEN GRAHAM: Correct.

11 MS. KATHLEEN MCCANDLESS: Thank you.  
12 There are also no changes to miscellaneous permits and  
13 certificates?

14 MR. BEN GRAHAM: Correct.

15 MS. KATHLEEN MCCANDLESS: At item 5,  
16 no changes to driver premiums through the driver  
17 safety rating system?

18 MR. BEN GRAHAM: Correct.

19 MS. KATHLEEN MCCANDLESS: And no  
20 changes to vehicle premium discounts?

21 MR. BEN GRAHAM: Correct.

22 MS. KATHLEEN MCCANDLESS: And we also  
23 see at item 7, there are no changes to fleet rebates,  
24 and surcharges?

25 MR. BEN GRAHAM: Correct.

1 MS. KATHLEEN MCCANDLESS: And at item  
2 8, consistent with the 2018 Vehicles for Hire Interim  
3 Application, the continued eligibility of vehicles for  
4 higher vehicle premium discounts?

5 MR. BEN GRAHAM: Correct.

6 MS. KATHLEEN MCCANDLESS: And the  
7 waiving of service fees for change of insurance for  
8 vehicles for hire; "yes"?

9 MR. BEN GRAHAM: Yes.

10 MS. KATHLEEN MCCANDLESS: Thank you.  
11 Now, I have some questions about your presentation  
12 this morning, Mr. Graham.

13 MR. BEN GRAHAM: Yes.

14 MS. KATHLEEN MCCANDLESS: And if we  
15 could pull up MPI Exhibit Number 21, and slide 7. You  
16 spoke about the four (4) enablers this morning. I  
17 just have some questions about enabler number 1,  
18 ensure prudent partnerships.

19 MR. BEN GRAHAM: Yes.

20 MS. KATHLEEN MCCANDLESS: You had  
21 mentioned that you had -- or the Corporation had  
22 closed three (3) key partnerships?

23 MR. BEN GRAHAM: Updated, yes. Yes.

24 MS. KATHLEEN MCCANDLESS: And two (2)  
25 are ongoing; "yes"?

1 MR. BEN GRAHAM: Yes. Correct.

2 MS. KATHLEEN MCCANDLESS: Could you  
3 perhaps just elaborate a little bit on what those  
4 partnerships are?

5 MR. BEN GRAHAM: Well, the -- the five  
6 (5) key partnerships, the two (2) larger ones are with  
7 the broker community through IBAN, and that's Alberta  
8 Compensation Accord. The other one is with the  
9 Automotive Trades Association and the motor dealers,  
10 and that is for the repair industry.

11 We've also looked at renegotiating with  
12 the Chiropractic Association, on which we have closed;  
13 with the -- with the Commercial Trucking Association  
14 for the repair of commercial trucks; and we have also  
15 renegotiated our rental fleet rates, and for the most  
16 part, all of them have been negotiated at a zero or a  
17 decrease.

18 MS. KATHLEEN MCCANDLESS: And so just  
19 to clarify, among those five (5) key partnerships,  
20 which are the three (3) that have closed, and which  
21 are ongoing?

22 MR. BEN GRAHAM: Commercial trucking,  
23 chiros, and rental rates. The -- the big ones are the  
24 two (2) remaining ones, and they are ongoing as we  
25 speak.

1 MS. KATHLEEN MCCANDLESS: And do you  
2 have any idea as to when they might be closed?

3 MR. BEN GRAHAM: Both of those accords  
4 need to be updated by March 1.

5 MS. KATHLEEN MCCANDLESS: Thank you.  
6 If we could go to slide 10, which is with respect to  
7 enabler number 4, modernizing the Corporation's  
8 product offerings. And you had mentioned that -- that  
9 the Corporation was looking at issues such as the  
10 deductible, and that type of thing.

11 Is there public consultation being  
12 undertaken on a review of these issues?

13 MR. BEN GRAHAM: Again, this is a more  
14 long-term view of the types of things that we would  
15 like to look at, and at time, we will obviously be in  
16 discussion with government and the community to walk  
17 through what that would mean for them.

18 MS. KATHLEEN MCCANDLESS: So this is  
19 in its infancy at this point then?

20 MR. BEN GRAHAM: Yes.

21 MS. KATHLEEN MCCANDLESS: Does the  
22 Corporation have any timeline at this point as to when  
23 this issue might be reviewed in more detail?

24 MR. BEN GRAHAM: At the moment, no.  
25 There's a lot of quantification that needs to go into

1 potential impacts and impact on rates. So when we  
2 have a greater picture on that, that's probably  
3 something that we could probably have a technical  
4 committee with the PUB to get greater understanding  
5 on, and we'd like to be as transparent as possible on  
6 that.

7 MS. KATHLEEN MCCANDLESS: Thank you.  
8 If we could go to slide 14. In your evidence this  
9 morning, Mr. Graham, you had spoken about the  
10 expanding of channels, online or mobile channels to  
11 serve customers, and perhaps you could just elaborate  
12 somewhat on what it means operationally to trend -- to  
13 move into an online or mobile service.

14 What types of programs is the  
15 Corporation looking at at this time?

16 MR. BEN GRAHAM: So I think if we were  
17 to break it up into two (2) sort of core offerings,  
18 one (1) of them would be the more simple  
19 transactional-based things, and there would be change  
20 of addresses, or change of coverage, or more  
21 administrative types of things, booking road tests,  
22 for example. So what we need to do for the most part  
23 is we need to have the IT capability to provide that  
24 online, and we are a long way behind.

25 If you look at SGI, they have moved to

1 a very strong online presence. I -- I remember twenty  
2 (20) years ago, buying insurance online, and yet we  
3 still can't do it here in Manitoba. So we need to  
4 engage with not only getting the right IT system in  
5 place to make that change as streamlined and as  
6 efficient as possible, but also engaging with  
7 customers and our distribution channels, such as the  
8 broker community, to make sure that that goes as  
9 smooth as possible.

10 MS. KATHLEEN MCCANDLESS: Thank you.  
11 And we may have some more questions specific to those  
12 issues when we hear from the IT panel next week.

13 MR. BEN GRAHAM: Yeah. Sounds good.  
14 Thank you.

15 MS. KATHLEEN MCCANDLESS: We've also  
16 heard at slide 4 about the Board of Directors' new  
17 mission statement, which is before you there,  
18 exceptional coverage in service, affordable rates, and  
19 safer roads through public auto insurance. And the  
20 Corporation was asked about this mission statement at  
21 CAC/MPI-1-9. If we could please pull that up,  
22 Kristen.

23

24

(BRIEF PAUSE)

25

1 THE CHAIRPERSON: Kathleen, can you  
2 repeat the exhibit number?

3 MS. KATHLEEN MCCANDLESS: CAC/MPI-1-9.

4

5 (BRIEF PAUSE)

6

7 MS. KATHLEEN MCCANDLESS: So at the  
8 bottom of page 2, the Corporation was asked about the  
9 mission statement. And if we look to the -- bear with  
10 me for one (1) moment. I'll just -- this doesn't look  
11 like the reference that I was looking for.

12 MR. BEN GRAHAM: I was hoping there  
13 was no real yields in our mission statement.

14 MS. KATHLEEN MCCANDLESS: Okay. There  
15 is it. Yes. At the bottom of page 2, MPI identified  
16 eight (8) strategic priorities for 2018/'19. You see  
17 those there before you, broker negotiations claims,  
18 repair trade associations claims, customer experience,  
19 underwriting claims, products suite review,  
20 underwriting, ALM implementation investments, claims  
21 cost control, claims capitalization investments, and  
22 risk appetite underwriting claims, and investments?

23 I appreciate there are a number of  
24 different priorities before you, but perhaps you could  
25 just advise the Board as to what the Corporation's

1 timeline is generally for implementing these  
2 priorities?

3 MR. BEN GRAHAM: I'm not going to try  
4 and pull this out of thin air. A number of these are  
5 probably more short-term. So I'll -- I'll give an  
6 example. When it comes to risk appetite, I believe  
7 that we have strong risk management principles in  
8 practice at MPI, but there is a process in formalizing  
9 those. So that's probably the middle of next year.

10 Capitalization, again, is an ongoing  
11 discussion, and we'll have that discussion here over  
12 the next couple of weeks.

13 Claims cost control is an ongoing  
14 process, and -- and Curtis has been doing a great job  
15 in driving claims cost control across the Company, but  
16 that's about looking at and looking at all of the  
17 assumptions in which our claims methodology is based  
18 and seeing where we can improve.

19 ALM implementation, I think you're all  
20 aware that's ongoing. It's something that we are  
21 closely monitoring both through the investment  
22 committee, as well as the Board of Directors. The  
23 product suite review is being led by Luke Johnston,  
24 and Luke will be looking at all of our products across  
25 the portfolio, be it from Basic, to Extension, to SRA.



1 That's also around one (1) of those types of  
2 deductibles that we've spoken about when it comes to  
3 Basic, but also other types of coverage that we could  
4 potentially offer customers based on customer feedback  
5 across those other products. That review of where we  
6 could potentially go as a strategic direction, that  
7 should be done early in the new year.

8           Customer experience is ongoing, but we  
9 have fundamentally changed the way that we reach out  
10 to our customers. That's through the implementation  
11 of things like the E-panel. The broker negotiations  
12 and the repair trade negotiations are both lengthy,  
13 and politically sensitive, and quite heated at times,  
14 but we are again looking to close both of those, ready  
15 for a new accord commencing March 1 of 2019.

16           MS. KATHLEEN MCCANDLESS: Thank you.  
17 Another question with respect to the Corporation's  
18 mission at CAC/MPI-1-38.

19

20   (BRIEF PAUSE)

21

22           MS. KATHLEEN MCCANDLESS: The question  
23 here was that the Corporation was asked about the  
24 steps it is taking to control physical damage claims  
25 incurred, to further inform and improve the financial

1 forecasting process and reduce pressure on Basic  
2 insurance rates; "yes"? You see the question in front  
3 of you?

4 MR. BEN GRAHAM: Correct.

5 MS. KATHLEEN MCCANDLESS: If we go to  
6 the response, just from -- at the very top of the  
7 page, 2 lines down, there's a sentence that starts:

8 "Internally, the Corporation  
9 monitors severity and identifies  
10 priority" --

11 Scroll back up. Yeah.

12 "...identifies opportunities for  
13 improvement in policies and shop  
14 performance."

15 Do you see that before you, Mr. Graham?

16 MR. BEN GRAHAM: Yes, I do.

17 MS. KATHLEEN MCCANDLESS: Can you just  
18 tell the Board how often that monitoring is taking  
19 place?

20 MR. CURTIS WENNBERG: I can answer  
21 that question.

22 MS. KATHLEEN MCCANDLESS: Thank you.

23 MR. CURTIS WENNBERG: So we will  
24 monitor what is happening, both with the direct  
25 repair, and then overall severity on a month-to-month

1 basis. We'll -- we'll look at severity on a -- on a  
2 per claim, and even the number of claims. So when we  
3 look at our monthly results coming in, we can -- we  
4 can see how that works.

5                   When it talks about the specific shop  
6 key performance indicators just below that, what we  
7 have now is a new series of measurements that we use.  
8 And we also monitor those that come out in a quarterly  
9 -- a quarterly snapshot report.

10                   We'll also provide that back. Those  
11 KPIs go individually now back to the shops, and we  
12 talk to them about -- about how they performed, and --  
13 and this is important to them now, because they can  
14 get kicked out of the direct repair program. So --  
15 and -- and not just that program, but also they can  
16 earn certain autonomy levels so that we can streamline  
17 and do some more straight, you know, straight through  
18 processing of claims and estimates. And so doing well  
19 on these KPIs is important.

20                   MS. KATHLEEN MCCANDLESS: Thank you.  
21 Mr. Graham, I -- I believe this might be the last  
22 question I have for you in particular. In the -- in  
23 the context of your evidence this morning, you -- in  
24 speaking about the naive interest rate forecast,  
25 you've mentioned something to the effect that the

1 Corporation can't make a bet on what will or will not  
2 happen. I don't know if you recall specifically  
3 making that comment, but if you disagree, perhaps you  
4 could advise.

5 MR. BEN GRAHAM: No, no. I don't  
6 disagree. Yeah. It was based on the -- the risk  
7 management principles around the fact that we -- it is  
8 a break-even program. We currently have a low MCT,  
9 lower than best practice, and it is a nonprofitable  
10 line of business.

11 MS. KATHLEEN MCCANDLESS: If the naive  
12 forecast is used, and interest rates rise, would that  
13 not increase volatility in a similar but opposite  
14 manner to using a 50/50 forecast, having interest  
15 rates remain static?

16 MR. LUKE JOHNSTON: I'll chime in,  
17 here. So the naive interest rates are in our hand  
18 right now. We know what they are. It's the observed  
19 rate. What's been happening the last six (6), seven  
20 (7), eight (8) years is banks have been expecting  
21 rates to rise and revert to historical levels, and it  
22 hasn't happened. So we really are -- I get that it's  
23 the banks, and they're supposed to be the experts, and  
24 -- and we'd like to rely on them, but it just hasn't  
25 happened, right?

1                   And so from our perspective, you know,  
2 we have the current rates right now. We've even come  
3 to the PUB and said, We'll wait as long as we possibly  
4 can, like, right till you approve the order to use the  
5 latest rates, and if they go up, down, or whatever,  
6 we'll adjust the rate accordingly. But this whole  
7 idea of betting on rates to go back to they were --  
8 where they were, you know, twenty (20) years ago is  
9 not good practice for us, and -- and we don't really  
10 have anything to show that it's a better estimate than  
11 just using today's rate. So that's -- that's where we  
12 stand on that one.

13                   MS. KATHLEEN MCCANDLESS:     So, Mr.  
14 Johnston, if I'm to understand your response, that  
15 it's not that volatility could be similar but  
16 opposite, in the event that a 50/50 forecast is used  
17 and interest rates mean static?

18                   MR. LUKE JOHNSTON:     I'm sorry. I -- I  
19 didn't answer your question completely, there, but  
20 what we're saying is the -- definitely in recent  
21 years, we've exposed ourself to a different kind of  
22 risk that isn't even related to interest rates. We're  
23 -- it's really forecasting risk.

24                   We've taken someone else's forecast,  
25 assume it's going to go up two hundred (200) basis

1 points, expose ourself to tens of million dollars of  
2 pricing risk, and that's not even the really -- the  
3 risk of interest rate movements. We -- it's the risk  
4 of that forecast being wrong.

5                   If we stuck to naive interest rate  
6 forecasts, we can say, you know, as we have in some of  
7 our evidence, you know, interest rates, you know, have  
8 never moved more than fifty (50) basis points over  
9 twelve (12) months. You know, maybe they go up, maybe  
10 they go down. That would cost us money, but that is  
11 the real risk of interest rates, not the risk that  
12 someone else is -- that goes horribly wrong.

13                   And we're willing to accept that risk  
14 and model it. We're not willing to let the bank tell  
15 us, you know, we should assume rates from twenty (20)  
16 years ago and make that bet in -- in pricing. That --  
17 that's really all we're -- we're saying.

18                   MS. KATHLEEN MCCANDLESS: Thank you.

19 My --

20                   MR. MARK GIESBRECHT: And sorry, I'll  
21 just add to that real -- real quickly. When you look  
22 at all the key assumptions that we have in our -- our  
23 forecast, and our financial modelling, we always look  
24 at our -- our experience, our most recent trending  
25 experience, and this is one (1) area where we're now

1 trying to forecast the future, not looking at what has  
2 happened in -- in the past, but trying to guess what -  
3 - what do we think is going to take place in the  
4 movement of interest rates?

5                   And -- and so that's a -- that's a  
6 deviation from our -- our core practice from all of  
7 our other inputs that are going to the financial  
8 model, and so that's an area that is -- it -- it is  
9 different than all other key assumptions in our model.

10                   MR. LUKE JOHNSTON:   And -- and just --  
11 just to provide some extra clarity, this morning, we  
12 talked about the hedging of interest rate risk. So  
13 once we have the claims from a given year, and we know  
14 kind of our expected cost of that, then we can buy  
15 matching bonds and hedge that risk going forward.

16                   From the pricing side, though, we  
17 haven't sold any of those policies. There's no way  
18 for us to hedge that. We just made a -- a poor  
19 pricing estimate. We can't escape that. We can't  
20 protect ourselves from something we don't have yet. If  
21 we -- if we have a thousand dollar (\$1,000) rate  
22 today, and we decide that we think interest rates are  
23 going to go up two hundred (200) basis points, and  
24 instead, we price to be nine hundred dollars (\$900),  
25 there's no hedge for that. We've just misplaced by a

1 hundred dollars (\$100).

2 If we stuck at naive, followed it  
3 through, the claims come in, we match it, then we can  
4 hedge all risk going forward. So all, you know, old  
5 PIPP policies, we fully hedge that completely. It's  
6 the pricing risk that we can't complete hedge, and  
7 that's -- that's why we're so adamant about using  
8 naive.

9 MS. KATHLEEN MCCANDLESS: Thank you.  
10 My next set of questions are probably directed to Mr.  
11 Johnston or Mr. Giesbrecht.

12 Just to confirm, with respect to the  
13 2.2 percent overall change in Basic vehicle premium  
14 revenue, that is comprised first of .1 percent overall  
15 change to cover the break-even cost of policies;  
16 "yes"?

17 MR. LUKE JOHNSTON: Correct.

18 MS. KATHLEEN MCCANDLESS: And that's  
19 combined with a 2.1 percent overall change for a net  
20 capital maintenance permission, yes?

21 MR. LUKE JOHNSTON: That's right.

22 MS. KATHLEEN MCCANDLESS: And the 2.1  
23 percent for the net capital maintenance provision is  
24 aimed at preserving Basic's capital position over the  
25 coming rating year. Is that correct?



1 MR. LUKE JOHNSTON: Yes.

2 MS. KATHLEEN MCCANDLESS: And with  
3 respect to the 2.1 percent net capital maintenance  
4 provision, I understand it's actually comprised of two  
5 (2) components. Would that be right?

6 MR. LUKE JOHNSTON: That's right. So  
7 we've -- what we tried to do, and we talked about this  
8 quite a bit last year about splitting all the pieces  
9 so the -- the Board and any other stakeholders could  
10 see the components.

11 So we have the -- what we call the  
12 break-even accepted actual practice method that is  
13 purely just the new policy costs, you know, how much  
14 premium do we get, how much did they cost us in  
15 expenses. That's the 0.1 percent rate increase.

16 Then we talked a lot last year about  
17 investment income earned on the rate stabilization  
18 reserve. That is revenue to the Basic program. The  
19 question was: What we do with it? So before this  
20 capital maintenance topic became a -- a topic at -- at  
21 the hearings, MPI's argument was we need some way to  
22 build the RSR with the organization, investment  
23 income. The RSR is one (1) of those ways. We think  
24 it should stay in there and not be used to reduce  
25 rates. So we made that argument.

1                   As part of that argument, at this  
2 hearing, we said that, well, we're not really  
3 necessarily looking to keep the investment income on  
4 the RSR. We -- we're really looking to maintain  
5 capital.

6                   So we recognize that other insurers  
7 would use investment income on capital to -- to lower  
8 rates. We're not disputing that. But at the end of  
9 the day, our rate-making methodology, including that,  
10 would have our capital deter -- deteriorate over time,  
11 and we -- we don't think that's a prudent way to set  
12 rates.

13                   So what we're proposing in terms of net  
14 capital maintenance is a new policyholder in that  
15 particular year would get the investment income on the  
16 RSR, but they would also contribute to whatever costs  
17 there was to maintain -- keep MPI in the same position  
18 from a capitalization perspective, where they start --  
19 where they, you know, when -- when they got the  
20 policy.

21                   That doesn't necessarily have to be a  
22 positive number. In the future, that could be  
23 negative, and -- and Mr. Scarfone talked about, it  
24 doesn't look like we need to ask for that in the  
25 coming years. So it's quite possible it would be

1 negative, but right now, it's 2.1 percent net of those  
2 two (2) numbers.

3 MS. KATHLEEN MCCANDLESS: Right. And  
4 just to clarify, so the -- the net is -- the first is  
5 the provision for the expected return on investment  
6 assets supporting Basic total -- total equity, and  
7 that's at a negative 1.2 percent overall change, yes?

8 MR. LUKE JOHNSTON: That's right.

9 MS. KATHLEEN MCCANDLESS: And then the  
10 positive 3.3 percent overall change for a capital  
11 maintenance provision, yes?

12 MR. LUKE JOHNSTON: That's correct.

13 MS. KATHLEEN MCCANDLESS: Thank you.  
14 And I -- I think it's clear on the record that the  
15 rate change proposal is predicated on the use of the  
16 naive interest rate forecast?

17 MR. LUKE JOHNSTON: I apologize. I  
18 was having a little discussion, here, so I missed your  
19 question. Yeah. Yeah, yeah.

20 MS. KATHLEEN MCCANDLESS: Yes?

21 MR. LUKE JOHNSTON: I -- I'm ready  
22 now. I didn't -- I didn't hear the question. I'm  
23 sorry.

24 MS. KATHLEEN MCCANDLESS: The -- I  
25 think it is clear before the -- the Board today that

1 the rate change proposal is predicated on the naive  
2 interest rate forecast as adopted by MPI's Board of  
3 Directors and management, yes?

4 MR. LUKE JOHNSTON: That's correct,  
5 and -- and despite some of the other things that  
6 you've heard, we are making that and all forecasts on  
7 what we believe is the best estimate.

8 MS. KATHLEEN MCCANDLESS: And could  
9 you confirm that the naive interest rate forecast in  
10 this instance would assume the February 28, 2018  
11 Government of Canada ten (10) year bond yield rate of  
12 2.24 percent and that it would continue unchanged  
13 until -- throughout the five (5) year forecast period?

14 MR. LUKE JOHNSTON: I am -- I'll leave  
15 the actual number subject to check, but it -- yes, it  
16 would lock in that number over the forecast period.

17 MS. KATHLEEN MCCANDLESS: Are you able  
18 to tell us about by how much the Government of Canada  
19 ten (10) year bonds has changed over the period from  
20 February 2018 to September 2018?

21 MR. LUKE JOHNSTON: We can definitely  
22 provide an update on that number at any time. I don't  
23 have it at my fingertips, but just one moment.

24

25

(BRIEF PAUSE)

1 MR. LUKE JOHNSTON: I pre -- I don't  
2 have that right now, but I would be happy to provide  
3 it later today or as part of the investment panel.

4 MS. KATHLEEN MCCANDLESS: Yes. If we  
5 could have an undertaking then to provide the -- how  
6 much the yield rate on the Government of Canada 10-  
7 year bonds has changed over the period from February  
8 2018 to September 2018.

9 MR. STEVE SCARFONE: Yes, Counsel, we  
10 will make that undertaking.

11 MS. KATHLEEN MCCANDLESS: Thank you.

12 MR. LUKE JOHNSTON: Not that I like to  
13 add undertakings. Since our actual rates are set  
14 based on our claims discount rate, I would suggest  
15 that we show what the claims discount rate has changed  
16 over that same period because that's -- that's our  
17 actual portfolio that we invest in.

18 So it would be good for you to see how  
19 that's changed.

20 MS. KATHLEEN MCCANDLESS: Thank you.

21 MR. STEVE SCARFONE: So we will  
22 include that, Ms. McCandless, as part of that one (1)  
23 undertaking.

24 MS. MCCANDLESS: Thank you.

25

1 --- UNDERTAKING NO. 1: To provide how much the  
2 yield rate on the  
3 Government of Canada 10-  
4 year bonds has changed  
5 over the period from  
6 February 2018 to September  
7 2018 and show what the  
8 claims discount rate has  
9 changed over that same  
10 period

11

12 CONTINUED BY MS. KATHLEEN MCCANDLESS:

13 MS. KATHLEEN MCCANDLESS: Mr. Johnston,  
14 you would agree that the rate indication, among other  
15 aspects of the GRA, is sensitive to movements, whether  
16 actual or assumed, in the 10-year Government of Canada  
17 bond yields?

18 MR. LUKE JOHNSTON: Definitely.

19 MS. KATHLEEN MCCANDLESS: And if we  
20 could pull up PUB/MPI 1-11, at question (e), the  
21 Corporation was asked whether it anticipated amending  
22 its application to reflect an updated interest rate  
23 forecast reflecting market activity up to September  
24 30, 2018 or thereabouts.

25 And we heard from your counsel this

1 morning in his submissions that the pre-asked number 1  
2 will provide interest rate updates.

3 Now, if we scroll to page 3, the  
4 Corporation's response is that the Corporation does  
5 not anticipate filing an amendment to its application  
6 at this time. The Corporation would consider doing so  
7 if a material change in circumstances required  
8 immediate action to rectify the present application.

9 Do you see that there, Mr. Johnston?

10 MR. LUKE JOHNSTON: So I'm going to  
11 defer part of this question, but just to be clear, we  
12 have no issue with telling you what the updated rate  
13 indication is based on whatever the latest interest  
14 rates are. So that's easy for us to do.

15 Re-running the entire DCAT analysis is  
16 not so easy, so that's going to come up, we'll have to  
17 maybe discuss off-line. That takes a lot more work.  
18 But in terms of amending the application I'll let  
19 maybe Mr. Scarfone talk about that.

20 MR. STEVE SCARFONE: With respect to  
21 that particular response, Ms. McCandless, I think the  
22 reticence that the Corporation indicates there is more  
23 in line with having to file a formal amendment to re-  
24 serve the application, if amended and perhaps even  
25 procedurally have witnesses reappear to answer

1 questions on the amended application.

2                   So I think that is what forms the basis  
3 of that particular response. But as Mr. Johnston has  
4 indicated, to the extent that it would be helpful to  
5 the Board and Intervenors, to update the application  
6 as it concerns interest rates and the rates that the  
7 Corporation will have set going forward, that I think  
8 is what the Corporation and Mr. Johnston are agreeable  
9 to doing.

10                   MS. KATHLEEN MCCANDLESS: I understand  
11 those updates will be provided at some point in this  
12 GRA process.

13                   So just to clarify then, the  
14 Corporation will provide the updates but does not  
15 anticipate for -- filing any formal amendment to its  
16 application?

17                   MR. STEVE SCARFONE: That's correct.

18                   MS. KATHLEEN MCCANDLESS: Thank you.

19                   Just to follow up on that then, does  
20 the Corporation have -- anticipate what would be  
21 considered a material change in circumstances that  
22 would require a formal refiling of the application?  
23 Or formal amendment to the application.

24

25                   (BRIEF PAUSE)



1 MR. STEVE SCARFONE: So just caucusing  
2 with our general counsel, Ms. McCandless, I think it  
3 would depend in large part upon the -- the essence of  
4 the changes that are being contemplated. I don't know  
5 if there's any particular threshold that would result  
6 in a formal amendment to the Corporation's  
7 application, but I don't know if we're discussing  
8 anything other than updating the interest rate  
9 forecasts at the end of September.

10 So that particular change, if you will,  
11 doesn't meet the Corporation's threshold, in our view,  
12 to result in an amendment to the -- to the formal  
13 application itself.

14 MS. KATHLEEN MCCANDLESS: Thank you.

15 MR. STEVE SCARFONE: I hope that helps  
16 with your question.

17 MS. KATHLEEN MCCANDLESS: It somewhat  
18 clarifies, yes.

19 MR. STEVE SCARFONE: Okay, thank you.

20

21 CONTINUED BY MS. KATHLEEN MCCANDLESS:

22 MS. KATHLEEN MCCANDLESS: Now, if we  
23 could turn to RM-13, that's found in the Book of  
24 Documents at Tab 3 on the first page. To assist you,  
25 Kristen, that's also found at page 41 of the rate-

1 making section of the filing.

2 So, Mr. Johnson, this is a table  
3 showing the required rate changes based on the  
4 application filed; yes?

5 MR. LUKE JOHNSTON: Are you there?  
6 Yes, okay. That's correct. And really, it's just  
7 showing everyone that -- every item that feeds into  
8 the rates.

9 MS. KATHLEEN MCCANDLESS: And that  
10 includes the net capital maintenance provision and  
11 breakeven rates, as we see at the top of the table,  
12 yes?

13 MR. LUKE JOHNSTON: That's right.

14 MS. KATHLEEN MCCANDLESS: Now, if we  
15 scroll down to line 24, we see the applied for change  
16 here; yes?

17 MR. LUKE JOHNSTON: That's right.

18 MS. KATHLEEN MCCANDLESS: And that's  
19 the rate change by major class. So if we scroll to  
20 the top of the table we see that it's broken down by  
21 major class, yes?

22 MR. LUKE JOHNSTON: Correct.

23 MS. KATHLEEN MCCANDLESS: And so that  
24 would be the indicated rate change?

25 MR. LUKE JOHNSTON: That is the

1 indicated rate change, inclusive of the Capital  
2 Maintenance Provision, so you see one line above that  
3 it says "full credibility required rate change" and  
4 all "full credibility" means is that if we just ignore  
5 the sizes of the groups and just took their data like  
6 100 percent as is, some groups like private passenger  
7 has hundreds of thousands of vehicles, that's not an  
8 issue, but other groups are smaller.

9                   When we talk about the .1 percent  
10 overall rate change, that's where that's coming from.  
11 So after applying PUB rules and caps and other things,  
12 that number becomes .1 percent.

13                   We've essentially put in the applied  
14 for change at 2.3 based on the net capital maintenance  
15 provision and proportionally adjusted all rates up by  
16 major class to get -- to achieve the -- the overall  
17 change.

18                   MS. KATHLEEN MCCANDLESS: Thank you.

19                   At line 29, that would be the  
20 experience rate change, so that is the change after  
21 the capping rules are applied?

22                   MR. LUKE JOHNSTON: That's right.

23                   MS. KATHLEEN MCCANDLESS: And for the  
24 benefit of the Board, these are a series of capping  
25 rules that are in place that are intended to prevent

1 large variations in rate changes within each class, is  
2 that right?

3 MR. LUKE JOHNSTON: Yes. There is --  
4 there's some really obvious ones and then there's a  
5 lot of other ones that are, for lack of a better word,  
6 kind of buried in the methodology, but I'll explain.

7 So the experience changes --  
8 experience-based changes are capped at 15 percent,  
9 plus or minus. All changes, including balancing and  
10 other things we talk about here are plus or minus 20  
11 percent caps.

12 When I say there's other rules that  
13 control volatility buried in the methodology, so  
14 credibility of a way to, you know, move things slower  
15 based on the credibility of the data, the -- also all  
16 our, you know, rating relativities, rate groups and  
17 such like -- of those -- those types of things have  
18 rules about how quickly we move the data, you know,  
19 longer-term averages, things like that that also  
20 ensure that rates are -- that the rate changes are  
21 credible, you know, there's not extreme rate shock.  
22 So it's not just this.

23 But I can say if -- if a class was  
24 indicating say a 10 percent rate increase, there's a  
25 lot of indicators that that's a very credible number

1 and we should move to it based on the methodology we  
2 have.

3 MS. KATHLEEN MCCANDLESS: Thank you.

4 And I understand that the applied for  
5 rate changes would be averages, so within each class  
6 there would be increases and decreases.

7 Is that right?

8 MR. LUKE JOHNSTON: Absolutely, yes.

9 MS. KATHLEEN MCCANDLESS: At the top  
10 of the table, under line 1, we see overall, and I  
11 understand that that means that the -- the number of  
12 units in the fleet is 1.2 million vehicles, is that  
13 right?

14 MR. LUKE JOHNSTON: That's correct.

15 So -- and then, yeah, along that row  
16 you can see the different classes and how many are --  
17 units are in there.

18 So if we -- trailers and ORVs are not  
19 really on -- you know, on the road type of -- like,  
20 the highway type of vehicles. You can see there's  
21 quite a few trailers. If we take out the trailers  
22 there's about a million vehicles on the road.

23 MS. KATHLEEN MCCANDLESS: Thank you.

24 And the fleet increases year after  
25 year, is that right?

1 MR. LUKE JOHNSTON: It has, in my  
2 career, not a guarantee, but generally about 1 1/2  
3 percent a year.

4 MS. KATHLEEN MCCANDLESS: Thank you.

5 With respect to the motorcycle rates,  
6 we have 17,600 units for 1920. The Corporation uses a  
7 ten (10) year averaging for motorcycle class, is that  
8 right?

9 MR. LUKE JOHNSTON: What we do on --  
10 on motorcycle pricing is about 85 percent or so of the  
11 costs of motorcycle claims are related to the -- to  
12 injuries, and approximately half of injury costs are  
13 related to serious losses.

14 So when you -- when motorcyclists say  
15 that, you know, they're good drivers and they don't  
16 have a lot of claims, that is actually a true  
17 statement. There are really a handful that influence  
18 the pricing as -- so what we do, recognizing that  
19 there is a small number of claims with very big  
20 numbers, you know, losses, we average out over a 10-  
21 year period for all the injury claims to create  
22 stability for that class.

23 MS. KATHLEEN MCCANDLESS: Thank you.

24 If we could go to RM-15, which is also  
25 at Tab 3 of the Book of Documents. Kristen, you can

1 also find it at page 53 of the rate-making section.

2 This is the dollar distribution table  
3 and this shows the proposed change on a dollar basis,  
4 yes?

5 MR. LUKE JOHNSTON: Correct.

6 MS. KATHLEEN MCCANDLESS: So if we  
7 look to the largest percentage based on the  
8 application as filed, that would be at line 11. So  
9 17.74 percent of the fleet would see an increase of  
10 \$50 to \$99, yes?

11 MR. LUKE JOHNSTON: That's right.

12 MS. KATHLEEN MCCANDLESS: And that's  
13 followed quite closely by line 7, which would be that  
14 17.43 percent of the fleet would see a decrease of \$1  
15 to \$19 dollars, yes?

16 MR. LUKE JOHNSTON: That's right.

17 MS. KATHLEEN MCCANDLESS: And then if  
18 we look to .03 percent of the vehicles, so at line 15  
19 will receive an increase of \$300 or more, there is an  
20 asterisk there, it says of those 324 units, 313 are  
21 taxicab vehicle for hire, four (4) in territory 1 and  
22 3, yes?

23 MR. LUKE JOHNSTON: Yes. There's -- I  
24 obviously wish it wasn't the case, but taxi premiums  
25 are nearly \$10,000 in -- in Winnipeg. So it doesn't

1 take a very large rate increase on a percentage basis  
2 to create a \$300 plus increase.

3 But as -- we will likely talk about  
4 this later in the hearing, but as you know, we did  
5 make some adjustments to taxi rates for recognizing  
6 that they're going to likely lost market share with  
7 vehicle for hire, get DSR discounts, et cetera.

8 So the reality for -- for these folks  
9 is likely not a \$300 plus rate increase, assuming they  
10 have some sort of DSR discount.

11 MS. KATHLEEN MCCANDLESS: Thank you.  
12 And we may have more questions on that topic later in  
13 the hearing.

14 If we scroll to the bottom of the page,  
15 at figure RM-16, this is the percent distribution  
16 table. So this just breaks down the applied for  
17 change on a percentage basis, yes?

18 MR. LUKE JOHNSTON: Yes.

19 MS. KATHLEEN MCCANDLESS: And so we  
20 see that at line 8, 25.2 percent of vehicles, that's  
21 289,618 will see an increase of 5 percent to 10  
22 percent, yes?

23 MR. LUKE JOHNSTON: Correct.

24 MS. KATHLEEN MCCANDLESS: And then  
25 20.48 percent at line 7 will see an increase of less



1 than 5 percent?

2 MR. LUKE JOHNSTON: That's right.

3 MS. KATHLEEN MCCANDLESS: 15.96  
4 percent at line 5 will see a decrease of less than 5  
5 percent?

6 MR. LUKE JOHNSTON: Correct.

7 MS. KATHLEEN MCCANDLESS: 13.8 percent  
8 at line 4 will see a decrease of 5 percent to 10  
9 percent?

10 MR. LUKE JOHNSTON: That's right.

11 MS. KATHLEEN MCCANDLESS: And 7.45  
12 percent at line 6 would see no change?

13 MR. LUKE JOHNSTON: Correct.

14 MS. KATHLEEN MCCANDLESS: Thank you.

15 Just for the benefit of the panel, I do  
16 have some questions about the financial overview. It  
17 will take more than five (5) minutes, but I can  
18 certainly get started now, or we can break and resume  
19 after the break.

20 THE CHAIRPERSON: Well, if we have --  
21 we have the presenters at 1:30, so why don't we  
22 continue now and then we'll -- we'll have a slightly  
23 longer lunch, but we don't need an hour. Sorry, we  
24 don't need an hour and a half lunch. So why don't you  
25 start right now?

1 MS. KATHLEEN MCCANDLESS: Thank you.

2 Kristen, if you could please pull up  
3 pro forma 1, so that's PF-1, page 4. It's also found  
4 in the Book of Documents at Tab 5.

5 So the table provided here indicates  
6 the Corporation's actual results for Basic for  
7 2017/'18, which was the subject of last year's GRA, as  
8 well as the years being addressed in this application,  
9 yes?

10 MR. MARK GIESBRECHT: Correct.

11 MS. KATHLEEN MCCANDLESS: Thank you.

12 And the two (2) years impacted by this  
13 years rate application would be 2020F and 2021F, yes,  
14 that's forecast?

15 MR. MARK GIESBRECHT: That's correct.

16 MS. KATHLEEN MCCANDLESS: Now, if we  
17 scroll to the bottom of the table, under 2020  
18 forecast, we see that the forecast for 2020 is a net  
19 income of \$17.9 million, yes? That's at line 31?

20 MR. MARK GIESBRECHT: That's correct.

21 MS. KATHLEEN MCCANDLESS: And then for  
22 2021, which is the next column to the right, forecast  
23 of \$17.7 million, yes?

24 MR. MARK GIESBRECHT: Yes.

25 MS. KATHLEEN MCCANDLESS: And this

1 table also provides some outlook beyond 2021, we don't  
2 need to go back up to the table quite yet, but for  
3 2022 forecast and 2023 forecast, yes?

4 MR. MARK GIESBRECHT: That is correct.

5 MS. KATHLEEN MCCANDLESS: And that's,  
6 as I understand it, an indication of what the model  
7 shows, but it doesn't include any assumptions on rate  
8 changes, is that correct?

9 MR. MARK GIESBRECHT: That's right, it  
10 includes a 0 percent rate increase for those years.

11 MS. KATHLEEN MCCANDLESS: Now, if we  
12 look to the line 31, the left-most column for net  
13 income we see that for -- the actual results for 2018,  
14 the Corporation recorded net income of \$34 million,  
15 yes?

16 MR. MARK GIESBRECHT: Yes.

17 MS. KATHLEEN MCCANDLESS: Then if we  
18 go to pro forma number 4, so PF-4, that's at Tab 8 of  
19 the Book of Documents. Now this Statement of  
20 Operations for the Corporation shows a comparison of  
21 what was forecast at last year's GRA for 2017/'18  
22 fiscal with the actual results for 2017/'18, which is  
23 reported this year, correct?

24 MR. MARK GIESBRECHT: That's correct.

25 MS. KATHLEEN MCCANDLESS: And if we go

1 to the 2019 GRA column, so this year's application and  
2 line 14, we see total earned revenues for 2018 and  
3 after claims incurred, claims processing costs and  
4 other operating expenses.

5 We see that -- pardon me, line 28, that  
6 MPI recorded an underwriting loss of \$81.9 million,  
7 yes?

8 MR. MARK GIESBRECHT: Yes.

9 MS. KATHLEEN MCCANDLESS: And that's  
10 against total earned revenues of \$982.9 million at  
11 line 14?

12 MR. MARK GIESBRECHT: That is correct.

13 MS. KATHLEEN MCCANDLESS: On the  
14 second page of the pro forma, there are some notes  
15 here, at line 12 would indicate that a contributing  
16 factor to the net income was lower physical damages  
17 claims of about \$34.8 million less than forecast, is  
18 that right?

19 MR. MARK GIESBRECHT: That's correct.

20 MS. KATHLEEN MCCANDLESS: And we see  
21 there that's due to lower hail claims than forecast,  
22 yes?

23 MR. MARK GIESBRECHT: That was a  
24 component of it, yes.

25 MS. KATHLEEN MCCANDLESS: And then we

1 see another factor, pardon me. Another factor was  
2 lower corporate expenses at \$10.8 million.

3 So that's if we subtract -- go back to  
4 the previous table. If we subtract line 41 on the  
5 table here, from line 31, there is a difference of  
6 \$10.8 million for corporate allocated expenses, yes?

7 MR. MARK GIESBRECHT: Without  
8 recalculating, I'll take your word for it, yes.

9 MS. KATHLEEN MCCANDLESS: Now, in the  
10 case of the underwriting loss of \$81.9 million, that's  
11 -- is that common from MPI's forecasting standpoint?

12 MR. MARK GIESBRECHT: Given that we  
13 are based on a break-even rate-making process, prior  
14 to including or investment income, it can be quite  
15 common that you would expect an underwriting loss.

16 MS. KATHLEEN MCCANDLESS: And MPI  
17 would look to the investment income then to cover the  
18 underwriting deficiency, yes?

19 MR. MARK GIESBRECHT: Yes.

20 MS. KATHLEEN MCCANDLESS: And if we  
21 look to the middle column at line 31, we see that in  
22 2018 Basic earned investment income of \$116.3 million,  
23 yes?

24 MR. MARK GIESBRECHT: That's correct.

25 MS. KATHLEEN MCCANDLESS: And the

1 investment portfolio is approximately \$2.4 billion  
2 dollars?

3 MR. MARK GIESBRECHT: Sounds about  
4 right, yes.

5 MS. KATHLEEN MCCANDLESS: Now, if we  
6 turn to pro forma 5, which is at Tab 9 of the Book of  
7 Documents, so the application last year dealt with the  
8 2019 budget, yes?

9 MR. MARK GIESBRECHT: Yes.

10 MS. KATHLEEN MCCANDLESS: And this pro  
11 forma looks at what was forecast at last year's GRA  
12 for fiscal 2018/'19 and compares it with the forecast  
13 budget as of this GRA, yes?

14 MR. MARK GIESBRECHT: That's right.

15 MS. KATHLEEN MCCANDLESS: So we see  
16 the forecast from last year on the left-hand side of  
17 the table and then the second column in is the  
18 forecast budget this year?

19 MR. MARK GIESBRECHT: Correct.

20 MS. KATHLEEN MCCANDLESS: And in last  
21 year's Corporation, the Corporation application --  
22 pardon me, the Corporation requested a 2.7 percent  
23 change in premium revenue.

24 Do you recall that?

25 MR. MARK GIESBRECHT: Yes, I believe

1 so.

2 MS. KATHLEEN MCCANDLESS: And if we  
3 look to line 32, so if we scroll down, on the left-  
4 most column, we see that at last year's GRA the  
5 Corporation was forecasting a net loss of \$21.3  
6 million, yes?

7 MR. MARK GIESBRECHT: Correct.

8 MS. KATHLEEN MCCANDLESS: And if we  
9 jump ahead to pro forma 6, which is at Tab 10 of the  
10 Book of Documents, line 32, we see that the  
11 Corporation was forecasting a net loss of \$8.3 million  
12 in 2020?

13 MR. MARK GIESBRECHT: Yes.

14 MS. KATHLEEN MCCANDLESS: So back --  
15 if we go back to pro forma 5, which we were just  
16 looking at previously, if we scroll down to line 32,  
17 again, we see the Corporation has updated its forecast  
18 this year for 2019, yes?

19 MR. MARK GIESBRECHT: Yes.

20 MS. KATHLEEN MCCANDLESS: And it's now  
21 indicating a net income of \$135.6 million, yes?

22 MR. MARK GIESBRECHT: Correct.

23 MS. KATHLEEN MCCANDLESS: So it's an  
24 improvement of \$156.8 million from what was forecast  
25 last year?

1 MR. MARK GIESBRECHT: That's right.

2 MS. KATHLEEN MCCANDLESS: If we scroll  
3 up again, Kristen, thank you for going back and forth  
4 for me here, on the right-most column of the table  
5 here, at line 12, we see there was a reduction in net  
6 premiums earned, \$.4 million, yes?

7 MR. MARK GIESBRECHT: Yes.

8 MS. KATHLEEN MCCANDLESS: And at line  
9 21 we see a decrease in forecasted claims costs of  
10 \$47.3 million, yes?

11 MR. MARK GIESBRECHT: Correct.

12 MS. KATHLEEN MCCANDLESS: Scrolling to  
13 the notes on the second page of the pro forma, with  
14 respect to the net claims incurred at line 13 and we  
15 see that there is a change primarily due to higher  
16 than forecast changes in interest rates.

17 Do you see that there?

18 MR. MARK GIESBRECHT: I do.

19 MS. KATHLEEN MCCANDLESS: And that's  
20 at -- of \$16.7 million, yes?

21 MR. MARK GIESBRECHT: Yes.

22 MS. KATHLEEN MCCANDLESS: And lower  
23 than forecast physical damage claims at 18.5 million,  
24 yes?

25 MR. MARK GIESBRECHT: Yes.



1 MS. KATHLEEN MCCANDLESS: Now, if we  
2 scroll back to the table at pro forma 5 and line 29,  
3 on the right-most column we see for -- and if we  
4 scroll up just a little bit here, to the very top of  
5 the table, we'll see that the difference in the  
6 investment income and back down to line 31, I think we  
7 can see it just at the very bottom here, so now the  
8 Corporation is forecasting to have \$113.7 million more  
9 in investment income than was forecast last year, yes?

10 MR. MARK GIESBRECHT: That is correct.

11 MS. KATHLEEN MCCANDLESS: And I  
12 understand that's primarily due to realizing gains on  
13 both the U.S. and Canadian equity portfolios?

14 MR. MARK GIESBRECHT: Yes, in  
15 conjunction with our ALM strategy, as we enact that  
16 strategy we will be selling off a portion of our  
17 equity portfolio to fund the fixed income portfolio,  
18 and that will lead to a crystallization of the gain.  
19 So these gains are currently sitting on our balance  
20 sheet in the form of AOCI, which is Accumulated Other  
21 Comprehensive Income.

22 So these values are factored into our  
23 financials, however, they're sitting outside of net  
24 income until they become crystalized when we actually  
25 sell those assets to fund the -- the purchase of

1 bonds.

2 MS. KATHLEEN MCCANDLESS: And we will  
3 be discussing all of that later in this process.

4 MR. MARK GIESBRECHT: For sure.

5 MS. KATHLEEN MCCANDLESS: Now, if we  
6 could please go to pro forma 6, which is at Tab 10 of  
7 the Book of Documents.

8 We looked at this briefly a moment ago.  
9 So this forecasts or compares what was forecast for  
10 fiscal 2019/'20 at last year's GRA to now what is  
11 being forecast for 2019/'20.

12 And last year, as mentioned, there was  
13 a net loss forecast of \$8.3 million at line 32.

14 Now, the Corporation is forecasting a  
15 net income of \$17.9 million, yes?

16 MR. MARK GIESBRECHT: Yes.

17 MS. KATHLEEN MCCANDLESS: So the  
18 difference is nearly \$30 million from what was  
19 forecast last year, yes?

20 MR. MARK GIESBRECHT: Correct.

21 MS. KATHLEEN MCCANDLESS: Now, this  
22 year the Corporation is requesting a rate increase of  
23 2.2 percent.

24 How much additional revenue does the  
25 Corporation expect to receive from the proposed rate

1 increase?

2 MR. MARK GIESBRECHT: 2.2. would be  
3 approximately 20 million.

4 MS. KATHLEEN MCCANDLESS: And how much  
5 would be earned in 2019/'20 and 20 -- 2021?

6 MR. MARK GIESBRECHT: Subject to  
7 check, but typically I would expect we would earn  
8 about 54 percent of that, given the -- assuming an  
9 even monthly distribution.

10 MS. KATHLEEN MCCANDLESS: So 54  
11 percent?

12 MR. MARK GIESBRECHT: Yes. That's  
13 rough numbers, assuming even distribution of policy  
14 renewals.

15 MS. KATHLEEN MCCANDLESS: Thank you.

16 And so the pro formas that we just  
17 reviewed, Mr. Giesbrecht, they're based on the  
18 Corporation using the naive forecast, yes?

19 MR. MARK GIESBRECHT: That's correct.

20 MS. KATHLEEN MCCANDLESS: Now, if we  
21 could refer to the investments appendices, Appendix  
22 11, it's found at the Book of Documents at Tab 11.

23 The pro formas here for Statement of  
24 Operations, PF-2 is for Statement of Changes in  
25 Financial Position and PF-3 is for a statement for

1 changes in equity for Basic.

2                   These are based on using a 50/50  
3 interest rate, yes?

4                   MR. MARK GIESBRECHT:    Yes.

5                   MS. KATHLEEN MCCANDLESS:    Now,  
6 Kristen, would it be possible to pull up pro forma 1,  
7 which was from Tab 5 of the Book of Documents and pro  
8 forma 1 that is in front of us right now, and put them  
9 side-by-side.

10

11                                   (BRIEF PAUSE)

12

13                   MS. KATHLEEN MCCANDLESS:    Thank you  
14 very much. This is just to look at some of the  
15 difference in the results based on the change in  
16 interest rates.

17                   So on the right-hand side of the page  
18 we have the pro forma based on the naive interest  
19 rate. And on the left-hand side of the screen we have  
20 the 50/50 interest rate.

21                   So as an example, Mr. Giesbrecht, if we  
22 looked to the -- to line 31.

23                   And column under the 2019 FB, so the  
24 forecast budget for 2019, the net income or loss we  
25 see with the 50/50 interest rate that the Corporation

1 would forecast net income of \$144.6 million, yes?

2 MR. MARK GIESBRECHT: Yes.

3 MS. KATHLEEN MCCANDLESS: And on the  
4 right-hand side of the screen, we see that line 32  
5 based on a naive interest rate, we have net income of  
6 \$135.6 million, yes?

7 MR. MARK GIESBRECHT: Yes.

8 MS. KATHLEEN MCCANDLESS: So a  
9 difference of roughly \$9.1 million?

10 MR. MARK GIESBRECHT: Correct.

11 MS. KATHLEEN MCCANDLESS: Thank you.

12 Then for 2020, at line 31 we see with -  
13 - on the left-hand side of the screen a forecast net  
14 income of \$27 million, yes?

15 MR. MARK GIESBRECHT: Yes.

16 MS. KATHLEEN MCCANDLESS: Pardon me,  
17 that's at 50/50. And then on the right-hand side of  
18 the screen, if we could just --

19 MR. LUKE JOHNSTON: Do we need to  
20 scroll up on the right side to the actual matching  
21 statements? Because you have the comparative up there  
22 right now, but I'm thinking you want the -- I don't  
23 want to put words in your mouth, but I think you want  
24 the same look at the left side, is that --

25 MS. KATHLEEN MCCANDLESS: That's

1 right, thank you. That's why I --

2 MR. LUKE JOHNSTON: Keep going.

3 MS. KATHLEEN MCCANDLESS: -- was  
4 confused by what I was looking at here.

5 MR. MARK GIESBRECHT: PF-1.

6 MR. LUKE JOHNSTON: Yeah, PF-1, yeah.

7 MS. KATHLEEN MCCANDLESS: PF-1.

8 MR. MARK GIESBRECHT: There we go.

9 MR. LUKE JOHNSTON: Is that what you  
10 want? Just -- just --

11 MS. KATHLEEN MCCANDLESS: Yes. Pardon  
12 me.

13 So then if we're looking at 2020, on  
14 the left-hand side of the page -- the screen, pardon  
15 me, at line 31 we have 50/50 and that would be \$27.1  
16 million in net income, yes?

17 MR. MARK GIESBRECHT: Yes.

18 MS. KATHLEEN MCCANDLESS: And then if  
19 we look to the right-hand side of the page for 2020,  
20 based on the naive interest rate, we would have a net  
21 income of \$17.9 million, yes?

22 MR. MARK GIESBRECHT: That's right.

23 MS. KATHLEEN MCCANDLESS: Then on the  
24 left-hand side of the page -- of the screen, pardon  
25 me, at line 31 for 2021, we have net income of \$28.5

1 million?

2 MR. MARK GIESBRECHT: Yes.

3 MS. KATHLEEN MCCANDLESS: And on the  
4 right-hand side of the screen, for 2021, we see \$17.7  
5 million, yes?

6 MR. MARK GIESBRECHT: Yes.

7 MS. KATHLEEN MCCANDLESS: And 2022, at  
8 a 50/50 interest rate we see \$16.7 million -- pardon  
9 me, \$16.6 million?

10 MR. MARK GIESBRECHT: Correct.

11 MS. KATHLEEN MCCANDLESS: And \$1.6  
12 million for 2022, based on a naive interest rate  
13 forecast, yes?

14 MR. MARK GIESBRECHT: Yes.

15 MS. KATHLEEN MCCANDLESS: Those are my  
16 questions for the overview panel. Thank you.

17 THE CHAIRPERSON: Thank you.

18 We will adjourn until 1:30. Thank you.

19

20 (PANEL RECESSED)

21

22 --- Upon recessing at 12:12 p.m.

23 --- Upon resuming at 1:32 p.m.

24

25 THE CHAIRPERSON: If we could go on

1 the record, my apologies to the reporter. We're going  
2 to interrupt the -- the MPI panel to deal with -- to  
3 receive presentations from members of the public. The  
4 first one is from Mr. Delaurier (phonetic), although  
5 I'm not sure if he's here or not. I could ask the  
6 secretary.

7 MR. DARREN CHRISTLE: Mr. Chair, I can  
8 confirm that Mr. Delaurier has another engagement and  
9 will not be appearing.

10 THE CHAIRPERSON: Thank you.

11 MR. DARREN CHRISTLE: Thank you.

12 THE CHAIRPERSON: Mr. Roberts...? The  
13 way it works, Mr. Roberts, is you have approximately  
14 fifteen (15) minutes, and if there are any questions,  
15 we'll -- we'll ask you questions.

16 MR. NICK ROBERTS: Okay. No, we'll be  
17 --

18 THE CHAIRPERSON: Thank you very much,  
19 sir.

20 MR. NICK ROBERTS: -- we'll be well  
21 done before fifteen (15) minutes.

22 THE CHAIRPERSON: Thank you, sir.

23

24 PUBLIC PRESENTATION BY MANITOBA USED CAR DEALERS

25 ASSOCIATION:



1 MR. NICK ROBERTS: Good afternoon, Mr.  
2 Chairman, and members of the panel. I don't know if  
3 this has ever happened to you, but I hate it when I  
4 drop my ice cream cone. It's a hot day. I'm looking  
5 to cool off. I wait in a long line at an ice cream  
6 stand. At last, I have the vanilla cone piled high  
7 with ice cream.

8 As I step away from the ice cream  
9 stand, I fumble and my cone splats onto the ground.  
10 For a moment, time stops while my brain toys with the  
11 idea of bursting into tears and calling for my mommy.  
12 As if sensing my impending tantrum, the ice cream  
13 vendor called out and reassuringly said, Don't worry,  
14 I'll give you a new cone.

15 That not only pleased my inner child,  
16 but it also was excellent customer service. The ice  
17 cream vendor was effectively offering insurance  
18 against clumsiness. This gesture would put me back  
19 into the position that I would have been in if I  
20 hadn't dropped my ice cream cone on the pavement.

21 And that's the assurance that every  
22 vehicle owner wants for Manitoba Public Insurance.  
23 When an insured vehicle sustains damage, the owner of  
24 that vehicle expects his or her insurer to put the  
25 owner back into the position that she -- he or she

1 would have been in if the damage had not occurred.

2                   For the most part, Manitoba Public  
3 Insurance does, in fact, compensate vehicle owners for  
4 the direct loss arising from the damage of insured  
5 vehicles sustained -- sustains damage from either a  
6 collision or other circumstance to the repairs for  
7 that damage. The vehicle owner emerges from the  
8 collision with a vehicle that is more or less the same  
9 as the vehicle before the collision. That's what  
10 insured owners expect, and for the most part, that's  
11 what they get from Manitoba Public Insurance.

12                   However, there is a more than just the  
13 immediate loss as a vehicle involved in an accident  
14 today will be worth less when it is sold tomorrow than  
15 a comparable vehicle that was never in an accident.  
16 That's true even if the damage arising from the -- an  
17 accident is flawlessly repaired. Buyers simply don't  
18 want to pay full price for a vehicle that has an  
19 accident history.

20                   I can't really blame anyone who thinks  
21 that way. Imagine if, instead of replacing my dropped  
22 ice cream cone with a new one, the ice cream vendor  
23 had instead merely picked up my cone from the  
24 pavement, scooped off the gravel stuck in the ice  
25 cream, added a new -- a little new ice cream to make

1 up for it, and then handed me back the repaired cone.

2 I might have thrown it at him.

3 Manitoba Public Insurance thinks that  
4 reduced valuations arising from damage are beyond what  
5 the insurer should compensate. Vehicle owners would  
6 mostly disagree, at least they would disagree if they  
7 knew the position that Manitoba Public Insurance had  
8 just put them in due to a significant damage repair.

9 While it's true that Section 50(1) of  
10 the Automobile Insurance Coverage Regulation limits  
11 coverage to direct and accidental loss or damage,  
12 Manitoba Public Insurance has wrongly interpreted  
13 "direct loss" to mean only the physical damage to a  
14 vehicle. To MPI, direct loss doesn't include the  
15 immediate reduction in value that a vehicle sustains  
16 as soon as it is involved in a collision of any  
17 significance.

18 Manitoba Public Insurance isn't alone  
19 in taking this approach. Other insurers have adopted  
20 several -- similar interpretations, but the courts  
21 have increasingly pushed back. It's the expectation  
22 of vehicle owners that they are protected against  
23 financial loss arising out of a collision. The  
24 devaluation of a vehicle involved in an accident is a  
25 loss that is direct, flowing in a foreseeable and

1 predictable way from the collision damage.

2           This Board is not the place to argue  
3 about the statutory interpretation of MPI's governing  
4 legislation, but this Board is the correct place to  
5 test the impact upon Manitoba Public Insurance's  
6 bottom line that would result if MPI began to pay out  
7 claims on the basis that vehicle owners likely expect,  
8 and that, at least in our submission, the regulation  
9 requires. At the very least, the Board is the correct  
10 body to underline the current and arguably wrong  
11 disconnection between the expectations of Manitoba  
12 Public Insurance's customers and the practices of MPI  
13 relating to coverage for vehicle devaluation following  
14 an accident.

15           It might surprise the panel that this  
16 submission comes to -- through a presentation by the  
17 Manitoba Used Car Dealers Association. After all, Mr.  
18 Guerra, on behalf of the applicant, had written off  
19 the Manitoba Used Car Dealers Association as an  
20 interested-based Intervenor when on June 25th,  
21 Manitoba Public Insurance opposed our application for  
22 standing as an Intervenor in these proceedings. And  
23 that comes at page 48 of the transcript, line 6.

24           It is true that the Manitoba Used Car  
25 Dealers Association is the organization that advances

1 the interests and concerns of its members, the used  
2 car dealers Manitoba. The Manitoba Used Car Dealers  
3 Association was founded in 1992. The majority of the  
4 largest used car dealers from across Manitoba, as well  
5 as some new car dealers, are members of the Manitoba  
6 Used Car Dealers Association. We are the largest  
7 trade association representing the automobile dealers  
8 of Manitoba.

9                   However, the protection of the public  
10 interest very much coincides with the advancement of  
11 our members. The long-standing mission of the  
12 Manitoba Used Car Dealers Association is the  
13 enhancement and improvement of the automobile industry  
14 in Manitoba for the benefit of the Province's  
15 consumers.

16                   A quick visit to the Manitoba Used Car  
17 Dealers Association website shows that it is aimed at  
18 ordinary buyers of used cars. For example, there are  
19 pages of information on buying from a dealer, buying  
20 privately, the danger of curbside sellers, how to  
21 conduct a search for vehicles that have been recalled,  
22 understanding vehicle and seller warranties, and  
23 consumer protection laws and complaint mechanisms for  
24 consumers.

25                   In addition, the Manitoba Used Car

1 Dealers Association is very involved in the  
2 development of new consumer protection legislation,  
3 working at both the ministerial and administrative  
4 levels to ensure the buyers of motor vehicles get what  
5 they paid for. The Manitoba Used Car Dealers  
6 Association also works with MPI, and I expect that it  
7 seems like not a week goes by when at least one (1)  
8 member of the Manitoba Public Insurance witness panel  
9 does talk or correspond with me in my role as  
10 executive director.

11 Manitoba Used Car Dealers Association  
12 was, therefore, disappointed not to be given standing  
13 to participate in this year's hearing before the  
14 Board. Although it has been involved in past hearings  
15 going back almost a decade, the Manitoba Used Car  
16 Dealers Association also understands the position that  
17 Manitoba Public Insurance -- Insurance put on the  
18 record on June the 25th.

19 Mr. Guerra correctly noted that the  
20 Association's application was rather thin, and it did  
21 not set out any particular issues or intentions to  
22 challenge the evidence. However, this did not reflect  
23 disinterest. Instead, the Manitoba Used Car Dealers  
24 Association was hoping to review the evidence and lay  
25 the foundation for a future and more substantive

1 participation.

2                   The Manitoba Used Car Dealers  
3 Association is already looking forward to the 2020  
4 Rate Application. We have already retained a lawyer  
5 experienced before this Board in MPI rate  
6 applications. It is the Manitoba Used Car Dealers  
7 Association intention to apply again next year for  
8 Intervenor status relating to several public interest  
9 concerns that we would outline in due course. We  
10 would hope to be permitted to be a full participant,  
11 leading our own evidence, and testing and challenging  
12 the written and oral evidence of the applicant.

13                   On behalf of the Manitoba Used Car  
14 Dealers Association, thank you for your attention  
15 today. Failing any questions from the panel, that  
16 concludes my submission.

17

18 QUESTION PERIOD:

19                   THE CHAIRPERSON: Thank you, sir. Are  
20 there any questions? Board members...?

21                   I have a question, sir. You make the  
22 comment about the direct loss doesn't include  
23 reduction in value. What -- what is your estimate?  
24 Is there a percentage estimate that you think the  
25 values reduce that isn't captured?

1 MR. NICK ROBERTS: Yes, sir. There  
2 are some numbers out there. I don't know how -- how -  
3 - I -- I did read one. There was a percentage --  
4 would have been a percentage of Black Book value, but  
5 we'll have way more information for -- for the Board  
6 next year. We'll -- we'll make sure we -- we give you  
7 all the -- all the facts and details.

8 THE CHAIRPERSON: Thank you, sir. We  
9 appreciate your -- your attendance today. Thank you.

10 The next witness is TappCar.  
11 Gentlemen, if you could go there.

12

13 (BRIEF PAUSE)

14

15 THE CHAIRPERSON: Gentlemen, if you  
16 could identify your -- your name and position, and the  
17 name of the company? And as indicated with the  
18 previous witness, you have approximately fifteen (15)  
19 minutes.

20

21 (BRIEF PAUSE)

22

23 PRESENTATION BY TAPPCAR:

24 MR. JONATHON WESCOTT: Thank you, Mr.  
25 Chairman, members of the Board, and my name is



1 Jonathon Wescott. I am one (1) of the co-founders of  
2 TappCar, and with me is Mr. Shayne Saskiw, the other  
3 co-founder of TappCar.

4 We would like to start with just a  
5 brief outline, and we will start with a short summary  
6 of TappCar, and its history, and how it came about, a  
7 summary of our current operations for the last few  
8 months, and the impacts that the current MPI product  
9 has on our operations, and then round off with a  
10 little bit of anecdotal from some of the drivers that  
11 we have here, and take any questions that you might  
12 have.

13 First and foremost, myself and Shayne  
14 are both lawyers by trade, and not in -- normally  
15 involved in the transportation industry. We arose and  
16 TappCar arose out of -- out of actually, it's  
17 unfortunate circumstances. We also, in addition to  
18 running a law firm, run a government relations firm,  
19 and we were hired by one (1) of the nationals to do  
20 some government relations, or lobbyist work for them.

21 At the time, this -- this particular  
22 provider had refused to be compliant with current  
23 legislation, and refused to cease operations despite  
24 being outside of the framework of the laws in place at  
25 the time. We both come from Edmonton, so we're

1 locally -- Alberta and Western Canadian based, and all  
2 of TappCar is owned by small owners in -- in and  
3 around the Edmonton area, but the majority by Shane  
4 and myself.

5                   After we had turned down the  
6 opportunity for government relations work from this  
7 national, we had been engaged by a number of drivers,  
8 not the broker industry, but the actual drivers, most  
9 of which were new Canadians, most of which were making  
10 minimum wage, working extensive hours, usually six (6)  
11 days a week. It became apparent that the legislative  
12 framework that was in place -- or that was coming  
13 forward by city counsel at the City of Edmonton was  
14 pretty much the leader in -- in Canada at the time in  
15 terms of getting what we call private transportation  
16 providers, or transportation networking companies, or  
17 whatever term you'd like to use, the Uber/Lyft/TappCar  
18 style models to market.

19                   Edmonton had delayed its bylaw twice,  
20 and had implemented some regulations to help level the  
21 playing field between the for vehicle -- the for hire  
22 vehicle market, and the TappCar/Uber market. And at  
23 the time the legislation was put into place, the  
24 number of the drivers that were represented in the  
25 government relations project that we had come back to

1 us after, and we said about -- our job is done here.  
2 We've lobbied as best as we can for you, and we've  
3 implemented regulations as, you know, along with the  
4 City, and provided substantive feedback. And they  
5 said, Right, so what do we do next?

6                   And we said, Well, it's not really for  
7 us to say. It's, you know, well, we'll help you as  
8 best as we can. And they left, and came back out a  
9 week later, and said, We're still right where we were  
10 a week ago.

11                   So Shayne and I sat down at the Board  
12 room table thought, How can we help these drivers?  
13 And what came out of it was TappCar. It was the  
14 ability to take an off-the-shelf application at the  
15 time with a little bit of customization, make it fully  
16 compliant with the legislation in place, and launch a  
17 PTP/TNC networking company.

18                   Since that time, TappCar has been now  
19 around for about two and a half (2.5), almost three  
20 (3) years. They've completed over 3 million rides,  
21 and we've been operating here in Winnipeg since March.

22                   MR. SHAYNE SASKIW: Yeah, and our --  
23 our rides to date in Winnipeg area have been over a  
24 hundred thousand (100,000) rides, so I think the --  
25 the residents in the City of Winnipeg have caught on

1 to the -- the concept of -- of ride sharing, and app-  
2 based technology.

3           We also did expand into -- through a  
4 pilot project into Steinbach, a smaller municipality  
5 to see whether or not we could provide some services  
6 to the rural areas. For example, the -- the senior  
7 that wants to get to the hospital or something like  
8 that. Sometimes there's not enough taxi services  
9 available for those services, and then we do have the  
10 ability to provide accessible services, so through a -  
11 - our vehicle choices of -- for transit, which is  
12 modified to allow for wheelchair accessible drivers.

13           The other thing we primarily focus on  
14 in our businesses, full compliance with city bylaws,  
15 as well as Provincial legislation. So we work very  
16 constructively with the City of Winnipeg enforcement  
17 agency, as well as the -- the managers there, and thus  
18 far, we've gone back and forth, and even helped design  
19 some of the -- kind of the regulations that are -- are  
20 being implemented.

21           We do have a license agreement with the  
22 Winnipeg airport, so we do operate there, and -- and  
23 do a fair amount of rides leaving the airport and  
24 dropping off. And one (1) thing that we've also  
25 focused on, if you want to talk about the

1 ambassadorship.

2 MR. JONATHON WESCOTT: As part of  
3 TappCar's mandate to be fully compliant with  
4 legislation, it's also to be a good corporate citizen.  
5 So that includes, when working with our corporate  
6 partners to do things like put in place new programs  
7 and education for the drivers and for the staff, in  
8 particular, in being good ambassadors for the City, we  
9 were working with YES! Winnipeg quite extensively to  
10 do everything from providing news updates to the  
11 drivers so that they have an idea of what's going on,  
12 so that when they're talking to passengers, hopefully  
13 it's about the Jets game, and how they're going to  
14 lose to the Oilers tomorrow night, or it's -- and not  
15 about the potholes.

16 It also helps us in terms of educating  
17 drivers on sensitive issues, depending on the  
18 municipalities. So for instance, we are well -- well  
19 through our way of an Indigenous training program and  
20 sensitivity training program for our drivers, so --  
21 and that -- it's not just ambassadorship, but it's  
22 also driver training; whether it's sensitivity, or  
23 whether it's driving skills as well.

24 The -- the MPI insurance product that  
25 was put into place has been a leading product, in our

1 opinion. We've done research in a whole host of  
2 jurisdictions across North America. I've been  
3 everywhere from about five (5) other -- six (6) of the  
4 United States, various states and cities on -- on  
5 their operations.

6 We, in Alberta, of course, operate in a  
7 private insurance market. We've done research and  
8 consolation with Saskatchewan and SGI, but the normal  
9 product that was brought forward by MPI has a whole  
10 host of very substantial what I'd call product-based  
11 advantages for the drivers and for the -- and for the  
12 company itself.

13 In particular, in terms of pricing for  
14 the product model that's out there, as you're probably  
15 aware, it's done in four (4) different time bands, and  
16 each of those time bands attracts a 5 percent premium.  
17 Our drivers have found that -- most of them have  
18 purchased the full band width of all four (4) bands  
19 regardless, because they like the flexibility in being  
20 able to go whenever they want. But some of our lower  
21 income drivers who, you know, have more demanding  
22 full-time jobs and prefer to only go on Friday and  
23 Saturday nights, or things of that nature, they only  
24 purchase the one (1) or two (2) time bands.

25 At the 5 percent of the regular cost of

1 -- of their base policy, they find that it's more than  
2 affordable. For our average driver, that's about two  
3 hundred dollars (\$200) to three hundred dollars (\$300)  
4 a year. So it really works out to about twenty (20)  
5 bucks a month. When you look at our drivers average  
6 online, our average drivers -- we have many full-time  
7 drivers, and a large number of part-time drivers --  
8 the average driver is on the road about eighty (80)  
9 hours a month, and average income anywhere between  
10 twelve hundred (1,200) and sixteen (16) -- eighteen  
11 hundred (1,800) dollars, so about a fifteen hundred  
12 (1,500) median. With that being the case, it's  
13 usually about eighteen dollars (\$18) or in excess of  
14 eighteen dollars (\$18) an hour, plus the tips that  
15 they get from their customers along the way.

16                   So you can see that they are able to  
17 afford, very easily, the current product that's put in  
18 place, and by having the driver bear the burden of the  
19 cost of the insurance, at least for the main part --  
20 of course, as TappCar, we have our own MPI insurance  
21 coverage, both for third party property and others --  
22 it allows the driver to take better care of their  
23 vehicle.

24                   Using the private market as a  
25 comparison that we have in Alberta, we drive

1 substantially -- well, historically, we've driven  
2 more, and now about the same kilometres as we do in --  
3 as -- as we do in Manitoba, and our loss ratios are  
4 considerably higher in Alberta, especially when we  
5 look at single-vehicle accidents and vehicles that are  
6 unattended.

7                   So we had a number of drivers at the  
8 time who have single-vehicle accidents, or they have a  
9 door dent that they get while parked in front of their  
10 home, things of that nature, and our private market at  
11 the time had to cover those.

12                   In the entire eight (8) months,  
13 roughly, that we've been operating here in Winnipeg,  
14 we have had that we know of one (1) reported single-  
15 vehicle accident with one (1) passenger. I can tell  
16 you that it's about ten (10) times that in the private  
17 market.

18                   So the current product, we find, has  
19 been very, very unique, very successful in lowering  
20 losses, because we find that the drivers are taking  
21 better care of their vehicles, and it's been very  
22 affordable.

23                   MR. SHAYNE SASKIW:   And -- and the  
24 other thing that it has done is it has fostered a  
25 local competition in the marketplace. So in -- in



1 Edmonton, where we -- when -- where we operate,  
2 there's just two (2) of us. It's ourselves and a -- a  
3 large international player, and in the City of  
4 Winnipeg, I believe there is four (4) different  
5 operators, all local based, and some of them having  
6 unique attributes. There's one (1) operator, I  
7 believe that focuses primarily on -- on women; another  
8 operator focuses on Indigenous persons.

9                   So the ability -- this -- the -- the  
10 insurance product that MPI has offered has allowed  
11 whole growth of small companies to operate and compete  
12 in the market and give people in -- in Winnipeg an  
13 area -- different -- diff -- different options. And  
14 with that, I think...

15                   MR. JONATHON WESCOTT: The product has  
16 also allowed flexibility for the drivers not only to  
17 choose which -- whatever shifts, but be able to move  
18 from jurisdiction to jurisdiction. So if they want to  
19 drive that Steinbach to Winnipeg trip and whatnot and  
20 back, it seems to be working very, very well.

21                   I guess our final -- our final point  
22 might be: Looking at the average driver, there is no  
23 incumbent on him to maintain working for as long as he  
24 wants, or it's -- it's very flexible in that he may  
25 purchase the insurance for -- for the year term and

1 whatnot, but the financing that's available for it for  
2 twenty dollars (\$20) a month, give or take, allows him  
3 to go on holidays and not worry about additional  
4 premiums, and things that are, you know, adding up on  
5 the back end for them.

6 But subject to any questions that you  
7 have, we'd be happy to answer them.

8 THE CHAIRPERSON: Thank you, Mr.  
9 Wescott and Mr. Saskiw.

10 Are there any questions from anyone,  
11 any comments, Board questions?

12 Thank you for coming. I'm afraid that  
13 you're mistaken on two (2) things, though. Number 1,  
14 one (1) of them is the Jets game, and -- and number 2  
15 is if you think Winnipeggers will stop complaining  
16 about potholes.

17 Thank you -- thank you for attending  
18 today. We appreciate it.

19 MR. JONATHON WESCOTT: Thank you very  
20 much.

21 THE CHAIRPERSON: The -- your final  
22 presenter that we have is Charles Reesink. Mr.  
23 Reesink, could you go sit where the -- where the mic  
24 is on?

25

1 (BRIEF PAUSE)

2

3 THE CHAIRPERSON: And you've got --  
4 Mr. Reesink, if you could just read in your -- your  
5 name for the --

6 MR. CHARLES REESINK: Push that thing  
7 first, right?

8 THE CHAIRPERSON: Yeah. It's on.  
9 That's on. Now you've turned it off. He left it on.  
10 Just press the button until the red light comes on.  
11 There. That -- it's on.

12 MR. CHARLES REESINK: Okay.

13 THE CHAIRPERSON: And then you've got  
14 about fifteen (15) minutes.

15

16 PRESENTATION BY MR. CHARLES REESINK:

17 MR. CHARLES REESINK: Sorry. My name  
18 is misspelled. It's R-E-E-S-I-N-K, pronounced  
19 Reesink. I'm from Dutch background. And I'll take  
20 this opportunity, thank you for the Board to give me  
21 an opportunity to voice and express myself. Thank you  
22 very much.

23 I read this -- I am a 30 year old  
24 resident of Manitoba, lived in Paris five (5) years,  
25 and New York five (5) years.

1                   And the issue I want to raise is noise.  
2 Paris -- Paris has taken issues against noise, Madam  
3 Medelgo (phonetic), and Paris is not as noisy as --  
4 New York is -- is quieter than Paris, but I think  
5 Winnipeg is -- it's an epidemic in this City.

6                   And I'm a pedestrian. I'll give you a  
7 few demographics, here. I'm a 65 year old individual.  
8 I drove. My best decision was to give up my car  
9 twenty-five (25) years ago, and I'm so proud of  
10 myself, having given up the car. So I'm trying to  
11 claim my space, here, next to this gentleman, who is a  
12 motorcyclist, and obviously, he pays a premium. I pay  
13 a premium too, but I try to claim my space as a  
14 resident of the City, as a pedestrian, assaulted, and  
15 that's the best word I have, by the decibels.

16                   And what I put on the table here, I  
17 think Mr. -- the secretary put a -- a sheet there,  
18 right? There's only one (1) complaint that I want to  
19 address, see the economic clause to the campaign --  
20 awareness campaign I want to raise, which is to attach  
21 a fee to any Manitoba Public Insurance increase.

22                   I pay the -- I pay the increase because  
23 it's my only ID, right? And this pec -- the piggy-  
24 backing of an ID to a drivers is very ironic. I hope  
25 you recognize that. You register vehicles, and you --

1 you register vehicles, and what the other thing, you -  
2 - you license the drivers, right? So there is a  
3 split, there.

4 I am only talking to the registration  
5 of a vehicle first whereby you would add a clause,  
6 which I've put not to the Board but I'll repeat it  
7 again, or as the purchaser of this product -- quote-  
8 unquote, product, insurance, and I don't like the word  
9 'product' -- acknowledge that for the duration of this  
10 contract with MPI, I agree and acknowledge that my  
11 vehicle will produce so many decibels for the duration  
12 of its exercise.

13 And because health costs are  
14 tremendously impacted by noise to the point -- I can  
15 give you one (1) statistic. Switzerland has 10  
16 million people, spends \$10 million on noise-related  
17 costs. And it's about time that if we want to listen  
18 to one another, we can hear one another.

19 And I feel very bad for the kids who  
20 cannot listen to their chaperones when they go to  
21 school. The chaperones cannot talk to the children.  
22 The kids cannot listen to one another.

23 Next time I renew my ID, and I hope --  
24 I will have to sign this -- well, I won't have to,  
25 because I don't buy a car anymore. As long as the --

1 I -- and that's one (1) of the issue I wanted to  
2 raise. Are we -- as it -- the Board going to  
3 consider, why should MPI have the right to decline my  
4 identity? I mean, it should be given to another Crown  
5 agency, or whoever. Why should it be them, number 1?  
6 I mean, you know, it's -- it's kind of ironic, and  
7 I'll go on. That's only one (1) point,  
8 administratively speaking, that I think -- I'm not a  
9 driver, but I -- the only way I can give my identity  
10 is with a driver's licence. I mean, there's something  
11 wrong here.

12 I am not a Leftist. I am not a Green  
13 person at all. You know, don't be worried. I am not  
14 argumentative. I am only trying to voice sixty (60)  
15 years of experience, and the tremendous assault. I  
16 just met my nurse, and I had to -- to try to get from  
17 her that I was talking to a community nurse vis-a-vis  
18 a public health nurse. I didn't know until today that  
19 there was a difference between the two (2).

20 I managed to convince her that public  
21 and community overlaps, and she said yes. Well, we  
22 all know we're ruled by the algorithms, right? My  
23 presentation is not formal to you. It's only a cry to  
24 the fact that drivers are privileged cash cows, and we  
25 are completely ignored, except when I take the bus, I

1 see MPI has commercials on this -- on the bus. It's  
2 not directed to me. It says the roads killed one  
3 hundred (100) Manitobans per year. Well, I said, we  
4 bus people, we -- you know, what is it of concern to  
5 me?

6                   Is the money spent properly to -- I  
7 mean, it may, or it may not be, but why is MPI kind of  
8 casually rolling out its advertising budget,  
9 advertising on the buses, our roads -- well, we know  
10 that. What's the point of, as we say in French, De  
11 Francis de port du vet (phonetic)? We know that roads  
12 are killers, potholes or no potholes, motorcyclists or  
13 not, roads kill.

14                   My concern is the noise. I live on  
15 Ness Avenue, twenty-five thousand (25,000) vehicles  
16 per day. Do you know how many decibel that is? Too  
17 many.

18                   Now, the economic clause is only one  
19 (1) component. The only aspect I wanted to reach out  
20 to the Board -- through the Board would be to see if  
21 other agencies -- public agencies, like the Department  
22 of Education, could not introduce a noise awareness  
23 certificate. I understand that MP -- that says young  
24 drivers -- something -- licence program, right? Young  
25 drivers something, package, or product, or whatever

1 you call it. Your terminology is confusing, and I --  
2 I am a translator. I look at terminology very  
3 closely. Words are very important. When you call it  
4 a product, it makes me cringe. It makes me cringe.

5           Number 2, the younger drivers should  
6 have a certificate for the kids. I -- I approach the  
7 school division. They don't care. They play deaf.  
8 Nobody listens. So I said, Well, okay, I'll approach  
9 the Board and see if I can be heard by the Board to  
10 introduce a Provincial-wide -- I understand Edmonton  
11 or Calgary's doing a noise awareness program. And I  
12 said, Why should Winnipeg lag behind Calgary or -- or  
13 Edmonton? They have noise awareness measures in  
14 place.

15           And if MPI -- they have the shoulders  
16 to -- and the wherewithals, and the CEOs, and the  
17 costumes, and the ties to just have a chat with the  
18 Department of Education's -- or the -- their parties,  
19 and say, Okay, let's do this. Say, We will look good  
20 with the Department of Education noise awareness.  
21 These young kids who drive a car have a cell phone, by  
22 the way, have the technology to measure how many  
23 decibels they're exposed to. They could tweet the  
24 data, and they could personalize what they are exposed  
25 to every day, including the fee -- that they -- that -



1 - that they wear.

2 I'm pretty sure -- I'm not an acoustics  
3 PhD, I'm a humanities, you know, a humanities person,  
4 but I think broadly, and I think it's time that  
5 education is -- I mean, these young drivers should be  
6 made aware of the noise that they're exposed to, or  
7 they produce. So that's the educational component.

8 I've approached the 2 percent fee. If  
9 the next fee would include a declaration of statement  
10 in both official languages -- or in three (3); I see  
11 no reason why First Nations should not be in their own  
12 language, be addressed in their own language as well,  
13 but that's another issue altogether.

14 I'm saying that the next fee should  
15 include an acknowledgment by the purchaser of this  
16 product that they agree and acknowledge that they're  
17 going to produce so many decibels. That's my point.  
18 I'm ready to pick it up from there any which way you  
19 want.

20 Of course, words interest me because  
21 public insurance, public health, I touched on that,  
22 public health vis-a-vis community, you know, that kind  
23 of thing. Public is a very important word, and two  
24 (2) peop -- they play it fast and -- what's the word  
25 for that? Fast and da da da? Do you know what I

1 mean? Fast and...?

2 MR. STEVE SCARFONE: Fast and loose.

3 THE CHAIRPERSON: Fast and loose.

4 MR. CHARLES REESINK: Fast and loose.

5 Thank you very much. Because, you know, it -- English  
6 is not my first language, and I -- I -- some  
7 expressions will not come to me. Thank you for  
8 helping me in this. Fast and loose. Where was I with  
9 this? Remind me.

10

11 (BRIEF PAUSE)

12

13 MR. CHARLES REESINK: Okay. Well, let  
14 -- let -- this concludes my presentation. I'm very  
15 happy that I had a chance to express myself, and to --  
16 yes, well, the last -- the last component is -- okay,  
17 economic, that clause, educational, a certificate of  
18 noise awareness, and the third one would be to  
19 approach if not the cell phone users directly to  
20 measure their things, why not put decibel meters in  
21 certain areas, Portage and Main, which is a big issue  
22 in Winnipeg by Portage and Main, that we -- or put it  
23 or not, but why not install a meter and everybody can  
24 know, like, the temperature, or the -- the -- how many  
25 meter -- how many decibels are there at Portage and

1 Main at a given time?

2                   And people publicly are aware of it,  
3 and most people want to tweak it and know, you know,  
4 how much they're exposed to. The pregnant mother who  
5 is expecting, if I were -- if I were expecting, I  
6 would be extremely worried that my kid would be  
7 exposed to that kind of thing right there.

8                   And all, you know, and -- okay, let me  
9 stop.

10                   THE CHAIRPERSON: Thank you, sir. Are  
11 there any questions? Okay. Thank you very much, sir.

12                   MR. CHARLES REESINK: Thank you.

13                   THE CHAIRPERSON: I appreciate it.

14

15   (BRIEF PAUSE)

16

17                   THE CHAIRPERSON: That concludes the  
18 public presentations, and now we will return to the  
19 cross-examination. I don't -- MPI, I don't know if  
20 it's CAC, or -- or -- Mr. Oakes, I don't know who --  
21 which -- if you've had discussions as to who will be  
22 going first.

23                   MR. RAYMOND OAKES: If Dr. Williams  
24 can proceed, I actually don't have any questions for  
25 this panel.

1 THE CHAIRPERSON: Thank you. Dr.  
2 Williams...?  
3  
4 MPI WITNESS PANEL 1 - OVERVIEW PANEL - Resumed  
5 LUKE JOHNSTON, Previously Sworn  
6 BEN GRAHAM, Previously Sworn  
7 BRAD BUNKO, Previously Sworn  
8 CURTIS WENBERG, Previously Sworn  
9 MARK GIESBRECHT, Previously Sworn  
10 WARD KEITH, Previously Sworn

11

12 DR. BYRON WILLIAMS: Thank you, and  
13 good afternoon. And with the Board's indulgence, just  
14 -- we won't have that many questions for this panel.  
15 We'll reserve most of them for the -- the more  
16 technical panels to come. I -- we did wish to ask, on  
17 behalf of our clients, permission just to acknowledge  
18 Mr. Keith in the back row who has been a tremendous  
19 public servant through MPI, I think, for thirty-four  
20 (34) years, and who we understand is approaching  
21 retirement come December. I think before this Board,  
22 he appears with the high-vaunted title of vice  
23 president, business development and communications, as  
24 well as chief administrative officer.

25 Our client obviously got to know him

1 through the, at least, I think, ten (10) years that he  
2 served in terms of the Register of Motor Vehicles, as  
3 well as critical roles in driver safety. So, on  
4 behalf of our clients, we just wish to -- wish bon  
5 voyage for -- for Mr. Keith.

6 THE CHAIRPERSON: Thank you. Mr.  
7 Keith won't be bon voyaging until after the hearing.  
8 We will have -- the Board will have some comments  
9 about Mr. Keith after MPI concludes its case, and  
10 prior to putting in final submission. We -- we look  
11 forward to making some comments about -- about Mr.  
12 Keith.

13 So with that, Dr. Williams, if you want  
14 to --

15 DR. BYRON WILLIAMS: Yes, and --

16 THE CHAIRPERSON: -- resume with  
17 cross-examination.

18

19 CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

20 DR. BYRON WILLIAMS: Thank you. And  
21 Kristen, if you can go just down to the bottom of this  
22 page, being the -- and the top of the next page, being  
23 the response to Public Utilities Board Information  
24 Request to MPI-1-39(b), and Mr. Graham, I believe both  
25 of my questions are for you, but you can certainly

1 direct them down the -- the road, if -- if you so  
2 choose.

3                   Without asking you to elaborate at this  
4 point in time, it's fair to say that MPI is seeking to  
5 establish a customer -- customer experience framework,  
6 sir?

7                   MR. BEN GRAHAM:    Correct.  I'll --  
8 I'll elaborate on that a little bit, actually, Mr.  
9 Williams.  We -- as a Corporation, we probably need to  
10 do a better job of listening to our customers.  I  
11 think we've acknowledged that, and through work that's  
12 being run through Curtis's team, we are looking at  
13 enhancing what that customer feedback cycle would look  
14 like.

15                  DR. BYRON WILLIAMS:   Okay.  Thank you.  
16 And you're looking -- or hoping to have at least the  
17 framework completed by the end of the current fiscal  
18 year.  Is that correct, sir?

19                  MR. BEN GRAHAM:    Correct.

20                  DR. BYRON WILLIAMS:   And just if you  
21 need to be reminded, although I think this is  
22 unlikely, one (1) of the metrics that the Corporation  
23 is exploring is a customer loyalty metric, such as the  
24 likelihood of customers engaging the Corporation's  
25 services, sir, agreed?

1 MR. BEN GRAHAM: Customer loyalty?

2 DR. BYRON WILLIAMS: Yes, and  
3 specifically, the likelihood of customers engaging the  
4 Corporation's services. It's right there in front of  
5 -- in front of you, sir, on the screen.

6 MR. BEN GRAHAM: Sorry about that.  
7 Yeah. Sure.

8 DR. BYRON WILLIAMS: And another that  
9 the Corporation seeks to examine is the likelihood of  
10 customers speaking positively about MPI to other  
11 people, correct?

12 MR. BEN GRAHAM: Yeah. There's two  
13 (2) components to that. The first one (1) is, do  
14 Manitobans speak positively to other Manitobans?  
15 That's probably a different measure than if they're  
16 speaking to some -- to our friends from a different  
17 province.

18 DR. BYRON WILLIAMS: Fair enough. And  
19 sir, you'd agree that MPI enjoys a monopoly in the  
20 provision of Basic service?

21 MR. BEN GRAHAM: Yes.

22 DR. BYRON WILLIAMS: And it's owned by  
23 the Province of Manitoba, obviously?

24 MR. BEN GRAHAM: Yes.

25 DR. BYRON WILLIAMS: And the Province

1 of Manitoba does not offer for sale shares of Manitoba  
2 Public Insurance to others to purchase?

3 MR. BEN GRAHAM: Correct.

4 DR. BYRON WILLIAMS: And sir, you were  
5 formerly head of risk for QBE Insurance Asia Pacific,  
6 agreed?

7 MR. BEN GRAHAM: Correct. Yes.

8 DR. BYRON WILLIAMS: And it's part of  
9 QBE Insurance Group Limited, agreed?

10 MR. BEN GRAHAM: Yes.

11 DR. BYRON WILLIAMS: And your former  
12 firm operated in the competitive marketplace. Is that  
13 correct, sir?

14 MR. BEN GRAHAM: Yes, it did.

15 DR. BYRON WILLIAMS: And so within  
16 that competitive marketplace, customers could choose  
17 whether to stay with the particular firm or take their  
18 insurance dollars elsewhere, agreed?

19 MR. BEN GRAHAM: Yes. Correct.

20 DR. BYRON WILLIAMS: And for firms in  
21 a competitive marketplace, that choice as expressed by  
22 consumer dollars is a powerful source of information?

23 MR. BEN GRAHAM: Correct.

24 DR. BYRON WILLIAMS: In fact, it's the  
25 ultimate source of accountability, agreed?



1 MR. BEN GRAHAM: I think there's a  
2 number of measures in relation to the fact that it  
3 might not just be financially driven. When you're in  
4 a competitive marketplace, you are able to compare  
5 products and features, and the payer networks, et  
6 cetera. So premium is one (1) of the measures, but  
7 there are a number of other measures that can  
8 ascertain success in the marketplace.

9 DR. BYRON WILLIAMS: Okay. And -- and  
10 we'll bring it back to MPI in just a second --

11 MR. BEN GRAHAM: That -- that's good.

12 DR. BYRON WILLIAMS: -- sir, just not  
13 quite yet. And QBA -- QBE Insurance Group Limited  
14 also was publicly traded, sir?

15 MR. BEN GRAHAM: Yes, they are.

16 DR. BYRON WILLIAMS: And as a publicly  
17 traded entity, shareholders can voice their  
18 perspective regarding the performance of the company  
19 through the purchaser sale -- sale of shares, agreed?

20 MR. BEN GRAHAM: And they often do.

21 DR. BYRON WILLIAMS: And for a firm  
22 that's publicly traded. a powerful source of  
23 information is the signal sent in the marketplace by  
24 the value of their shares, agreed?

25 MR. BEN GRAHAM: Sure.

1 DR. BYRON WILLIAMS: Obviously in  
2 terms of Basic insurance, Manitoba Public Insurance,  
3 by virtue of its mon -- monopoly, is not subject to  
4 the risk that customers will choose another company to  
5 provide Basic insurance?

6 MR. BEN GRAHAM: Correct.

7 DR. BYRON WILLIAMS: And so in terms  
8 of the customer experience framework performance indi  
9 -- in terms of that framework, sir, performance  
10 indicators such as the likelihood of customers  
11 engaging the Corporation's services are less  
12 applicable, I'll suggest to you, to the Basic monopoly  
13 because customers have no choice but to get their  
14 insurance from MPI?

15 MR. BEN GRAHAM: True.

16 DR. BYRON WILLIAMS: In the absence of  
17 the discipline of the marketplace, sir, the Basic  
18 monopoly of MPI is subject to the rate-setting  
19 authority of the Public Utilities Board, agreed?

20 MR. BEN GRAHAM: Yes.

21 DR. BYRON WILLIAMS: And you  
22 understand, sir, that the Public Utilities Board is to  
23 provide an independent process of decision-making on  
24 rates independent from government?

25 MR. BEN GRAHAM: Sure. I'm still

1 learning about the PUB, so bear with me.

2 DR. BYRON WILLIAMS: So sure was a  
3 "yes"?

4 MR. BEN GRAHAM: Yes.

5 DR. BYRON WILLIAMS: And I heard you  
6 say earlier today, sir, that is -- that you were  
7 retained by your Board to instill a culture of best  
8 practices.

9 I'm not quoting you directly, sir, but  
10 you recall a statement to that effect, sir?

11 MR. BEN GRAHAM: Absolutely.

12 DR. BYRON WILLIAMS: And certainly in  
13 the customer experience framework in the response to  
14 PUB 1-39A, MPI's indicated that it may also benchmark  
15 to other industries, where relevant.

16 Agreed, sir?

17 MR. BEN GRAHAM: Yes.

18 DR. BYRON WILLIAMS: And to your  
19 knowledge, sir, has Manitoba Public Insurance sought  
20 insight from other industries such as the energy  
21 industry, about the steps, if any, they take in  
22 engaging with customers before the filing of a rate  
23 application in terms of the rate setting process?

24 MR. BEN GRAHAM: Did you want to speak  
25 about the knowledge that Carol gained and we're using?

1 MR. CURTIS WENNBERG: Yes, I can  
2 perhaps help out a bit, and I think maybe if we could  
3 take it back to a higher level, we're getting stuck  
4 here a little bit around the wording of likelihood of  
5 customers engaging the Corporation services.

6 What we're really looking at doing is  
7 taking what other companies do, including other Crown  
8 insurers, as they've taken a look at customer index  
9 scores, plus then other insurers like USA, which has a  
10 very high customer satisfaction with their overall  
11 services, and we're going to take a look at different  
12 touch points, if you will, that a customer may have  
13 with us. Let's say having a bodily injury claim, or  
14 making a claim on your car or getting a license or  
15 renewing -- just even getting the letter of renewal of  
16 your insurance and asking the customer, well, making  
17 sure that we're comfortable with what that experience  
18 looks like, but asking the customer what's their  
19 likelihood of recommending MPI from that -- from that  
20 experience with us to friends or colleagues. That  
21 would be a traditional net promoter score question.

22 Those are -- maybe that summary of the  
23 likelihood of customers to engage with us and promote  
24 us to others as the language is confusing, but we  
25 cannot, as a monopoly business, take for granted the

1 experience of our customers in all these touch points.  
2 So we're benchmarking ourselves to all kinds of  
3 different industries.

4 Energy, I'm not sure if it's  
5 specifically one, but we're definitely across other --  
6 other insurance companies and we're using a third  
7 party to help us do that so that we get the very  
8 accurate benchmarks that would be industry standard.

9 DR. BYRON WILLIAMS: Where I'm going,  
10 sir, and I'm hoping to explore just for a couple of  
11 moments, is in terms of how Manitoba Public Insurance  
12 engages with its ratepayers in terms of the rate  
13 setting process and application.

14 Is that part of your examination of the  
15 customer experience framework?

16 MR. CURTIS WENBERG: That wouldn't be  
17 a primary part so as -- as Mr. Graham was pointing  
18 out, were on the front end of the journey where we're  
19 going to setup the overall program.

20 We -- right now we have a fairly  
21 established program for measuring customer service  
22 standards that's been there for -- for a number of  
23 years, 20 years and we're relooking at the overall  
24 program.

25 Right away the most important thing is

1 to get the critical touch points done and measured in  
2 a way that we would compare those to industry standard  
3 measurements, like someone in a bodily injury and  
4 recovering from bodily injury and returning to work.

5                   The rate setting process is further  
6 down the track and we would use mathematics and  
7 formula driven stuff with the actuary department,  
8 particularly, whereas I -- I think it's -- because  
9 we'd be more using the actuarial pieces and -- and  
10 informing you and the PUB process to do -- to do that  
11 aspect of it.

12                   DR. BYRON WILLIAMS:    You're  
13 suggesting, sir, that the rate setting process is too  
14 complicated to engage with consumers?

15                   MR. CURTIS WENNBERG:   No, no, I didn't  
16 say that. I think the end result is going to affect  
17 them, they'll see that in the renewal notices, but  
18 what you'll see across all of North America is -- is  
19 slowly or medium rising insurance rates because of  
20 bodily injury costs because of physical damage costs  
21 going up overall, generally, and MPI, if our costs are  
22 only going up by 2 percent or -- or, you know, fairly  
23 minimal amounts relative to competitors then the --  
24 getting the customer viewpoint of that specific piece  
25 will be less important than -- than doing this

1 process.

2 MR. BEN GRAHAM: Can I just -- sorry,  
3 can I just touch on something there?

4 DR. BYRON WILLIAMS: Absolutely, sir.

5 MR. BEN GRAHAM: As part of the E-  
6 panel that we have already rolled out, there are  
7 questions in there about the value that you receive by  
8 the products that are offered by MPI, which is  
9 effectively a by-product of the premiums that they are  
10 charged for the services that they provide and the  
11 premiums that are adjudicated within this forum.

12 So whilst the process might not be as  
13 clearly explained, the by-product or the result of it,  
14 which is displayed through the premiums in which they  
15 are charged, they are asked about the value that they  
16 receive from those premiums.

17 DR. BYRON WILLIAMS: So just to go  
18 back to the question I've been attempting to ask, in  
19 terms of the actual rate setting process and dialogue  
20 directly with consumers prior to the rate application  
21 has MP -- Manitoba Public Insurance explored best  
22 practice, North American best practice and how...

23

24 (BRIEF PAUSE)

25

1 THE CHAIRPERSON: I will just tell  
2 everyone, one (1) week ago we had water leaking in  
3 this room and we've had it tested. We've had the  
4 equipment tested but there is a possibility -- we had  
5 a flood here from the 6th floor, a pipe broke and they  
6 cleaned everything out and tested it, but if we -- if  
7 we have a problem that may be it, but hopefully it's  
8 not, so maybe we can test those -- use other mics.

9

10 (BRIEF PAUSE)

11

12 CONTINUED BY DR. BYRON WILLIAMS:

13 DR. BYRON WILLIAMS: So focusing on  
14 rate setting, and specifically consumer engagement  
15 prior to the filing of the application, I take it that  
16 Manitoba Public Insurance is not exploring North  
17 American best practice at this time?

18 MR. STEVE SCARFONE: Mr. Williams, and  
19 I hate to just interrupt your cross-examination, but  
20 in fairness to the witnesses I know the CAC has asked  
21 these questions, both in an Information Request at 11  
22 and again at 2-25, so it may be helpful to have those  
23 particular Information Requests before the witnesses  
24 when put in the consumer --

25 DR. BYRON WILLIAMS: I respectfully



1 disagree, sir. I don't care if you pull it up for  
2 your witnesses, but I'm trying to ask what, if any,  
3 steps Manitoba Public Insurance has taken to explore  
4 North American best practice when it comes to  
5 engagement with consumers prior to -- to the filing of  
6 a rate application, which is not the subject of those  
7 Information Requests.

8 MR. STEVE SCARFONE: And -- and I'm  
9 not quarreling with you on that point and I know that  
10 the witnesses are prepared to answer those questions,  
11 I just thought it might be helpful if they had before  
12 them the questions that your client has put to the  
13 Corporation already on these issues, that's all.

14 DR. BYRON WILLIAMS: It's up to you.

15 So Mr. Wennberg, just -- and if you're  
16 unable to answer ---

17 MR. STEVE SCARFONE: Yes, could we do  
18 that, please, have CAC-11 and CAC-225 ---

19 THE CHAIRPERSON: You're asking in  
20 context of PUB-139 that you brought up?

21 DR. BYRON WILLIAMS: I think I was,  
22 sir.

23 MR. STEVE SCARFONE: Thank you, Mr.  
24 Wennberg.

25

1 CONTINUED BY DR. BYRON WILLIAMS:

2 DR. BYRON WILLIAMS: Mr. Wennberg, my  
3 question is quite simple, and then we'll ask it and  
4 you can either answer or choose not to if its -- if  
5 you're -- if you don't have the knowledge.

6 But is the Corporation exploring North  
7 American best practice as it relates to consumer  
8 engagement with utilities or Crown corporations prior  
9 to the filing of the rate application?

10 MR. CURTIS WENNBERG: I think the  
11 answer on 1-1 basically is the answer from MPI and --  
12 and I don't think I have anything further to add on  
13 that.

14 DR. BYRON WILLIAMS: Mr. Chairman,  
15 Members of the Panel, I have no further questions for  
16 this panel.

17 THE CHAIRPERSON: Thank you.

18 Does the Panel have any questions?

19 No?

20 MS. KATHLEEN MCCANDLESS: I believe  
21 those are the questions then from counsel.

22 THE CHAIRPERSON: I have a couple of  
23 questions, Mr. Graham.

24 And you may want to talk to Mr.

25 Johnston about this. I sort of feel like it's the

1 movie Groundhog Day, every year we come back and  
2 revisit the same issues over and over again. The only  
3 difference is the positions seem to change.

4 I want to understand something. Two  
5 (2) years ago, -- is it cut out?

6

7 (BRIEF PAUSE)

8

9 THE CHAIRPERSON: Two years ago we  
10 were dealing with the issue of --

11

12 (BRIEF PAUSE)

13

14 THE CHAIRPERSON: Two (2) years ago  
15 when the issue arose as to what would be the  
16 appropriate methodology to use, whether it be naive,  
17 50/50 or SIRF, the very strong position of MPI was  
18 that it should be 50/50, that naive was not the  
19 applicable tool to use for forecasting,  
20 notwithstanding we had eight (8) years of no interest  
21 rate increases.

22 And MPI was adamant it was 50/50. CAC  
23 took the position it was SIRF, the Board disagreed  
24 with both and chose naive based on the fact that it  
25 was -- we had no interest rates. You may want to talk

1 to Mr. Johnston whose memory is probably better than  
2 mine.

3                   The argument put forward was  
4 notwithstanding we haven't had an interest rate  
5 increase in eight (8) years, there eventually had to  
6 be a rate increase, and that's why we should go to  
7 50/50.

8                   We're now faced with a situation, and  
9 this is clearly part of it, a major part of the MPI  
10 case, where MPI is saying, you know, if you look at  
11 the period of time and naive is the best -- best  
12 approach.

13                   Well, I don't know how long a period of  
14 time we're supposed to look, but if I look at the last  
15 two (2) years from when MPI hired the professor from  
16 Queen's University who -- who originated the concept  
17 of 50/50, interest rates are going up.

18                   So I'm having difficulty understanding  
19 why the Corporation takes the position, it should be -  
20 - it should be 50/50 when interest rates are not going  
21 up, and clearly now in the past year where interest  
22 rates are going up, that 50/50 is not the applicable  
23 standard, it's naive, which in my mind appears  
24 contradictory.

25                   So I don't know if I'm missing

1 something or there's a change in methodology or there  
2 are different factors, but we keep wandering to the  
3 situation where parties change their position in  
4 different years. And quite frankly, it's something  
5 I'd like to deal with and, you know, put to bed.

6 But I'm just wondering, you know, Mr.  
7 Johnston is going to answer this it appears, but is  
8 there a change in methodology, is there a change in  
9 approach, was it just a mistake or what? Because I  
10 really am having trouble getting over this complete --  
11 this complete change.

12 MR. LUKE JOHNSTON: Yeah, no, we're --  
13 we're definitely with the Board on the -- on the  
14 issues surrounding interest rate forecasting.

15 So if you can imagine this cycle that  
16 we've gone through where interest rates, you know,  
17 reached historic lows and, you know, we kept having  
18 this expectation they were going to come back, going  
19 to come back. As the Corporation's chief actuary  
20 going in to meet with our Board and telling them that,  
21 you know, the rates have fallen 200 basis points and  
22 now we're going to have to have a rate increase.

23 But, you know, what the banks are  
24 saying, It's going to come back and, you know, like,  
25 Don't worry about it, we can, you know, apply for a

1 lower rate, like you -- you know, those types of -- of  
2 discussions are -- are -- are difficult, right?

3                   But where we are today, we've seen how  
4 all that's turned out, right? We've been at the stage  
5 where, well, they'll never be at this level, and then  
6 we've been, you know, two (2) years in and they're  
7 even lower. And we're losing money, we're losing  
8 money, right?

9                   We've got to the point we're, like,  
10 well, maybe that's standard interest rate forecast is  
11 a bit too aggressive. Let's slow it down a bit.  
12 Right? Because we can't keep doing this.

13                   And then, that 50-50 idea came. Even  
14 earlier, we had called it the "low growth", just  
15 please, like, slow the pace of this -- these  
16 assumptions done. Seven (7) years or so into this,  
17 and there -- what -- really there's hundreds of  
18 millions of dollars of -- of losses in terms of  
19 premium deficiencies. We moved to an approach that  
20 said, Can we do some sort of compliance filing even,  
21 and just try to get this little more right, you know,  
22 within a few months of issuing the policies, that was,  
23 I guess, last year?

24                   And, that's where we're -- really where  
25 we're sitting today. It's just too -- it's so big of

1 a risk. We keep getting the promise of, you know,  
2 higher rates, higher rates, higher rates, and we're  
3 getting it again. And I -- I agree there are some --  
4 there's some information that suggests that's more  
5 probable, but, you know how these things go. We've --  
6 you've heard this story many times before that they're  
7 on their way up again, and then it doesn't happen.

8                   So, based on everything we have today,  
9 we -- we're sticking with naive. We're definitely  
10 supportive of this idea that we should update it later  
11 in the process if we can, but we just can't keep  
12 taking that bet. Especially with no profit buffer,  
13 and at least in the more recent past pretty low  
14 capital levels. It's -- it just doesn't make sense  
15 for us.

16                   So, I get if you were to just look at  
17 the history, it looks like a confusing mess of -- of  
18 assumptions, and -- and forecasts, and I think our  
19 appointed actuary said it well when he said, Anybody  
20 who thinks they can forecast this, is -- is fooling  
21 themselves. They have no clue. What -- like -- and  
22 that's why he suggested naive.

23

24

(BRIEF PAUSE)

25

1 THE CHAIRPERSON: So, Mr. Johnston,  
2 how do you deal with what we have had two (2) in --  
3 interest rate increases, and there is one (1)  
4 projected for next month?

5 I mean, I understand your argument --  
6 sorry, I understand your comments in relation to -- we  
7 need to be cautious and that it's a very conservative  
8 and I -- I understand and appreciate it. But we -- we  
9 make decisions based on evidence and facts. The facts  
10 are there have been two (2) interest rate increases.  
11 You know, we could ignore what they're saying for the  
12 future, but the immediate past is there have been two  
13 (2) rates. The Bank of Canada interest rates are  
14 going up -- have gone up in the last two (2)  
15 forecasts. I mean, how do you get over that?

16 MR. LUKE JOHNSTON: So, we talked a  
17 little bit this morning about -- about -- what's the  
18 term...

19

20 (BRIEF PAUSE)

21

22 MR. LUKE JOHNSTON: So, we talked this  
23 morning about amending the entire application. That's  
24 -- I won't pretend to understand the complexity of  
25 that, but my understanding in the history is this --



1 this year would -- wouldn't be any different than past  
2 where we've given the Board an update. And the Board  
3 can use that information as they see fit.

4                   So, we -- we're definitely not  
5 suggesting naive because we think we have something to  
6 win out of this process. We -- if -- by all means, if  
7 the rates go up a hundred basis points, I'm sure  
8 everyone, including the government, will be thrilled  
9 if we can announce a rate decrease, or something like  
10 -- because of that. But we -- we sure -- sure can't,  
11 you know, make that promise and then go back and say,  
12 Oh well, we lost \$50 million because we were betting  
13 on the interest rates to go up again and it didn't  
14 happen for the sixth or seventh time in a row. Like I  
15 can't -- that's not our -- a story that I want to  
16 stand behind anymore.

17                   So, to -- to me, the approach of  
18 continuing to update as late as we can would be the --  
19 my recommended one.

20                   MR. CURTIS WENBERG: And Lu -- Luke  
21 and Mr. Chairperson, if I may, the average claims  
22 liability that we have within the book of PIPP that we  
23 run is roughly about a ten-year -- about a ten-year  
24 duration.

25                   And so, what you'll have seen announced

1 is a short-term; the overnight Canada -- Bank of  
2 Canada rates. But sometimes, those short-term rates  
3 don't affect the long-term part of the curve and --  
4 and then affect our liabilities as well.

5                   So -- so there could be, you know,  
6 short term stuff coming up just doesn't affect the  
7 ten-year average that we're talking about which will,  
8 once we resubmit, or whatever, it will be including in  
9 that ten year.

10                   THE CHAIRPERSON: Thank you. Second  
11 question, Mr. Graham, is -- is there a repeat that  
12 started way before me, which is on extension coverage  
13 and extension reserves and that there's a comment  
14 about the transfer from extension reserves to Basic,  
15 which has incurred a number of times.

16                   We've heard in previous applications,  
17 that Manito -- that MPI enjoys about -- it's either 95  
18 percent or 96 percent of the -- of the extension  
19 coverage from Manitobans, and -- and, there is the  
20 extension reserve. It has been used to cover -- to  
21 transfer funds for Basic.

22                   And I guess the question is: If -- if  
23 the numbers work so that Basic doesn't have to draw  
24 upon the extension reserve, what's the extension  
25 reserve used for?

1                   You're going to have a pool of money  
2 that keeps growing up year after year; what -- what  
3 it's actually used for?

4                   MR. BEN GRAHAM:    The -- inherently,  
5 the profitability that's derived from the extension  
6 product has had to have been transferred to cover the  
7 losses on Basic.  It's had to, otherwise, gone to  
8 zero.

9                   So it has -- to be very clear, the net  
10 ratio on our extension book is not out of line with  
11 what you could probably see in most other private  
12 insurance companies for that type of business.  We're  
13 not -- we're not running the 50 percent encore.  We're  
14 running at -- at an 80 to 82 percent encore.

15                   So, it's not as though we're gouging  
16 the market by any means.  And the 96 percent market  
17 share that we enjoy, basically, stems from the fact  
18 that if people were to go and make a claim, they  
19 understand that it is just a lot easier to go to MPI  
20 to make a claim as compared to recover on Basic and  
21 then recover from somebody else for the other  
22 component of their insurance coverage.

23                   THE CHAIRPERSON:   Sorry, in no way  
24 am I suggesting you're gauging the public whatsoever,  
25 and I and probably most of the people in this room use

1 the MPI extension coverage.

2 But, if the Basic -- if we come up with  
3 the right formula, so that we don't have to use  
4 reserves from extension, you have reserves from  
5 extension, which if extension -- the extension  
6 business is run properly, which I assume it will be,  
7 will be increasing. What will the reserves be used  
8 for?

9 I mean, you -- you -- you'll have a  
10 pool of money on previously -- on occasion, it has  
11 been used to transfer, if we get it right, so it isn't  
12 required then what will it be used for?

13

14 (BRIEF PAUSE)

15

16 MR. BEN GRAHAM: Because it is a  
17 separate product, you would still need some reserves  
18 there. Now, when it comes to the level of those  
19 reserves, they would not continue to grow, because  
20 once Basic is in a stable and independent state, then  
21 those transfers would no longer be required. Hence,  
22 the rates on extension would most probably reduce.

23 THE CHAIRPERSON: Okay, so the answer  
24 is that -- is that then. If you don't need it, as  
25 you're say -- as the -- safety and for Basic, you have

1 the opportunity to reduce the rates for -- for the  
2 extension coverage -- for the --

3 MR. BEN GRAHAM: That could be an  
4 outcome, yes.

5 THE CHAIRPERSON: Okay, thank you.  
6 Those are my questions. I don't know if anybody else  
7 have any questions. If not, thank you very much.

8 I guess that concludes -- sorry, unless  
9 you have re-direct, Mr. Scarfone?

10 MR. STEVE SCARFONE: I do not have any  
11 re-direct, Mr. Chairperson. But, thank you for  
12 asking, but that will, in fact, conclude this panel's  
13 --

14 THE CHAIRPERSON: Thank you very much.  
15 Thank you.

16 And we'll see you, I guess, panel  
17 number 2 is at 9:00 a.m. tomorrow morning. That  
18 concludes this session. Thank you.

19

20 --- Upon adjourning at 2:37 p.m.

21

22 Certified correct,

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25 Cheryl Lavigne, Ms.