MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2020/2021 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Irene Hamilton, QC	-	Board Chairperson
Robert Gabor, QC	-	Board Chair
Carol Hainsworth	-	Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

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Pages 1057 to 1300

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--- Upon commencing at 9:01 a.m.

THE CHAIRPERSON: Good morning, everyone. We will continue with the panel that we had at the end of last week, and I believe that we are at the point where Ms. McCandless is cross-examining.

MS. KATHLEEN MCCANDLESS: Good morning, Madam Chair. Just a few matters before we start.

Joining us today are the actuarial advisors to the Board. To my immediate right is Mr. Brian Pelly, and over to Mr. Pelly's right is Mr. Blair Manktelow. And I believe we have counsel from the Attorney General for Manitoba here today. So perhaps if -- if Mr. Guenette could introduce himself.

(BRIEF PAUSE)

MR. DENIS GUENETTE: Thank you. Sorry, this is my first time I get a chance to be here, so I'm just getting familiar with the equipment.

Denis Guenette, on behalf of the Attorney General of Manitoba. Of course, we'd been served with a notice of constitutional question, and we're here today because we understand there's going to be some evidence that will be relevant to that question. So we're just going to be following along.

With me here at the counsel table is Tamara Edkins. She's an articling student in our office. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you. And I believe Mr. Scarfone has one (1) exhibit to enter this morning as well. Is that right?

MR. STEVEN SCARFONE: Yes, thank you, Ms. McCandless.

Good morning, Madam Chair, panel members. One (1) exhibit MPIC would like to mark as Exhibit number 5-3, and it is Undertaking number 4, which was -- someone asked that the Corporation provide the bond ratings for all the corporate bonds in the portfolio. So we've -- we'll be circulating that by email.

--- EXHIBIT NO. MPI-5-3: Response to Undertaking 4

MR. STEVEN SCARFONE: And I just want to remind the panel that tomorrow, MPI witness Mr. Dave Makarchuk comes in -- his flight doesn't come in until 9:00 a.m., so I expect the earliest he could be here is -- is 10:00. And -- but -- so we would have Mr. Johnston and Mr. Phoa available if necessary for the first hour tomorrow morning if we don't get through them here today.

THE CHAIRPERSON: Okay. Thank you. And if we do get through then are you proposing that we start at ten o'clock?

MR. STEVEN SCARFONE: Yes, I -- I think that's probably a good time to start.

THE CHAIRPERSON: Okay. Thank you --

MR. STEVEN SCARFONE: Thank you.

THE CHAIRPERSON: -- Mr. Scarfone.

MPI PANEL NO. 5 CONTINUED:

LUKE JOHNSTON, Previously Sworn

TAI PHOA, Previously Sworn

CONTINUED CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Mr. Johnston and Mr. Phoa, I'm going to continue with some questions on rate-making. Kristen, could you please pull up PUB-MPI-2-6.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And now if we could turn to the responses here. So I believe there are two (2) 'B's here. If we go to the second 'B', which is actually the response to question C, so paraphrasing this response to the Information Request, the Corporation has put forward two (2) key arguments for not recognizing the RSR returns.

So the investments supporting Basic total equity, namely that the RSR return relates to capital and that MPI prefers to group all capital adjustments separate from the breakeven rate indication. That's one (1) argument, yes?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And two (2), that MPI prefers that the Basic breakeven rate indication only reflect cashflows relating to new policies, noting that Basic total equity relates to prior year policies.

Is that also fair?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: Before AAP rate indications became the basis for the Basic rate proposal, the Corporation had adopted a definition of breakeven that was based on forecasted fiscal year, basic net income approximating zero dollars over the year application and the year following, yes?

MR. LUKE JOHNSTON: That's correct. We basically tried to get an average net income of zero over the -- the rating period, which is the two (2) fiscal years that the rates are in effect. So it was basically almost a goal seek exercise to get breakeven zero. Yeah.

MS. KATHLEEN MCCANDLESS: Did that prior definition of breakeven make any distinction between new policies and prior year policies?

MR. LUKE JOHNSTON: It did not, but that did create some issues, particularly with interest rates. So if there were unfavourable interest rate adjustments flowing through the forecast, those would flow into net income from the rating period.

And let's say, for example, that they were unfavourable adjustments. We would expect current ratepayers to fund that requirement out of current premiums, and vice versa, of course.

So the -- the vice versa version was forecasting favourable interest rates, and showing unfavourable net income, and assuming that we could have a rate decrease in that environment. And as you know, that didn't turn out very well.

MS. KATHLEEN MCCANDLESS: So with the prior definition of breakeven, the forecasted return on the investments supporting Basic total equity was included in the deter -- determination of the breakeven rate level, to the extent that the forecast return affected basement Basic -- Basic net income?

MR. LUKE JOHNSTON: That's correct. Everything that affected net income affected the rate-setting piece.

MS. KATHLEEN MCCANDLESS: At that prior definition of breakeven would have excluded any forecasted capital adjustments, just as is being proposed now, yes?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I might -- I may be misunderstanding the question, but in the absence of any kind of a -- a rebuilding fee, it would exclude those adjustments, yes.

MS. KATHLEEN MCCANDLESS: Thank you. Kristen, could we please go to PUB-MPI-1-14. And in the response to 1-14C -- and perhaps first we can just go to the question itself.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So this is where the Corporation was asked to provide an update based on the -- the provision for the expected return on investment assets supporting Basic total equity. So an alternative analysis of the Basic rate requirement, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And if we go to the response at (c)...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: I think it's previous to the -- the figures, Kristen, if we go up. It should be the narrative response. Yes.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So here, essentially to -- to paraphrase, the Corporation indicates that it strongly disagrees with the inclusion of the RSR return in the rate indications, correct?

MR. LUKE JOHNSTON: Cor -- correct.

MS. KATHLEEN MCCANDLESS: And apart from what's been presented here, does the Corporation have any other arguments to -- to put forward in support of its position on this?

MR. LUKE JOHNSTON: I -- I would say no. I think our position's pretty clearly articulated.

The -- perhaps one that -- the one (1) other reason that isn't stated would be for the ease of customer understanding of the breakeven rates from year to year. So the intent would be to show every year that -- that we've met the breakeven objective on Basic rates, and this is your rate as a result of that.

That rate should be pretty stable from year to year, because it wouldn't have the impact of capital adjustments in it. And then we put a separate line in the renewal notice that indicates capital adjustments. But outside of that, I don't believe we have any other arguments.

MS. KATHLEEN MCCANDLESS: Thank you. By way of undertaking, could the Corporation provide a response to 1-14C to otherwise reflect the application as updated on October 4th?

MR. LUKE JOHNSTON: Yes, we can do that.

MS. KATHLEEN MCCANDLESS: Thank you. So for the record, the undertaking is for the Corporation to provide an update to the response to PUB-MPI-1-14C to reflect the application as updated on October 4, 2019.

MR. STEVEN SCARFONE: Yes, counsel.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 15: MPI to provide an update to the response to PUB-MPI-1-14C to reflect the application as updated on October 4, 2019

MR. LUKE JOHNSTON: We'll try to have that before this cross-examination finishes, because it's -- it is readily available information, but I don't want to push my team too much, because they're here, but we'll try.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. I'm now going to ask some questions about trend analysis. Now the Corporation undertakes its analysis of severity trends for certain coverage -- coverages by first separating claims into several severity groups based on size of claim, then calculating indicated severity trends for each group, and finally, weighting these trends together using the distribution of claim dollars by severity group, yes?

MR. LUKE JOHNSTON: That sounds all accurate, yes.

MS. KATHLEEN MCCANDLESS: And the coverages that are subject to this approach would be weekly indemnity?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Accident benefits, other, indexed and non-indexed?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And public liability bodily injury, yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: What benefits does the Corporation believe are realized by analyzing severity trends by severity group?

MR. LUKE JOHNSTON: The -- the reason we -- we do this for -- for PIPP coverages is because there's dramatic differences in the size of claims or the severity of claims. So on the high -- on the high end, there's obviously catastrophic losses in the millions of dollars. The -- that bucket can -- has trended, I guess, up recently for weekly indemnity in the sense that there's -- there's been more of those claimants becoming lifetime claims.

On the -- on the other side of the coin, there's high-frequency, low severity type of PIPP claims, which we would expect to track closer to kind of current, you know, medical or cost inflation of -- of the day. So we expect the severity trends to be different.

And we also want to make sure that the -- the size of those buckets are weighted properly in the analysis. So, for example, if we had less large claims in past years, we would want to adjust the severity trends to reflect what today's amount of large claims looks like.

MS. KATHLEEN MCCANDLESS: Kristen, could we please go to CI.4.1; that's page 18 of 81 in the claims incurred section, Figure CI-11.

So for the purposes of this area of questioning, let's use weekly indemnity sever -- weekly indemnity as an example. So from Figure C-11 (sic), we see that the indicated severity trend for the three (3) severity groups at line 16 are 2.99 percent, .15 percent, and negative 1.53 percent, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And the weighted average overall indicated severity trend from this analysis is .1 -- or .51 percent at line 18?

MR. LUKE JOHNSTON: And negative --

MS. KATHLEEN MCCANDLESS: Yes, pardon me.

MR. LUKE JOHNSTON: -- .51 percent. Yes.

MS. KATHLEEN MCCANDLESS: And then if we could please go to PUB-MPI-2-3.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. So at this Information Request, the Corporation was asked to produce corresponding severity trends without any separation into severity groups, but all other things being equal.

Do you recall that?

MR. LUKE JOHNSTON: I do.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And if we scroll down to the response here, again, for weekly indemnity, we see line 19, the resulting indicated severity trend from this Information Request was 4.27 percent, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: So the overall indicated trend of 4.27 percent is greater than each of the indicated trends by severity group, and the weighted overall -- average overall indicated trend of negative .51 percent, yes?

MR. LUKE JOHNSTON: That's correct. And that -- we'll probably speak about it later. That reflects the fact that we've had more claimants become lifetime, and that you can see 2010, and the severity jumps by about ten thousand (10,000), and it's been flat since.

So I guess the other observation from this graph is there's been almost no growth since 2010, but that's a -- that's a different issue.

MS. KATHLEEN MCCANDLESS: Now just as an example, what if there were two (2) successive accident years of experience comprised of nearly identical claims, and, in fact, the only difference between the two (2) accident years is with respect to one (1) individual claim which is in the second accident year was inflated such that it moved from one (1) severity group to the next higher severity group?

MR. LUKE JOHNSTON: That can definitely happen. Yes.

MS. KATHLEEN MCCANDLESS: What direction -- so up or down -- would result for the indicated severity trend over these two (2) accident years for each of the two (2) severity groups addressed in this context?

MR. LUKE JOHNSTON: Testing my math skills here. So in the smaller group, if the -- if the claim was red -- the top of the range -- it would fall out of that bucket and probably cause the trend to go down 'cause it -- it was one of the highest claims in that bucket, and it's gone now.

And then if -- if the big claim -- sorry -- the medium-size claim became a large claim, it would probably be a -- on the smaller end of the large claims and pull down the severity trend on that side. So that's very loose math, but that would be my expectation.

MS. KATHLEEN MCCANDLESS: So as a result of upward claims and inflation, the analysis of severity trend by severity group can produce downward trends, yes?

MR. LUKE JOHNSTON: Well as you showed in the earlier chart, we do have downward trends. So yes.

MS. KATHLEEN MCCANDLESS: Can you explain why it would make sense to make then to use a trending approach in which inflationary increases on individual claims can result in decreases in average severity for successive severity groups?

MR. LUKE JOHNSTON: I don't know if I have a great answer to that. But what -- what we're trying to do is, again, if -- if you don't mind going back to the -- I can't remember the question, but the -- the question with the three (3) severity groupings and the trends that you had earlier?

Thank you. So in the largest bucket that -- of claims that are $250,000 or more, there's no question that that trend -- that history can be described as flat or declining essentially. We're trying to make sure we capture both the -- the number of claims age bucket and the respective trends.

So if there are -- in the previous table you showed, that was affected by more large claims, but those large claims are not growing at

5 percent severity growth per year. We're really just dealing with more claims in a given bucket. So we're trying to segment the experience and -- and apply an appropriate trend rate.

We think that's much more appropriate than just assuming ,for example, the -- the implied assumption would be to apply a four and a half percent severity trend to that large group which we would think would be completely inappropriate in this example. So that's why we don't -- that's why we don't follow that approach.

MS. KATHLEEN MCCANDLESS: How do you reflect the proportion of catastrophic claims rising in your trend selection?

MR. LUKE JOHNSTON: We split out the claims into these three (3) buckets.

MS. KATHLEEN MCCANDLESS: Does the use of a trend estimate without any splitting by severity groups address the concern we were discussing previously?

MR. LUKE JOHNSTON: It's -- it's definitely necessary. Like a similar parallel would be on collision. If we have a total loss claim, it could be twice the value of a repair claim, for example.

If we just ignore the distribution between the two (2) and took the overall severity trend, I wouldn't think that's appropriate either. We have a rapidly declining repair collision frequency and an increasing total loss frequency. Those buckets have very different severities, and it's important that we trend each one separately.

And really in any case where we think we have very different types of claims that could follow different trends -- so this is a really good example on the screen. We have the information, so we -- we try to separate it out and make the best forecast.

MS. KATHLEEN MCCANDLESS: Based on your weighting of severity groups, does that mean the relative proportion of catastrophic claims is assumed to be unchanged over time?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: In the current iteration of the PIPP forecast, that is correct. On the collision, for example, it -- it's not. We -- we do a separate frequency forecast and the -- based on repair or total cost. But for -- for PIPP, we've assumed a consistent frequency in the buckets.

Just to add that that may not always be appropriate, but right now, we think it is. We don't see a -- I mentioned that frequency rose in the large bucket around 2010, but it's been relatively stable since. But there may be times where that assumption would not be appropriate.

MS. KATHLEEN MCCANDLESS: Does the use of a trend estimate without any splitting by severity groups give rise to any concerns other than those we've previously discussed?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah. My main concern is just -- I tried to make a best estimate forecast and that -- using the four (4) plus for percent severity growth would -- I would have trouble supporting that.

MS. KATHLEEN MCCANDLESS: Thank you. . I believe we're still at PUB-MPI-2-3. So if we could go to there -- these six (6) figures on the page or pages here. So we've got Figure 1, Figure 2, all the way through to 6.

And that was in response to the

question asked of the corporation that for the incurred claims severity trend analysis for weekly indemnity accident benefits, other indexed, accident benefits other, not indexed, and public liability bodily injury to calculate severity trends on the annual severities using the same number of accident years as were used in this GRA but without splitting the claims into different severity groups, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Now if we -- if we scroll through each of these figures and just for your reference, Mr. Johnston, we see that the average severities and the trending for each year for each coverage and Figures 1, 2, and 3 are different from the corresponding average severities in Figures 4, 5, and 6. Would that be accurate?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Just to let you proceed, I'll assume yes. It's subject to check. Yeah. I didn't notice if they were...

MS. KATHLEEN MCCANDLESS: And so would you be able to explain then why the severities are different?

MR. LUKE JOHNSTON: Can you repeat your original question just so I'm looking at the right things?

MS. KATHLEEN MCCANDLESS: The average severities in the trending for each year for each coverage in Figures 1, 2, and 3 are different from the corresponding average severities in 4, 5, and 6.

(BRIEF PAUSE)

MR. TAI PHOA: Just to clarify, are you asking why -- say for weekly indemnity, for example -- that the Figure 1 shows a 6.27 percent trend and Figure 4 shows a 5.77 percent trend?

MS. KATHLEEN MCCANDLESS: No, the actual average severities.

MR. STEVEN SCARFONE: And Ms. McCandless, are the actual average severities shown on those figures, or do you have those numbers to -- to put to the witness?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Yes. It would be under the column "severity" in the figures.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Just -- since we've got a bit of a delay, I'll just take it as an undertaking. Yeah.

MS. KATHLEEN MCCANDLESS: So the undertaking would be to advise as to why the average severities in the trending for each year for each coverage in Figures 4 -- oh, pardon me, 1, 2, and 3 are different from the corresponding average severities in Figures 4, 5, and 6 in PUB-MPI-2-3.

(BRIEF PAUSE)

MR. STEVEN SCARFONE: Yeah, yeah, you -- you'll have that undertaking, counsel, and Mr. Johnston just indicates, like your earlier one, we expect to have that after the break.

MS. KATHLEEN MCCANDLESS: Okay. And perhaps just to add to that, then, a follow-up question would be, is the difference in future trends in Figures 4 and 5 versus Figures 1 and 2 due to the impact of claim frequency trends?

MR. STEVEN SCARFONE: Yeah, we can do

that as well. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 16: MPI to advise as to why the average severities in the trending for each year for each coverage in Figures 1, 2, and 3 are different from the corresponding average severities in Figures 4, 5, and 6 in PUB-MPI-2-3; and to answer what is the difference in future trends in Figures 4 and 5 versus Figures 1 and 2 due to the impact of claim frequency trends?

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: I'd now like to ask some questions about the presentation that you gave last week, Mr. Johnston and Mr. Phoa. So that's MPI Exhibit number 52. If we look to slides 3, 6, and 7 -- so we have some tables here: 3) is Basic Total --

Ultimate Losses; 6) is Weekly Indemnity Ultimate Losses; and 7) is Weekly Indemnity More Lifetime -- pardon me, 8) -- or 9) -- slide 9, Accident Benefits Other Indexed.

With respect to these tables, is it accurate to state that weekly indemnity claims as well as accident benefit other claims are all shown at the indexed to current inflation level and not to their true ultimate value, including all future inflation?

MR. LUKE JOHNSTON: Yes, they're at current benefit levels. Yes.

MS. KATHLEEN MCCANDLESS: As such, the ultimate value isn't really an ultimate value, then. Is that correct?

MR. LUKE JOHNSTON: Ultimate value in -- in today's dollars, but the -- there will be inflation, of course, going forward, and we'll have to readjust. Yeah.

MS. KATHLEEN MCCANDLESS: So each year, the ultimate value for the -- for the index coverages would go up due to inflation?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: How is this incorporated in your comparison of this year's general rate application to last year's?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So yeah, the ultimates are compared to the ultimates presented in the -- in last year's claims forecast book. A pure apples-to-apples comparison of ultimates would -- would be done in the valuation, Exhibit 3, but we haven't -- we have not done that here. Yeah.

MS. KATHLEEN MCCANDLESS: Thank you. Are the values shown based on the experience to September of this year, or are they all based on the original GRA submission?

MR. LUKE JOHNSTON: For tables such as the one you have here where we're showing ultimates, the -- the ref -- the reference is directly to the claims-incurred chapter, so there's a table -- associated table that matches this in -- in the claims-incurred chapter.

For the table with the weekly indemnity claims closure rates, we've updated to the latest month that we have.

MS. KATHLEEN MCCANDLESS: With respect to page 15 of the presentation, to what extent has the favourable experience so far in the current year influenced your expectation of future-year claims?

MR. LUKE JOHNSTON: So I'll have to paint this with a pretty broad general statement, but for PIPP benefits, to the extent that the -- the current year experience has been very good, lower frequency, lower paid, we've recognized that experience in the current year.

For all prior years, you'll see in the second side of the table, there's a negative $24 million adjustment. We have assumed for now that we will reverse all the favourable development in prior years when we do the valuation. Of course, that -- that may not be true, but we don't have -- at least at the time that we did this analysis, we didn't have really strong reason to believe that we would simply roll through all the favourable PIPP experience. So that's -- that's that piece.

Collision, we've effectively recognize -- as I mentioned in my presentation, at the time we did this analysis, I believe five (5) of the first six (6) months of collision frequency were at the lowest levels we've ever seen. So we've recognized favourable collision frequency in a second half of the year, so we've assumed it will continue. Not liking our chances so much for this month, but hopefully for the rest -- rest of the year.

Similarly, on comp -- comprehensive claims, obviously, the hail season is -- is more reflected in the first half of the year, so that's -- we can effectively bank on -- on that and not expect any more hail. And the rest of the impacts are really -- like, so deferred policy acquisition costs are basically just a function of the modelling with the claims forecast change or interest rates change, and then interest rate impacts are -- were assumed to use a naive interest rate at September 30th.

MS. KATHLEEN MCCANDLESS: If we go to page 8 of the presentation, for weekly indemnity and accident benefit other claims, with regards to the persistency assumptions, is -- is it based on your own experience, or is there a complemar -- complementary data set that is used?

MR. LUKE JOHNSTON: Ever -- everything here is based on our own experience. You'll recall, I can't remember if it was the 2019 GRA or the 2018, but we did reach out to SGI and SAAQ to compare their lifetime mortality experience. That was a -- a request from the PUB. We found that we -- at least from a claims development perspective, we were very similar.

Would their graph look exactly like

this, and do -- do I have that data? I don't, but at least in a general sense, we're similar. But this data is all MPI data.

MS. KATHLEEN MCCANDLESS: And how current is the data?

MR. LUKE JOHNSTON: Can you repeat that, sorry?

MS. KATHLEEN MCCANDLESS: How current is the data that's used for this?

MR. LUKE JOHNSTON: I believe it's right up to September, but if not September, it would be August. But I think it's September.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. LUKE JOHNSTON: Of 2019.

MS. KATHLEEN MCCANDLESS: Page 11. So if we compare two (2) different pages of the presentation, so page 11 of the presentation says that, at the first bullet:

"2019/20 fiscal PIPP reported claims incurred was $24.1 million, or 22.3 percent under budget as of August 31, 2019. Given the high uncertainty of PIPP claims and the pending October 31, 2019, actuarial valuation results, MPI has booked to budget PIPP claims in the 2019/20 fiscal update. In other words, MPI has added back IBNR in the 2019/20 PIPP forecast to exactly offset the favourable year-to-date results."

You see that, yes?

MR. LUKE JOHNSTON: That's right, and the -- the reason the -- so 20 -- just to be clear, the 24.1 million is purely favourable reported claims. We did make -- we do make quarterly actuarial adjustments.

So the reason the -- the favourable experience on the other side doesn't match the 24.1 million is because we did a quarterly valuation and added IBNR to that -- to that number.

So this -- as I mentioned before, this is true. It should really say with the exception of the '19/'20, like, actual paid experience. So I apologize for missing that on there.

MS. KATHLEEN MCCANDLESS: So that's the -- to explain the difference then between what's on Slide 11 and what's on Slide 15 -- if we just jump to that for your reference.

MR. LUKE JOHNSTON: That's right. So the difference between the 24 million favourable shown on the other slide and the 13 million favourable shown here is the impact of the quarterly actuarial evaluation.

And the -- in our quarterly which is an internal evaluation, we generally don't change any assumptions. We just update for experience and interest rates, and the reason for that is we -- we have our external actuarial analysis, and -- and we don't generally like to change assumptions until that -- until that time.

If they were -- if there was really extreme changes that warranted a -- a change in a quarter, we would, of course, do it, but there wasn't at this time.

MS. KATHLEEN MCCANDLESS: The slide at page 15 shows collision claims being projected to be $28.8 million lower than budget in the remainder of the year after being 12.9 million lower than budget in the first six (6) months, yes?

MR. LUKE JOHNSTON: That -- that's right.

MS. KATHLEEN MCCANDLESS: Why do you expect even better results in the second half?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Sorry for the delay there. So there's -- there's a couple things going on. The first piece is you'll notice the budget in the second half of the year is larger than -- than the first half of the year, so the 271 million versus the 202 million, of course, 'cause most of winter is in the second half of the year. The -- if -- it was completely proportional that the 28 million would still be quite a bit bigger than 12 million.

In our -- the 12.9 million favourable has both current and prior years development in that number. We had some unexpected adverse development in the 2018/'19 year. There was a -- the February of 2019 was really bad, and there was unexpected results flowing to the current year.

But what our forecast reflects is -- is essentially the favourable collision frequency we've seen in the first six (6) months rolling into the -- the second half of the year. Our severity has been pretty much right on budget, so we didn't make any adjustment there.

MS. KATHLEEN MCCANDLESS: So if you're expecting claim frequency to be lower for the rest of the year, do you then also expect it to be lower in future years?

MR. LUKE JOHNSTON: That -- that's a difficult question. So when -- when asked about our update, obviously the next question would be, are you going to update the entire forecast period? We have not.

We obviously recognize our very favourable Basic and corporate results through six (6) months. We were concerned that that -- you know, we would be having to ask essentially a capital build by keeping the capital maintenance even though we were close to a hundred percent MCT. That triggered us to -- to ask to remove that provision.

But otherwise, we haven't updated our go-forward forecast for any of this information outside of interest rates.

MS. KATHLEEN MCCANDLESS: Thank you. Comprehensive is 18.5 million better than budget in the first six (6) months and is anticipated being 12.7 million better than budget in the second half, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Why do you expect comprehensive to outperform in the second half?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Comprehensive is a little more difficult to explain in just one broad summary. So there's a -- a variety of different claim types there: vandalism, glass, flood, hail, fire, et cetera.

For the most part where we're seeing favourable frequency withdraws as seen on the comprehensive side, we've rolled that forward. But given that the -- the coverage distribution is so different -- so, for example, the first half of the year is -- a lot of that budget's for hail.

It's not like a -- a one-to-one transition from the first six (6) months to the last six (6) months. But in general, it's a frequency-related adjustment to -- to all claim types.

MS. KATHLEEN MCCANDLESS: So would that translate to a lower expectation of claims in future years?

MR. LUKE JOHNSTON: It may. If -- if the frequency trend continues on collision and -- and comprehensive, it would obviously affect our assumptions for next year.

And so -- and so just by way of an example, we had a -- a pretty good collision year last year. We -- you know, we looked at, you know, three (3) to five (5) year averages, and we gave the most recent year some weight in that average. And so if this year we had another good year, we'd have to make a decision whether we thought that was just a couple kind of lucky years in a row or if this was a permanent trend that we should change the entire forecast.

So this years we're saying we have basically six (6) months of experience in our hand. Like we -- it's actual. But the decision to change the forecast will -- at least what we're proposing is -- would come at the next GRA.

MS. KATHLEEN MCCANDLESS: Thank you. If we could go to Slide 20, please? Now on this slide, why does the 2018/'19 volume being below forecast affect the required rate per vehicle?

MR. TAI PHOA: So last year when we did -- when we decided to -- last year when we did rate making -- that is the 2019 GRA -- we had an assumption about the '18/'19 volume that resulted in the rate indication that we provided last year.

So this slide just says that because the volume came in significantly lower than what we projected last year -- so this year, we have to actually ask for 0.7 percent more than -- 0.7 percent more to compensate sort of for last year's -- last year's forecast. Yeah. That's...

MS. KATHLEEN MCCANDLESS: And so a lower volume times the same frequency and severity would translate to lower total claim dollars, yes?

MR. TAI PHOA: Can you repeat that?

MS. KATHLEEN MCCANDLESS: If there's a lower volume but the same frequency and severity, that would translate to lower total claims dollars, yes?

MR. TAI PHOA: Yes, that's true.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So then why does it affect the indication?

MR. TAI PHOA: So why does the lower volume forecast affect the indication? If -- if I may put it a different way assuming last year we forecasted the volume to be exactly what we see in this actual volume, last year we would -- in our rate indication, we would have come back and asked for an indication that's 0.7 percent higher because what would happen is that we would take our entire loss cost, and we would divide by the expected volume that we had last year which included a higher projection for volume going forward. So the average loss cost is lower.

Now if the average loss cost -- the volume projection -- if we had known that the volume would come in significantly lower for the '18/'19 year, what would happen is that we would then have a higher projected loss cost from last year which was -- which would then affect our rate indication from last year.

So essentially this is just saying we just -- the way -- the way the -- the volume has come in this year, we -- we have said that it's significantly lower. That's why we have to sort of make up for what we didn't ask last year. Or to put it simply -- so it was just to recognize the difference between forecasted '18/'19 volume and actual '18/'19 volume.

MS. KATHLEEN MCCANDLESS: Does your projection of claims costs depend on a projection of vehicle exposures?

MR. LUKE JOHNSTON: Some of them do. Some -- some coverages do, and some don't. So PIPP claims have been trending down in absolute counts, so even as -- as the collision frequency has grown. And then other -- some of the comprehensive coverages seem to -- don't follow units at all.

But collision, we do follow earned units and some comprehensive coverages do.

MS. KATHLEEN MCCANDLESS: Now if we could please go to page 24 of the presentation. And on this slide at the table, we see a comparison of a 3.4 percent interest rate indication to a 2.5 percent interest rate indication for private passenger and motorcycles, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And with respect to the variance in interest rates, didn't the interest rate change by fifty-eight (58) basis points instead of the ninety (90) basis points?

MR. LUKE JOHNSTON: Go ahead.

MR. TAI PHOA: This particular slide is just for illustrated purposes. What we did was we said, what was the interest rate change based on the PUB order for the 2019 GRA which was 3.4 percent? And -- and then we compared that to the 2.5 percent which is based on the latest filing.

MS. KATHLEEN MCCANDLESS: Thank you. Kristen, could we please go to PUB-MPI-1-10 and if we scroll down to the question.

So at this Information Request, the

corporation -- we explore the corporation's use of a common set of loss development assumptions and the analysis of serious versus other losses for certain coverages in driving rate indications for the private passenger commercial and public major use classes, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And the coverages affected by this are accident benefits, other indexed, and weekly indemnity, yes? If we just scroll down...

MR. TAI PHOA: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Now, the issue raised in this Information Request related to observed differences in loss development patterns between serious verus other losses with serious losses typically being slower to emerge, and the corporation's analysis approach does not fully recognize those differences, yes?

MR. TAI PHOA: Sorry. Could you just repeat that question?

MS. KATHLEEN MCCANDLESS: So with respect to the -- this Information Request, the issue that the corporation was asked to address essentially was the observed differences in loss development patterns between serious and other losses, with serious losses typically being slower to emerge, yes?

MR. TAI PHOA: Yes, that's true.

MS. KATHLEEN MCCANDLESS: And the Corporation's approach or analysis does not fully recognize those -- those differences, correct?

MR. TAI PHOA: Yes, the current analysis does not fully recognize the difference. Yes.

MS. KATHLEEN MCCANDLESS: Thank you. Is the Corporation prepared to commit, for the next GRA, to provide its analysis of development for each of serious losses and other losses for the purpose of deriving rate indications by major use class?

MR. TAI PHOA: We will definitely review based on the question. One of the challenges is with something like -- like PIPP coverages, basically, mainly income replacement and accident benefits, there's a lot of variability. It's -- it's -- it's significantly -- it's -- it's difficult enough to review loss development factors on an overall basis, so having -- breaking that up into serious and -- and non-serious is -- is -- will be an interesting exercise. But we will definitely review it.

MS. KATHLEEN MCCANDLESS: Thank you.

I now have some questions about IFRS 17.

MR. LUKE JOHNSTON: I'll do my best.

MS. KATHLEEN MCCANDLESS: Mr. Johnston, would you agree that mitigation of interest rate risk for Basic was one of the purposes of the asset liability management study and resulting new asset mix targets for each of the five (5) investment portfolios?

MR. LUKE JOHNSTON: That -- that's correct, yes.

MS. KATHLEEN MCCANDLESS: And you would agree that interest rate risk mitigation aims to immunize net income from shifts in market interest rates having a different impact on interest-sensitive Basic assets versus interest-sensitive Basic liabilities, yes?

MR. LUKE JOHNSTON: For the Basic claims portfolio, yes. Yeah.

MS. KATHLEEN MCCANDLESS: Kristen, could you please go to PUB-MPI-1-17. And in this Information Request, the Corporation was asked about the possible consequences of IFRS-17 implementation for the effectiveness of the new asset mix targets for Basic interest rate risk mitigation. Do you recall that?

MR. LUKE JOHNSTON: I do.

MS. KATHLEEN MCCANDLESS: And if we scroll to the response, the Corporation indicated that its evaluation of the implications of IFRS-17 and IFRS-9 are still in progress. You see that at the top of the screen?

MR. LUKE JOHNSTON: I do.

MS. KATHLEEN MCCANDLESS: When do you expect this evaluation process to be completed and internally approved such that any resulting position papers could be filed with the PUB?

MR. LUKE JOHNSTON: That would be a -- a better question for our -- our CFO, Mr. Giesbrecht. Just seeing if he was coming back, but given that he's not here, that would have to be an undertaking for us.

MS. KATHLEEN MCCANDLESS: Thank you. So the undertaking would be to advise as to when the Corporation expects its evaluation process on the implications of IFRS-17 and IFRS-9 to be completed and internally approved, such that any resulting position papers could be filed with the PUB.

MR. STEVEN SCARFONE: Yes. That's -- that's right, Ms. McCandless.

--- UNDERTAKING NO. 17: MPI to advise as to when

the Corporation expects
its evaluation process on
the implications of IFRS-
17 and IFRS-9 to be
completed and internally
approved, such that any
resulting position papers
could be filed with the
PUB

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Then in this response at the bottom of the screen, we see that the Corporation advised that for it the new standard will be -- begin to apply in the fiscal year ending March 31, 2023, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Does that mean that the 2022 GRA will be when IFRS-17 will be first reflected in a general rate application, or might this happen in the 2021 General Rate Application?

MR. LUKE JOHNSTON: That's tough for me to say. Again, Mr. Giesbrecht could give a better answer, but what I can say is that we are definitely, I'd say, watching this closely. To the extent that we have information that can be modelled in any way, we'll try to do that.

So one -- once we're able to -- to incorporate IFRS into our -- our pro forma statements and -- and model, we'll do that, even just from a risk management perspective, understanding what it's going to look like after the changes.

MS. KATHLEEN MCCANDLESS: Mr. Johnston, in your testimony on Tuesday of last week in reference to discounting of actuarial liabilities under IF -- IFRS-17, you said something to the effect that you're going to have to use something closer to a risk-free rate, which is much closer to what MPI currently does. Do you recall that?

MR. LUKE JOHNSTON: I do.

MS. KATHLEEN MCCANDLESS: Will a change in approach to the discounting of actuarial liabilities necessarily lead to another ALM study and a change in asset mix targets, assuming mitigation of interest rate risk continues as a concern?

MR. LUKE JOHNSTON: It's definitely a discussion point internally. We -- we will do asset liability management studies over, you know, every five (5) or so years anyways. But definitely, part of the exercise will be understanding how results will be reported, tracked, whatever under IFRS 17 and making sure we're still comfortable with risk level in -- in that environment.

MS. KATHLEEN MCCANDLESS: Thank you. Now, Mr. Bunston, in his testimony last week, stated that because of the asset mix in the rate stabilization portfolio, it balances safety with the opportunity to earn reasonable levels of return, and that helps to enhance rate stability and lower the rates required of customers.

Mr. Johnston, I'm wondering if you share Mr. Bunston's views on the benefits to Basic rates of the growth assets included in the RSR portfolio.

MR. LUKE JOHNSTON: So our approach on the portfolios is Basic claims benefits -- we should have a low-risk strategy. Those are monies owed to claimants, very interest rate risk sensitive. And we -- we basically tried to immunize that portfolio and -- and make it very low risk.

For RSR, which is essentially excess funds, we do agree that it makes sense to take more risk in that portfolio, and of course, if -- if that portfolio can grow, say, faster than the pace that we need to, say, maintain capital for MCT, et cetera, that would be a good thing and would benefit ratepayers. So I -- I agree with that.

MS. KATHLEEN MCCANDLESS: And Mr. Johnston, last week you provided some clarification with respect to how Basic rates are affected by the manner in which the expected return on investment assets supporting Basic total equity is recognized in the capital management plan. Do you recall that?

MR. LUKE JOHNSTON: I do.

MS. KATHLEEN MCCANDLESS: Now, focussing on another assertion made by Mr. Bunston that the new rate stabilization reserve portfolio asset mix target enhances rate stability, could you shed some light on how rate stability is enhanced?

MR. LUKE JOHNSTON: Just to make sure I understand the question, is the question how is rate stability enhanced by having growth assets in the RSR portfolio?

MS. KATHLEEN MCCANDLESS: Yes.

MR. LUKE JOHNSTON: So I -- I think everyone recognizes that the stock market has volatility, but there's also higher returns from investing in the stock market in general on average. We would like to have those higher returns in the sense that we don't have to ask ratepayers for building -- or build fees or maintenance fees or whatever capital adjustments that are necessary. From that perspective, that hopefully allows us to keep rates stable and possibly even release funds if we earn more than -- than anticipated.

But I agree there is a certain amount of volatility to that strategy. We've chosen a balance between a certain number of growth assets versus fixed income, for example.

MS. KATHLEEN MCCANDLESS: So it's less with respect to rate stability and more in terms of enhancing the returns so that there's a lower rate requirement. Would that be fair to say?

MR. LUKE JOHNSTON: Relative to an approach where we invested in very low risk assets, yes.

MS. KATHLEEN MCCANDLESS: Thank you. I'd now like to ask some questions about the reserves regulation, and it's found in the application in the overview section of Attachment A.

And if we scroll down to 2(a), we see here that for the purposes of Section 18 of the Act, and for the record, that would be the Manitoba Public Insurance Corporation Act:

"The minimum amount the Corporation must maintain --"

And then it's (a):

"-- in its rate stabilization reserve is the amount determined usin -- using an MCT ratio of 100 percent."

Yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And if we go to RSR-.4 at Part 6 of the application, this is where MPI sets out its interpretation of the reserves regulation.

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: So it's four -- RSR-.4. All right. So at lines 4 to 8:

"The Corporation indicates that according to its interpretation, MPI satisfies this obligation where the Basic MCT ratio is in excess of 100 percent or MPI establishes a plan --"

And then in brackets:

"(i.e., the CMP), to bring the Basic MCT ratio to at least 100 percent within a period of five (5) years or less."

Yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And so this interpretation -- namely, the second interpretation here -- that would allow for the possibility that the Basic MCT ratio might be below 100 percent, correct?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And that MC -- MPI will consider itself to have complied with the regulation even if the Basic MCT ratio is below 100 percent MCT, yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: That's provided there's a plan to bring it up to 100 percent within five (5) years or less, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And if we just jump back to the wording of the regulation itself, under two (2), it states:

"The minimum amount the Corporation must maintain"

Yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So could you help us understand how MPI reconciles its interpretation of the regulation with the wording that we see before us here?

MR. STEVEN SCARFONE: I can probably help Mr. Johnston there, Ms. McCandless.

So to the extent that the regulation contains that mandatory language that you've indicated, if, for example, the Corporation was to fall below its MCT target, what the Corporation anticipates happening is this Board asking MPIC what the Corporation intends to do about that. And they would want, in our view, MPIC to have a plan to -- to bring the MCT ratio back up to 100 percent.

So essentially, the Corporation's position is that should the -- the RSR be drawed (sic) down for whatever reason, we would come back before the Board, and they would want to be satisfied that the Corporation had a plan in place to achieve that target once again. And that's what the capital management plan envisions.

MS. KATHLEEN MCCANDLESS: Does the Corporation have any information that its interpretation of the regulation is consistent with the government's intentions when establishing the regulation?

MR. STEVEN SCARFONE: I don't know that we do, but I can undertake to find out for you.

MS. KATHLEEN MCCANDLESS: Okay. So by way of undertaking, that would be to advise whether the Corporation has information that its interpretation of the regulation found at RSR-.4 is consistent with the government's intentions when establishing the regulation.

MR. STEVEN SCARFONE: Correct. We -- we'll provide that undertaking.

--- UNDERTAKING NO. 18: MPI to advise whether the Corporation has information that its interpretation of the regulation found at RSR-.4 is consistent with the government's intentions when establishing the regulation

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: And is the Corporation seeking the Board's approval of this interpretation of the regulation?

MR. STEVEN SCARFONE: No.

MS. KATHLEEN MCCANDLESS: Does the Corporation expect to be subject to any penalties or sanctions in event -- in the event that it's not compliant with the reserves regulation?

MR. STEVEN SCARFONE: I think there's a response to that particular question in an undertaking, but just give me one second.

MS. KATHLEEN MCCANDLESS: It's at PUB-MPI-1-100.

MR. STEVEN SCARFONE: If that's where it is, yes.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: This is one-o-six (106). I think it's one hundred (100). So perhaps just for the record, to confirm then, the Corporation's position is as found at 1-100, and that it has nothing further to add with re -- with respect to any penalties or sanctions at this time?

MR. STEVEN SCARFONE: If I could just have Kristen scroll down so I can review the Corporation's response. And keep going down to 'B', please.

(BRIEF PAUSE)

MR. STEVEN SCARFONE: Yes, counsel. That's the entirety of MPI's position with respect your question.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. In the normal course, how frequently does MPI calculate actual MCT ratios for each of Basic, Extension, and Special Risk Extension?

MR. LUKE JOHNSTON: We're doing a couple things on that front. From a financial reporting perspective, quarterly. From an internal perspective, we are now modeling an update of that number every month.

MS. KATHLEEN MCCANDLESS: And as we've seen in the reserves regulation, it relies on the calculation of MCT ratios, the basis of which are set by the office of the Superintendent of Financial Institutions Canada, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And I'll

refer to it as OSFI. OSFI periodically makes changes to the MCT, yes?

MR. LUKE JOHNSTON: Yes, they do.

MS. KATHLEEN MCCANDLESS: In recent years, OSFI has typically given advance notice of changes to the MCT, usually finalizing the new test several months before it becomes effective, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And even before the new test is finalized, draft versions may be released by OSFI at earlier dates, yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: What are the Corporation's expectations as to how it intends to react to changes to the MCT?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I think the best way to describe our approach is to the extent that we have the latest update available, we'll try to incorporate that into our -- our modeling, especially if it's supposed to be effective in the -- the rating year.

The -- in terms of the actual MCT

calculation, we would -- financial reporting would use the -- the latest MCT guideline for -- required for financial reporting.

MS. KATHLEEN MCCANDLESS: The next MCT change under development by OSFI in consultation with industry addresses the implementation of IFRS 17, yes?

MR. LUKE JOHNSTON: That's my understanding.

MS. KATHLEEN MCCANDLESS: Has MPI begun giving consideration to the draft MCT changes that have been released by OSFI?

MR. LUKE JOHNSTON: I'm not aware that we have them, but as soon as we do have them, we would definitely do that.

MS. KATHLEEN MCCANDLESS: So at this time does MPI have an expectation with respect to the directional impact. So, up or down on the MCT ratios for Basic, all other things being equal?

MR. LUKE JOHNSTON: I'm not aware of any at this time.

MS. KATHLEEN MCCANDLESS: If MPI's MCT ratios are affected by the MCT changes, will the MCT ratios in the regulation be recalibrated?

MR. LUKE JOHNSTON: Unless there's a drastic change in the MCT guideline itself in terms of the one hundred percent requirement, I wouldn't expect that. But of course, I -- I wouldn't want to comment on currently unknown changes to that reg -- you know, to that regulation until I see it.

MS. KATHLEEN MCCANDLESS: By way of example, say OSFI release -- releases a final version of a new MCT in September 2020, after previously providing a draft, with a change to take effect on January 1st, 2021. Okay?

MR. LUKE JOHNSTON: Sure.

MS. KATHLEEN MCCANDLESS: At what point in that timeline would the Corporation believe that the new MCT becomes the MCT being referenced in the reserves regulation? When it's released in draft form, when it's released in final form, or when it becomes effective?

MR. LUKE JOHNSTON: I think I should probably take that one as an undertaking, just for -- just so I make sure I understand the financial reporting side of things. So I can do that.

MS. KATHLEEN MCCANDLESS: Okay. So for the record then, the undertaking would be to advise at what point in a timeline the Corporation would believe that the new MCT becomes the MCT being referenced in the reserves regulation; when it is released in draft form, when it is released in final form, or when it becomes effective.

MR. STEVEN SCARFONE: Just as -- for clarification, Ms. McCandless, when you -- the part of your undertaking that makes reference to the regulation, maybe I'm not understanding the undertaking.

Are you talking about an OSFI recommendation that would have the minimum capital test increased above 100 percent for Basic?

MS. KATHLEEN MCCANDLESS: No. It would be the calculation of a minimum capital test.

MR. STEVEN SCARFONE: The calculation. Okay. Yeah, we'll take that undertaking.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. LUKE JOHNSTON: Just -- just to add to my uncertainty here, so if I have a -- a draft regulation, and we're trying to forecast the future, and we expect that this is what the MCT is going to look like in the future, we'll absolutely do that as -- as soon as we can.

In terms of financial reporting, which is what the reserves relation is going to look at, and say, this is your MCT on this quarter, and, you know, are you there or not? I just want to make sure that we understand the timelines that they have for -- to use, the latest guideline.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So just to follow up then on that undertaking, at what point in the timeline that we just discussed would the Corporation adopt the new MCT for purposes of its Capital Management Plan? And perhaps that's best answered by adding to the previous undertaking.

MR. STEVEN SCARFONE: Yeah, we can certainly do that. And I -- I'm not sure. If -- if we could bring the regulation back up on the screen, please, Kristen.

(BRIEF PAUSE)

MR. STEVEN SCARFONE: And go to the definition of the minimum capital test, please. Up -- it would be up in the definition section.

Sorry, go down.

(BRIEF PAUSE)

MR. STEVEN SCARFONE: So I'm wondering if -- if the definition of MCT as set out here would satisfy at least part of your undertaking, Ms. McCandless, in that it seems to suggest that the MCT ratio reflects what OSFI has in place from time to time.

So to the extent that any changes are made from that office, then that definition would -- we'd adopt those changes.

MS. KATHLEEN MCCANDLESS: Yes. That's our understanding, but that the question is: At what point in the process would the Corporation believe that the new MCT becomes the MCT that's being referred to.

So -- because there's a process. There's -- there's draft then there's final form, and -- and then there's when it becomes effective.

MR. STEVEN SCARFONE: Right. So we -- we've made that undertaking. I -- I would be surprised if it's anything other than when it becomes effective, but we'll get back to you on that.

MS. KATHLEEN MCCANDLESS: Okay. And then just to add to that undertaking, as we just discussed, at what point in that timeline would the Corporation adopt the new MCT for the purpose of it --

of its Capital Management Plan. Thank you.

--- UNDERTAKING NO. 19: MPI to advise at what point in a timeline the Corporation would believe that the new MCT becomes the MCT being referenced in the reserves regulation: When it is released in draft form, when it is released in final form, or when it becomes effective? And MPI to advise at what point in that timeline the Corporation would adopt the new MCT for purposes of its Capital Management Plan?

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now, the Capital Management Plan that's been put forward by the Corporation contemplates that anything held by the Corporation in its Extension reserve in excess of 200 percent will be transferred to Basic, yes?

MR. LUKE JOHNSTON: That's correct. At the end of the year, whatever that position is will be transferred.

MS. KATHLEEN MCCANDLESS: And if we look -- if we scroll up to two (2) -- pardon me, three (3), so with respect to the use of surplus monies in the rate stabilization reserve, this relates to the Basic rate stabilization reserve, correct?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And so the text of the regulation itself does not require the Corporation to transfer anything in excess of 200 percent from Extension over to Basic?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: That's correct. It would -- it may, that we may.

MS. KATHLEEN MCCANDLESS: The only restriction on amounts in excess of the targets for any of the reserves is what's found in Section 3, and that's for the purpose of reducing the rate indication for Basic, yes?

MR. LUKE JOHNSTON: Yes.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now previously, the Corporation had been working with a Basic target capital range, working to maintain Basic's total equity balance within that range, yes?

MR. LUKE JOHNSTON: We've had a few different iterations, but the late -- latest one has been arranged, yes.

MS. KATHLEEN MCCANDLESS: And would it be fair to say that in previous general rate applications, MPI preferred the use of a range rather than a single target because using a range was better for rate stability?

MR. LUKE JOHNSTON: I'd have to look at direct quotes. But there are -- there are some rate stability benefits of a range, I accept that.

MS. KATHLEEN MCCANDLESS: The reserves regulation effective -- effectively changes that status quo to have Basic now work towards a single target capital level, yes?

MR. LUKE JOHNSTON: That's right. It -- the approach that we're using is intended to constantly tweak our capital levels to move towards the target, and prevent, essentially, bubbles from occurring. So, you know, like getting really close to the bottom of a range, and then falling below and having to ask for a bunch of money.

This approach is trying to do the adjustments in small, incremental bits before those bubbles occur.

MS. KATHLEEN MCCANDLESS: How is the single target capital level consistent with the objective of promoting Basic rate stability?

MR. LUKE JOHNSTON: Basically, just to reiterate my comments again, we're always actively managing rate stability in this -- in this proposal. So we know our target. We're never allowing ourselves to get too far below or above that target.

And we put the -- the five (5) year build and the three (3) year release in to recognize that there is some year-to-year volatility. We don't want to overreact, but this approach of constantly moving a little bit is seen as a -- a way of -- a better way to manage rate stability than wait for, say, a big buildup of reserves and have a large rebate, or delay small builds and -- and wait until you know you're in really bad shape to ask for a really big surcharge.

So that's -- that's why we think this is more stable.

MS. KATHLEEN MCCANDLESS: Okay. So just to understand your response, then, Mr. Johnston, I gather it's that -- not that the single target promotes rate stability, but it's the Proposed Capital Management Plan that would ameliorate the extent to which a single target is less than fully compatible with the objective of promoting rate stability?

MR. LUKE JOHNSTON: That's true. The -- the -- this -- without some mechanism to move towards that target, the -- it wouldn't make a lot of sense to have just a single target.

It's the -- it's the Capital Management Plan that rules around it that create this -- the rate stability.

MS. KATHLEEN MCCANDLESS: Was any risk-driven, experience-based analysis prepared in support of the 100 percent MCT Basic target capital level that's reflected in the reserves regulation?

MR. LUKE JOHNSTON: Well, we've been conducting the -- the DCAT -- the dynamic capital adequacy test analysis for -- for many years now. There's also been many iterations of that test with and without management action. We've had technical conferences on how scenarios should be modeled, et cetera.

The -- if we take a version of that test without any management action, just so you know what's the worst that could happen to MPI, my recollection is we do get in kind of the 80 to 90 percent MCT range, depending on whether you're talking about 1:100 year events, or -- or 1:40 year events.

Our -- our push on -- on using the MCT was that our -- our DCAT modeling is only so good. It's -- it's based -- you know, when -- for claims, we're using MPI data. We think that the MCT test incorporates the more broad picture of risk, and does -- you know, does a better job in terms of assessing the -- the actual capital requirements of the industry. And -- and so we like that our DCAT is close to that number being predicted in the -- from 100 percent MCT, but we think using the industry standard is a better approach.

MS. KATHLEEN MCCANDLESS: Thank you. Madam Chair, I have maybe forty-five (45) minutes more of questioning. I'm just noting the time. I can carry on for another ten (10) minutes or so to 10:30, or we can break at this time.

THE CHAIRPERSON: Thank you. Why don't we break now and come back at twenty-five (25) to 11:00?

MS. KATHLEEN MCCANDLESS: Thank you.

THE CHAIRPERSON: Thank you.

--- Upon recessing at 10:20 a.m.
--- Upon resuming at 10:37 a.m.

THE CHAIRPERSON: Okay. Thank you, everyone. Ms. McCandless, please continue.

(BRIEF PAUSE)

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: If we could go to MPI Exhibit number 45, and this is -- and slide 12. This is Mr. Graham's presentation from last week.

So if we look to the Basic MCT ratios as at February 28, 2019, I gather it was 51.5 percent. And sorry perhaps a better reference for you, Mr. Johnston, would be MPI Exhibit 42, Appendix 1, page 1.

MR. LUKE JOHNSTON: We can look at that, but I -- 51 percent end of last year is -- is my recollection.

MS. KATHLEEN MCCANDLESS: Okay. Then we can just go back to the presentation, and at the bottom of this slide here, we see that Q1 Basic MCT improved to 87 percent, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And it further improved to near 100 percent at the end of Q2, yes?

MR. LUKE JOHNSTON: Yes. If you like, I need to explain the Q1 number just briefly for everyone.

The -- we expected to have a significant increase in our Basic MCT because of our new investment portfolio. So we took a lot of risk out of the basic portfolio specifically on the claims liabilities where we improved our interest rate matching, and we're heavily invested in bonds. So that was a planned improvement that was in the -- in the GRA -- the previous year's GRA.

MS. KATHLEEN MCCANDLESS: Okay. So the main drivers then of the improved basic capital position of the first six (6) months of this fiscal year?

MR. LUKE JOHNSTON: To -- the biggest is from the new portfolios de-risking the basic and then also some of our results would be better than expected.

MS. KATHLEEN MCCANDLESS: Could MPI provide comparative details of the derivation of the three (3) MCT ratios, so the 51.5 percent, 87 percent, and near 100 percent?

MR. LUKE JOHNSTON: Would that just mean -- just three (3) side-by-side MCT calculations or -- yeah. Okay. We can do that. That's all available.

MS. KATHLEEN MCCANDLESS: So by way of undertaking, will provide a derivation -- or comparative details of the derivation of the three (3) MCT ratios: 51.5 percent, 87 percent, and near 100 percent?

MR. LUKE JOHNSTON: Yes. It may actually be available on the record, but of course if it's not, we'll -- we'll just put it in an easy-to-read table and do that. Yeah.

--- UNDERTAKING NO. 20: MPI to provide comparative

details of the derivation
of the three (3) MCT
ratios: 51.5 percent, 87
percent, and near
100 percent

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Does this amount of volatility in Basic MCT ratios raise any concerns for rate stability under the proposed capital management plan which incorporates build release provisions in the proposed rates in part on forecasted MCT ratios?

MR. LUKE JOHNSTON: The -- I would say no. The first change was planned. So it's a planned change in our investment portfolio, so the 51 percent increasing to -- I'd have to confirm what the original forecast was, but I believe it was 70 to 80 percent range. That was a planned change from our set of liability management strategy. Otherwise going forward of course, we'll have volatility and results as we always have.

What makes this year unique for sure is that we're having exceptionally good results, and that's the reason for our revised rate request. So the -- these results are definitely abnormal.

We don't want to have big differences between actual and budget in -- in any of our results, favourable or unfavourable. We'd prefer to be at our forecast. Favourable's obviously a nicer place to be than unfavourable.

But we are doing a lot of things internally over the last few years, not just the investment portfolios but a much greater focus on the claims costs and core operations, and my belief is that that has a lot to do with the -- the better than expected results in claims. So as these new processes stabilize, we would expect our forecast variances to stabilize as well.

MS. KATHLEEN MCCANDLESS: Thank you. At Slide 15, the 96.4 percent we see under "2020 projection," does that reflect current year-to-date results at the end of Q2 or only to the end of Q1?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: The -- the 96.4 is our re-filed '19/'20 year forecast based on the October 4th revision.

MS. KATHLEEN MCCANDLESS: So then if it takes into account Q2, what accounts for the decline from 100 percent to 96.4 percent over the balance of this year?

MR. LUKE JOHNSTON: There's a couple things operating there. There -- the lower interest rates are triggering a pension adjustment at year end which affects the MCT. And the fully investing -- some of the asset categories that we haven't completely invested in at the time at Q2 triggers a higher capital requirement and adjusts that -- that number. The -- all those aspects we can model them or -- or in that updated forecast.

MS. KATHLEEN MCCANDLESS: Thank you. I'm now going to ask some questions about dynamic capital adequacy testing and financial modeling.

MR. LUKE JOHNSTON: Okay.

MS. KATHLEEN MCCANDLESS: Kristen, can we please go to RSR-7.3.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So we see here at lines 3 to 8 the two (2) conditions necessary for Basic to be considered to have a satisfactory financial condition in the DCAT investigation would be the first under the base scenario of the MCT ratio is greater than 100 percent or meets or exceeds the target capital build MCT ratio as defined in MPI's capital management plan or under the base scenario and all plausible adverse scenarios, the statement of value of MPI's assets is greater than the statement value of its liabilities.

MR. LUKE JOHNSTON: I see that.

MS. KATHLEEN MCCANDLESS: Or sorry, pardon me. I should say, and. Okay.

Now if we scroll down somewhat here -- okay, pardon me. We can leave it there. So both what -- would it be fair to say that both what MPI considers is required for compliance with the reserves regulation and what it considers is required for a DCAT satisfactory financial condition seemed to tie to the capital management plan?

MR. LUKE JOHNSTON: So obviously I'm in a different environment at MPI than I am for a OSFI regulated insurer.

But what we're trying to capture here is the fact that there -- in the first bullet, there's reserves regulation in place that has a 100 percent requirement. And I'm stating here what we understand is our requirement to comply with that reserved regulation. So the hundred -- it'd be over a hundred percent or have this plan in place.

The second bullet is saying no matter what that plan is, if you don't have enough capital to withstand adverse scenarios at the selected tolerance level, then -- then you don't meet satisfactory financial condition.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So with respect to compliance with the reserves regulation and what's required for DCAT satisfactory financial condition, both allow for an MCT ratio below 100 percent subject to the mechanism for phasing in any needed capital build provision over multiple years, yes?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And is that similar -- is that similarly deliberate or coincidental?

MR. LUKE JOHNSTON: Can you repeat that? Sorry?

MS. KATHLEEN MCCANDLESS: There's a

similarity between compliance with reserves regulation and DCAT satisfactory financial condition and the MCT ratio as being part of that. Is that similarity deliberate or coincidental?

MR. LUKE JOHNSTON: Oh, in the DCAT, I'm -- the first bullet I'm just trying to say what the capital requirements are in this jurisdiction. And my understanding is the -- the hundred percent or getting to the hundred percent in the planed fashion.

And if -- if I was in an OSFI regulated insurer, that would say that -- say the hundred and fifty percent minimum regulatory requirement, but I don't have that. So I need to put what I believe what our requirement to be.

MS. KATHLEEN MCCANDLESS: So are there other reasons besides being consistent with the interpretation of the reserves regulation for the adoption of this DCAT satisfactory financial condition definition?

MR. LUKE JOHNSTON: The definition has to reflect what I understand the -- the regulation -- the reserves regulations to be in -- in this jurisdiction. That's -- that's what I'm trying to do here. Yeah.

MS. KATHLEEN MCCANDLESS: Thank you.

You just made reference to the -- an MCT ratio of 100 percent and 150 percent, and we have had discussions in previous general rate applications that in the private sector for a property casualty insurance company subject to OSFI supervision, the insurer would be required to inform regulatory authorities immediately if it anticipated following -- falling below 100 percent -- 150 percent MCT, yes?

MR. LUKE JOHNSTON: That is my understanding. Yes.

MS. KATHLEEN MCCANDLESS: And would you -- is it your understanding that an OSFI might then work with the insurer to establish a plan to remedy a situation were it to fall below 150 percent MCT?

MR. LUKE JOHNSTON: Yes, that is my understanding.

MS. KATHLEEN MCCANDLESS: Are you aware that the test for DCAT satisfactory financial condition purposes continues to require the insurer's base scenario to meet 150 percent MCT supervisory targets throughout the forecast period?

MR. LUKE JOHNSTON: Yes, I am. And then what I'm saying in this first bullet is we don't have that requirement. This is my understanding of that equivalent type of requirement in Manitoba.

MS. KATHLEEN MCCANDLESS: Right. And are you aware that similar wording is codified in the standards of practice of the Canadian Institute of Actuaries?

MR. LUKE JOHNSTON: That's my understanding. Yeah.

MS. KATHLEEN MCCANDLESS: So then with all of that in mind, it appears that in the private sector the requirement for DCAT satisfactory financial condition is not relaxed for an insurer remedying a temporary shortcoming in its MCT ratio, correct?

MR. LUKE JOHNSTON: That's correct. Yeah.

MS. KATHLEEN MCCANDLESS: As the signing actuary for the Basic DCAT, did you seek guidance from the appropriate CIA professional practice committee as to how to interpret the Canadian Institute of Actuaries standards of practice in the context of the reserves regulation?

MR. LUKE JOHNSTON: I did not.

MS. KATHLEEN MCCANDLESS: And why did you not?

MR. LUKE JOHNSTON: In this case, I thought the reserved regulation was clear and that --

that I had to follow it. So I didn't -- didn't see need to seek out any guidance.

MS. KATHLEEN MCCANDLESS: Thank you. Kristen, can we please go to RSR.6, so it's just further up in this section of the application. I believe it's page 6. And this is with respect to the capital management plan.

So the capital management plan is the corporation's proposal for the means and pathway to achieve 100 percent MCT for the Basic RSR as codified in the reserves regulation? That's before you at lines 15 and 16?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And the corporation is seeking the Board's approval of the proposed capital management plan?

MR. LUKE JOHNSTON: We are.

MS. KATHLEEN MCCANDLESS: And as we earlier discussed today, the capital management plan commits the corporation to transferring any excess capital as defined by an MCT ratio of 200 percent from Extension to Basic?

MR. LUKE JOHNSTON: Yes, that is part of the -- the plan.

MS. KATHLEEN MCCANDLESS: And any such

capital transfers from Extension to Basic will be made regardless of the Basic MCT ratio at the time?

MR. LUKE JOHNSTON: That is part of the plan, yes. Yeah.

MS. KATHLEEN MCCANDLESS: Now if we turn to page 8 of the RSR section of the filing, this is with respect to capital build or release provisions. The possible need for a capital build or release provision is determined after incorporating the financial forecast for the indicated Basic rate level adjustment and the projected capital transfers from Extension to Basic over the forecast period, yes?

MR. LUKE JOHNSTON: That's right. We're -- we're including the projected transfers in the forecast to ensure that we're understanding our capital build release needs after transfers. Yeah.

MS. KATHLEEN MCCANDLESS: Can the corporation provide any analysis or modeling to demonstrate the adoption of the proposed capital management plan will improve rate stability for Basic ratepayers compared to the status quo? So, for example, working within a Basic target capital range based on basics risk profile?

MR. LUKE JOHNSTON: My view is that you don't need an analysis for that. We can do what we can, but the capital management stability, to me, is -- is somewhat self-evident.

If we were in a range, for example, and we fell below the bottom of that range, we essentially just gradually watched ourself deteriorate into a position on, I guess, the adverse side of the range, and then at that time, we would decide to react in some way.

Similarly for a buildup of capital when we're in an excess position, the Board has to make a decision on when to rebate those funds in the old environment. That's also a -- like a buildup and a delay.

This model is -- is again constantly moving towards a target in a -- in a structured way. So rather than say needing a 10 percent surcharge five (5) years from now, this model would hopefully push us towards 1 to 2 percent surcharges over a five (5) or six (6) or seven (7) year period and, to me, by definition create more stability in rates.

MS. KATHLEEN MCCANDLESS: So I take it then, the corporation does not have any analysis or modeling to demonstrate that the adoption of the proposed capital management plan would be consistent with the stated purpose of the rate stabilization reserve?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: It's difficult to model past results because we -- we weren't operating in an MCI type of environment in the -- in the past. But again, the -- our past includes multiple large rebates, transfers from Extension to bail out Basic, things like that, which are fairly significant actions.

Again, this -- this approach would always move us in a -- in a stable way, and we can even define the rules of -- of what stability means in -- in this plan, as you see we've done, say, on the surcharge example, where we cap it at 5 percent or the number of years or whatever we want to do to achieve the rate stability requirements that -- that we have.

MS. KATHLEEN MCCANDLESS: Now, just scrolling down on the page here, and from pages 8 to 9, there's an explanation of the -- the process for determining the need for a capital build provision, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And the

capital build provision seeks to stay ahead of achieving a 100 percent MCT ratio in a linear, incremental manner over a five (5) year period, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: The five (5) year period for the phase-in of any capital build provision commences from the beginning of the year of the application, so in the current instance, March 1st, 2020?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: The beginning Basic MCT ratio used in the determination of the need for a capital build provision is a forecasted MCT for the beginning of the coming rating year, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: At the bottom of page 8, at line 21, we see that the five (5) year time horizon proposed by MPI is a reasonable amount of time to rebuild capital in order to be in compliance with the reserves regulation, yes?

MR. LUKE JOHNSTON: It does, yeah.

MS. KATHLEEN MCCANDLESS: Is the selection of five (5) years judgmental, or has any analysis of the implications for rate stability been undertaken?

MR. LUKE JOHNSTON: The -- the five (5) -- five (5) year is -- is largely judgmental, but recognizing that we've also placed a -- a 5 percent cap on any rebuilding fees. And again, in internal discussion about what's appropriate here, we did look at some examples like -- like ICBC, for example, where, you know -- what's the point of this plan if I'm not going to do it when -- when -- or use it when -- when adverse circumstances occur.

So if we found ourself (sic) at a negative 10 percent MCT ratio, are we really going to get back to a hundred percent in five (5) years? That would be very extreme. So what would we actually want to do from a rate stability perspective? Our -- our judgment in that regard was to -- to put a -- a cap on the maximum you could ask for in a -- in a given year at 5 percent and recognize that is -- that's also a judgment in terms of the amount of rate, kind of, shock that someone could experience in a year.

MS. KATHLEEN MCCANDLESS: And with respect to that cap, if we go to page 13 of this section, at line 8, there's mention there of the 5 percent, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: So the

Corporation's stating that in order to manage rate volatility and rate shock, it is proposed the capital build provisions are only applied when the AAP rate increase is less than an increase of 5 percent, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And then would be capped at either 5 percent increase or at the level to bring the overall rate indication from all sources to 5 percent, yes?

MR. LUKE JOHNSTON: That's right, and some of the precedent -- in -- in -- in these numbers was contained in the DCAT, so discussions we've had previously about what's appropriate management and regulatory action to adverse circumstances. The DCAT modeling, which was the basis for past RSR targets, also assumed this 5 percent cap in terms of a response.

So we've -- that was, again, one of the drivers to selecting this, that there's some historical precedent for that.

MS. KATHLEEN MCCANDLESS: Does the capping rule ap -- apply identically if the AAP rate change is a decrease?

MR. LUKE JOHNSTON: The -- the other bein -- there's no provision for -- yeah, it would apply as stated here.

MS. KATHLEEN MCCANDLESS: Can you confirm that the capping rule is applied in conjunction with the overall Basic rate indication for all vehicles combined?

MR. LUKE JOHNSTON: Yes. The -- the idea of an overall cap or a rate shock type of number that we talked about at hearings before is -- is difficult to do at the individual level. So, as you know, even with a zero percent rate change, you're going to have customers that have increases or decreases plus or minus 5 percent, and if we had to keep everybody within that tolerance, it would take a long time to move certain classes to where they need to be. But it is in the overall context, yeah.

MS. KATHLEEN MCCANDLESS: So I -- I think I understand your evidence, then, with respect to the 5 percent cap. It's a concern about rate shock. Is there -- where does that 5 percent originate? So...

MR. LUKE JOHNSTON: There is, of course, a need to pick a target of some kind. The -- this is largely based on the -- the precedent that we've had in -- in the DCAT. The DCAT logic did look at past PUB orders, incremental surcharges in the '90s and such, and there seemed to be some precedent to keep the -- the overall rate impact in the neighbourhood of 5 percent. That's -- that's the basis for this.

MS. KATHLEEN MCCANDLESS: If we go to page 11 of this section, this is with respect to the capital release provision, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And the process of determining the need for a capital release provision seeks to stay ahead of achieving a 100 percent MCT ratio in a linear, incremental manner over a three (3) year period, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Okay. The three (3) year period for the phase-in of any capital release provision commences from the beginning of the year of the application, so in the current instance, March 1st, 2020?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And the beginning Basic MCT ratio used in the determination of the need for a capital release provision is a forecasted MCT for the beginning of the coming rating year, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And if we look to line 10 on this page, the Corporation states that the three (3) year time horizon proposed by MPI is a reasonable amount of time to release capital, and that MPI's view is that capital releases, so rate decreases, should occur at a faster pace than capital builds, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And with respect to the selection of three (3) years, is that judgmental, or has an analysis of the implications for rate stability been undertaken in that regard?

MR. LUKE JOHNSTON: That's mainly judgmental and of -- on the view that in this scenario, we're obviously in a favourable position, and the decision is should we release all the capital in -- you know, in the past, it would have been a rebate -- or should we do that with a little bit of caution? Less caution, I suggest, would be needed when you're in a favourable MCT position, and also recognizing that there's cycles.

So -- so the example I think I used in the -- in the opening presentation, maybe -- maybe I didn't, but -- would be that the stock market has an amazing year, and -- and -- and we have excess capital, and it's all unrealized gains, and -- right? And would we want to release all that money instantly? Probably not. But should we move towards a target and provide some benefit to ratepayers? We're saying yes.

MS. KATHLEEN MCCANDLESS: And at page 13, with respect to the capital release provision at line 5, the Corporation states that:

"In order to manage rate volatility, Which is the main purpose of the RSR, MPI has proposed a 5 percent cap on capital release provisions in a given GRA."

Yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And again, the capping of the capital release provision is applied irrespective of the AAP rate indication?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Where does the choice of a 5 percent cap originate with respect to capital release?

MR. LUKE JOHNSTON: It's also judgmental. It's -- I recognize not complete mirror of the capital build, but the same idea that there's a

-- a -- a cap on volatility. In -- in -- in this scenario, we obviously recognize if we were much higher above the MCT, then there'd be further discussions.

But again, with the capital management plan in place, we should always be moving, and it shouldn't -- it should be really hard to be, say, at 140 percent MCT, because how would that happen so suddenly that -- right? -- you're able to get that high above the 100 percent?

So we would hope that these plus or minus 5 percents would be extremely rare because, there -- again, there's no -- there's very little time for those things to build.

MS. KATHLEEN MCCANDLESS: Thank you. Now, we did speak before the break a bit about the MCT -- pardon me, right after the break about MCT ratios, and I just have a few more questions in that regard.

So in the rate application as originally submitted, the Basic MCT ratio forecast at the end of February 2020 was 86.6 percent, and that was after a forecasted capital transfer from Extension to Basic of about $63 million, yes?

MR. LUKE JOHNSTON: Those numbers all sound close. I'll accept that.

MS. KATHLEEN MCCANDLESS: Okay. And then if we go to the pro forma section of the filing, so PF-3, page 6, for the application as originally submitted. At line 18, the minimum capital required transitions fairly smoothly from about $363 million at the end of February 2020, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Line 18? Up to about $457 million at the end of February 2024, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: So with the annual increments falling within a range of about $20 million to about $30 million, subject to check?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then if we go back to the presentation at MPI Exhibit number 42 -- pardon me, that's not the presentation -- that's the October 4th update at Appendix 1, page 2. Okay, it would be the next page. Yeah, the one after this one. Okay. Right.

At line 18 here, we -- the amended minimum capital required transitions from about $355 million at the end of February 2020, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Up to about $429 million at the end of February 2024 --

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: -- yes? With the annual increments falling within a much wider range than what we previs -- previously saw, so from about zero million dollars to about $49 million for the year ending February 2023 clearly being the anomaly, yes?

MR. LUKE JOHNSTON: Yeah. Yes.

MS. KATHLEEN MCCANDLESS: Can you provide an explanation for what is causing this unusual pattern change in the amended application?

MR. LUKE JOHNSTON: At the detail level, I'd have to ask our staff to summarize that. The one reason for part of the results is -- is the lack of the capital maintenance provision in the -- in the forecast, but that wouldn't necessarily explain why it's four twenty-eight (428) and four twenty-eight (428) back to back. One (1) second.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'm told that in our modelling there's an investment reallocation triggered in one of the years, which affects that number. It's pretty hard to -- for me to describe that verbally, so we would have to, if you wanted the -- the details, we'd have to provide that as a undertaking.

MS. KATHLEEN MCCANDLESS: Thank you. That would be helpful. So the undertaking, then, would be to provide an explanation for the pattern change in the minimum capital required in PF-3 at MPI Exhibit number 42.

(BRIEF PAUSE)

MR. STEVEN SCARFONE: Yes, that's -- that's fine, counsel. So you're talking about the discrepancy, or the lack thereof, between 2023 and 2024, specifically?

MS. KATHLEEN MCCANDLESS: Not specifically with respect to that, but just generally the -- the pattern change. As we see, there's no difference there, but there's a swing in the previous year from 2022 to 2023 that's fairly significant as well.

MR. STEVEN SCARFONE: Okay. Very good. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 21: MPI to provide an explanation for the pattern change in the minimum capital required in PF-3

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now as we've discussed with respect to the Capital Management Plan, the determination of any capital build provision is dependent on the forecast of any capital transfers from Extension to Basic, yes?

MR. LUKE JOHNSTON: That's one (1) of the factors, yes.

MS. KATHLEEN MCCANDLESS: And at 10 this same exhibit, Appendix 1, page 2. So we see the line 7, here, MPI expects capital transfers from Extension to Basic of about $75 million in the current year, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: About $42.5 million in the proposed rating year?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then amounts ranging from about $44.5 million to $48.4 million over the remainder of the forecast period?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And the forecasted capital transfers from Extension to Basic are dependent on the profitability of Extension?

MR. LUKE JOHNSTON: The profitability and our market position. So what I mean is we have approximately 95 percent market share right now. Obviously that is -- we're assuming that that continues, but if that -- if was -- if we had reason to believe that wasn't the case, we'd reflect that, and that would affect these numbers as well.

MS. KATHLEEN MCCANDLESS: To what do you attribute the drop in forecasted capital transfers from Extension to Basic after the year ending February 2020?

MR. LUKE JOHNSTON: So the -- you'll notice the 2019 actual column, there, where it says 60 million might -- it -- perfectly, 60,000. That was not a transfer that brought Extension right down to 200 percent MCT.

The -- so -- or Extension MCT at the end of that year was still in excess of 200 percent.

So there was additional funds that -- available. So those roll over into the year ending 2020.

Thereafter, you get a -- more -- a better reflection of what our current projected kind of profitability transfer level would be.

MS. KATHLEEN MCCANDLESS: If we go to EPF-1, that's page 18 from the pro forma section of the filing.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Sorry, if I can just add to the last answer. I forgot one (1) aspect.

Extension is also performing better than anticipated this year. I think the revised estimate is about 8 million more net income than we anticipated originally. So that -- that is also part of that 75 million.

MS. KATHLEEN MCCANDLESS: If we scroll down, so this is the Extension statement of operations that was in the application, based on a .1 percent Basic rate change. And at line 29, looking at the five (5) years of historical net income results, it appears that Extension results have recently varied within a reasonably narrow range.

Is that fair to say?

MR. LUKE JOHNSTON: Historical Extension results are very stable, yes, especially on the claims side. You'll see there have been some ups and downs in investment net income recently, and that reflects the fact that we transitioned to a new portfolio, sold off a bunch of equities and realized gains, et -- et cetera. But it -- it is a very stable market, yes.

MS. KATHLEEN MCCANDLESS: To what do you attribute the relative stability in Extension?

MR. LUKE JOHNSTON: Well, on the premium side, we've enjoyed -- had a very consistent market share, so that hasn't fluctuated. About 60 percent of all claims costs are related to deductible buydowns. So if -- if you have a two hundred dollar ($200) deductible, for example, the cost to Extension from a claim would be, at most, three hundred dollars ($300), in that example. So the difference within the -- the two hundred dollar ($200) deductible and the Basic five hundred (500) deductible.

So even in a, say, a bad winter, you're essentially just paying a -- a three hundred dollar ($300) claim a bunch of times, and it takes a lot of claims at three hundred dollars ($300) each to -- to really change the results dramatically.

And then the other -- the other products in Extension relate to third-party -- extra third-party liability, rental car insurance, things -- things of that nature.

There's a little more volatility when it comes to a third-party liability, but we haven't had a lot of major claims in -- in that -- in that area. So there's hasn't been a lot of volatility from that either, so that's the main reasons.

MS. KATHLEEN MCCANDLESS: How would you say the variability of Extension results compare to those of Basic?

MR. LUKE JOHNSTON: The Extension is -- sorry, I didn't mention investment income there, but you'll see on investment income as well, even if we lost all the investment income for the entire year, it's only about 5 million in the forecast. So it's -- whereas in Basic, you could be talking hundreds of millions of investment income if you were to lose it all.

The Extension claims are very short duration, and -- and what I mean by that is, again, just how long it takes to settle them. It's about five (5) or six (6) months average. There's no interest rate sensitivity on those claims. We don't have to hold long-term liabilities like we do for PIPP claims.

So we don't have the volatility from that. And as I mentioned earlier, about two thirds (2/3) of all claims are -- are essentially capped at a maximum severity that can change. So the deductible buydowns, that obviously creates a lot of stability as well.

MS. KATHLEEN MCCANDLESS: So with all of that in mind, can you shed any light on why the target capital level for Extension is 200 percent in the reserves regulation, so double that of Basic?

MR. LUKE JOHNSTON: So --

MR. STEVEN SCARFONE: Just before Mr. Johnston answers that, part of the reason that we didn't respond to those questions, Ms. McCandless, today, in the Information Request, is because it's difficult for MPIC to know why cabinet chose that target level. So you would be asking Mr. -- Mr. Johnston to, you know, speak for -- for cabinet.

MS. KATHLEEN MCCANDLESS: And that was why I asked him if he could shed any light on it, appreciating that he may not have that information.

I take it he doesn't have that

information?

MR. STEVEN SCARFONE: No, he does not have that information.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now if we could turn to PUB-MPI-2-11.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And if we go to the response here, this is with respect to profit on Extension rate indications estimated for each of the rating years from 2012 to 2018, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: What was the corresponding profit provision for 2019?

MR. LUKE JOHNSTON: I lost my page, there.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: While that's happening, I'll tell you it's 27.3 percent. This -- this is what I'm told.

We had -- we decreased Extension rates in the 2019 year by approximately 6 percent.

MS. KATHLEEN MCCANDLESS: Has the Extension profit provision for 2020 been established yet?

MR. LUKE JOHNSTON: This is definitely a -- a change going forward in some of our processes in terms of the profit projection, because, as we just discussed, Extension transfers are in the Basic rate calculation.

So our -- our old process for Extension would be that the fisc -- sorry, the -- for rates in general, sorry, our fiscal year would end. We'd put the Basic rate application together and bring it here.

As soon as that was complete, we'd start working on Extension and present it to our board in -- in November of the year. Since there was, like, the same regulatory requirements, we can obviously just get that approved, and then supply those rates with Basic when they -- when they go to renewals in -- in January.

Going forward, we will be bringing Extension rates through our board at the same time as Basic rates for reasons you can understand. Right now, our profitability for Extension is as shown in the GRA.

We filed the GRA. It has transfers, as shown in -- in the pro formas. And so if we were to put forward, let's say, a rate decrease or a rate change right now, we would obviously have to update the -- the Basic forecast as well.

So right now, we're moving forward with rates at the levels shown in the pro forma statements provided.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'm told that that's approximately 28 percent probability.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So for beyond 2020, then, would the Corporation be looking at similar profit? So about -- as reflect in this GRA?

MR. LUKE JOHNSTON: At this time, that's our best estimate. But as I've stated, I believe in the -- in the DCAT, even, the -- the profit target, and knowing with confidence what that profit target is for Extension is obviously very important to this hearing, so that -- that's going to be something that we'll discuss with our board going forward to make sure that that's -- that has to be stable as well to give us the rate stability for the -- the plan as a whole.

MS. KATHLEEN MCCANDLESS: What considerations going to the selection of the Extension profit provision each year?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So if Extension is going to be a truly com -- competitive line, our view is that it -- it would have to operate on similar kind of fundamentals in terms of capital requirements and profitability.

And -- and what I mean by that is if MPI didn't have to have any Extension capital, and we could just set rates at no profit, there would be no -- well, there isn't any competition now, so I can't imagine what that would be if -- if we -- if we did that.

So what we'll be looking at is if we have a reasonable capital target, and, you know, other insurers would have to have the same, that would be considered fair, I would assume. And if we're looking at more of an industry level type of profitability, that would be fair for competitors and customers.

And again, in our view, at a high level, those would be some of the considerations, as obviously, we have some other manages with the monopoly, and -- and unlike a competitor, our profits would flow directly to Basic as part of our plan. But we wouldn't want to set up Extension the way that it's virtually impossible for anyone to ever compete.

MS. KATHLEEN MCCANDLESS: Can you envision any circumstances in the future that might give rise to a significant reduction in Extension profit provision?

MR. LUKE JOHNSTON: We still have to have those conversations the with our board. So at -- at this time, I -- I don't know.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So to what extent can the Board rely on the forecasted stability of the expected capital transfers from Extension to Basic?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Okay. For this GRA, I can confirm that our -- our Extension forecast is as -- for the 2020 rating year -- is as presented in -- in the filing. And we've also gone over the stability of Extension claims and -- and also that we anticipate our market share to remain constant. So those would be three (3) good reasons to assume the Board can rely on those numbers.

Should we meet with our Board and select a different provision going forward, for example, as I mentioned that would now be in conjunction with our Basic rate filing. So those would be reliable at that time, so you wouldn't have a surprise Extension rate change after the GRA is already complete.

MS. KATHLEEN MCCANDLESS: Kristen, can we go back to the Reserves Regulation which is Attachment A to the overview section of the filing in Section 3. So the Part 3 or Section 3 of the Reserves Regulation states that:

> "The corporation may use amounts in the rate stabilization reserve that are in excess of the amount required

under Clause 2(a) only for the
purpose of reducing the rate
indication required for the plan of
universal compulsory automobile
insurance in a subsequent year."

Yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And we heard previous evidence that capital adjustments should be kept separate from the determination of the AAP rate indication, yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: So with that in mind, how do you reconcile the wording here with respect to reducing the rate indication required with the evidence on capital adjustments?

MR. LUKE JOHNSTON: The -- the interpretation is that -- that the excess funds won't be rebated.

So the -- I mentioned earlier that we want to keep the break-even rate indication as a separate line item on the customer's renewal so that it's very clear to them year to year that this is what the cost of Basic is on a break-even basis. And then rather than waiting for large rebates to build up or whatever the case, the -- there would be a separate line that would say capital release provision and would be put on a rate equivalent basis, so 1 percent for reduction.

So the reason we obviously want to do that is we don't -- say we did have a 5 percent release, if we just embedded it in the -- the rate without telling customers what that -- what that was, they will come back next year and maybe think they got a 5 percent rate increase when really it was just 'cause they got a -- a release the year before.

So we're trying to prevent that type of confusion, but the idea is that these adjustments will be made through the actual -- through the customer's actual rates, not through rebate cheques.

MS. KATHLEEN MCCANDLESS: And so really then, the corporation's intention is to use amounts in excess of the 100 percent MCT for reducing the rate request, not the rate indication? Would that be accurate?

MR. LUKE JOHNSTON: The rate -- I see your reading rate indication -- yes -- in the -- in the way that we talk about it on the actuarial language.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Maybe it does read okay with a change actually. So the rate indication required for the plan would be our Basic break-even rate indication. The excess reserves would only be used for the purposes of reducing that amount. It's not -- it's not changing the meaning of the Basic rate indications.

It's just saying if, say, we had a 2 percent release, then that would be -- that could be used for the purposes of reducing the -- whatever the rate indication is to a different rate ask is what -- is what you're implying. I think it's just -- I think it reads okay, but I understand the -- the question.

MS. KATHLEEN MCCANDLESS: Thank you. Mr. Johnston, Mr. Phoa, thank you. Those are my questions.

MR. LUKE JOHNSTON: Thank you.

THE CHAIRPERSON: Mr. Williams, we have about a half an hour before noon. Are you ready to go?

DR. BYRON WILLIAMS: Yes. And I think the plan was that Mr. Wennberg is visiting for this morning. I think I can -- subject to the Board's guidance, we could ask him to participate this morning, and then we could get him back to his other job in the afternoon and keep the other panel members around for the afternoon if that --

THE CHAIRPERSON: Sure.

DR. BYRON WILLIAMS: -- suits MPI and the Board.

THE CHAIRPERSON: Thank you. Mr. Wennberg.

CURTIS WENNBERG, Previously Sworn

CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Wennberg, your -- you've got a bright tie on, and you're ready to go this morning?

MR. CURTIS WENNBERG: Ready.

DR. BYRON WILLIAMS: Most of these initial questions -- some will be to Mr. Johnston, some will be to you. You just pick who you prefer to respond. If we could go, Kristen, to Figure EAR-5 from the external actuarial review?

Mr. Johnston, in a few minutes, we're going to talk about changes in experiences while as case reserves. But generally for the 2018/'19 year, the appointed actuary -- the external actuary would sign off on two (2) different reviews, one (1) as of October 31st and the other as of February? Correct?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And this table, sir, I'll suggest to you is from February of 2019?

MR. LUKE JOHNSTON: That's -- that's right.

DR. BYRON WILLIAMS: And essentially what is done -- and you can look up to the headline in terms of changes in experience only -- but what this table does is fact -- factors out changes made to the valuation methodology and valuation assumptions and zeroes in on changes in experience for the 2018/'19 year. Would that be correct, sir?

MR. LUKE JOHNSTON: That's right. Experience being, like, the claims to how they came in, paid or incurred.

DR. BYRON WILLIAMS: And, Mr. Johnston, if we want to know what's going on with PIPP in terms of the runoff for the 2018/'19 year, we would direct our attention to the middle of the table to the three (3) columns being accident benefit weekly indemnity, accident benefit other, index in accident benefit other than non-index. Would that be fair, sir?

MR. LUKE JOHNSTON: Yes. The PIPP coverages are longer tail and there's a lot more activity there. As a -- collision, you just pay it, and then a few months, it's -- it's closed. So PIPP is where the action is. Yes.

DR. BYRON WILLIAMS: And, sir, if we go down to line 19 to the total, I'll suggest to you, subject to check, that we'll see unfavourable balances for those -- or unfavourable runoffs for those three (3) items in the range of $40 million, sir, subject to check?

MR. LUKE JOHNSTON: Yes. And a lot of this has to do with centralized reserving coming in and reporting some higher numbers especially in the earlier years. But to your specific question, yes.

DR. BYRON WILLIAMS: And when we look at that unfavourable variance for the three (3) PIPP coverages, it would be fair to suggest to you that much of it is in the 2016 and 2017 years, sir? Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And again, we'll give you -- you've spoken about this in your direct evidence, and we'll give you a chance to elaborate later. But in regards to the adverse runoff experience in recent years, would it be fair to suggest there are two (2) main causes, one (1) being claims persistency and the second being some challenges with inadequate and inconsistent case reserving?

MR. LUKE JOHNSTON: That's correct. The -- those would be the main drivers of why there have been pretty substantial adjustments made in the actuarial valuation.

DR. BYRON WILLIAMS: And, Kristen, if we could go to Part 6 claims incurred, Appendix 9, page 3 of 3, the ten (10) year claims incurred comparison?

Mr. Johnston, your eyesight is good enough to help me read this table?

MR. LUKE JOHNSTON: It is. You might need more than my eyes to get to the details but yes. Yeah.

DR. BYRON WILLIAMS: In essence, what this table does is examine for the basic line of business ten (10) year claims incurred comparisons for the specific lines of business, whether that's PIPP, collision, comprehensive, et cetera. Would that fair?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And, sir, in terms of directing our attention, let's just say under '18/'19 when we see the term "original projected," does that represent what was presented in the general rate application, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And then the revised forecast would be the year subsequent? Correct?

MR. LUKE JOHNSTON: That's correct. And I'm -- I don't want to cut you off, but the -- the issue with this table specifically on PIPP is the interest rate adjustments.

DR. BYRON WILLIAMS: Yeah. And we're going to come to that. And --

MR. LUKE JOHNSTON: Yeah. So that's -- so I just want -- just so you're --

DR. BYRON WILLIAMS: Yeah.

MR. LUKE JOHNSTON: -- in fairness to the -- yeah.

DR. BYRON WILLIAMS: And then actual or obviously the actual results.

MR. LUKE JOHNSTON: That's right. So that would be in claims. And then there can be -- you know, when it's just rates fall, I think it's about every ten (10) basis points, there's 16 million more in PIPP. So that can be an example.

DR. BYRON WILLIAMS: And the point you're making, Mr. Johnston, is this is a different type of table than the one we looked at previously which was focused on experience changes. Would that be fair, sir?

MR. LUKE JOHNSTON: Yeah. When -- whenever I'm presenting something, we're trying to -- on claims, for example, for PIPP -- PIPP specifically, we obviously want to isolate interest rates as a separate item and then the claims themselves as a different -- so, you know, what are we actually doing on the claims side versus what we're doing on our ALM program.

This table doesn't really do a good job of that because the interest rates are mixed in with the -- with the PIPP results.

DR. BYRON WILLIAMS: And what we see, in fact, sir, the point you're making is that caught up in the difference between the original projected and the actual would be factor such as interest rates, changes in experience, as well as changes in valuation methodology? Would that be fair?

MR. LUKE JOHNSTON: That's correct.

Yes.

DR. BYRON WILLIAMS: With those caveats being noted, Mr. Johnston, just I want -- I do want to direct your attention to three (3) years specifically.

First of all going along to the right, on the PIPP line to the 2016/'17 year, you'll agree that the original projected was in the range of a hundred and forty-eight or a hundred and forty-nine million, sir?

MR. LUKE JOHNSTON: I would, yes.

DR. BYRON WILLIAMS: And the actuals came in close to $284 million? Agreed?

MR. LUKE JOHNSTON: It's -- again, this is not -- this is making it look like PIPP specifically. The claims themselves are -- are causing this deviation, but -- but a large chunk of that is likely interest rates. And without seeing that, I -- I wouldn't want to speculate.

You know, it -- we've had interest rate adjustments in recent years in the fifty (50) to a hundred million dollar range, so I'd be cautious making compare --

DR. BYRON WILLIAMS: We --

MR. LUKE JOHNSTON: So, for example,

if we -- if we had a hundred million on all our interest rate adjustment and it was perfectly offset by the asset side, we'd say, great, that was the plan.

So it -- it probably -- like I'd probably suggest going to the -- the runoff exhibit in the actuarial evaluation or even our claims incurred chapter to get a -- a more apples to apples.

DR. BYRON WILLIAMS: Let's just take one last look, sir, before we leave this, and I understand your caveats. If we looked at the '18/'19 year, we'd see an original projected of two fifty and an actual in the range of three hundred and thirty-eight, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And that's being millions? Agreed?

MR. LUKE JOHNSTON: Can you repeat that? Sorry?

DR. BYRON WILLIAMS: I just said two hundred and fifty (250), and I was speaking in terms of millions of dollars, sir.

MR. LUKE JOHNSTON: Yeah. That -- those are correct numbers.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Wennberg, we're going to get to you in just a couple of seconds, but given Mr. Johnston's longer experience with the corporation, I may be putting some historical points to him. Don't be hurt.

I wonder if we can go to CAC-1-36B from last year's general rate application and in particular to start with page 2 of 5. Mr. Johnston, just for our history lesson, you're aware that the pure no-fault plan PIPP came into force and operation back in 1994, sir?

MR. LUKE JOHNSTON: I am.

DR. BYRON WILLIAMS: And in two-o-five or thereabouts, Manitoba Public Insurance started a strategic review of PIPP products and service delivery to Manitobans?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And at a high level, the review resulted in a series of init -- initiatives collectively labelled Business and Interi -- Improvement initiative, or BI-3. You remember that, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And part of BI-3, sir, was the selection of a -- a case management administration system called FINEOS, F-I-N-E-O-S, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And that was rolled out on or ab -- in 2010, 2011, in that time frame, sir?

MR. LUKE JOHNSTON: I believe September -- September 20 -- September 2010.

DR. BYRON WILLIAMS: And Mr. Johnston, I can provide you with references if you need them, but you would agree that in recent years, the Public Utilities Board has taken an active interest in the MPI handling of personal injury prot -- protection plan claims in a number of Board Orders between 2014 and today?

MR. LUKE JOHNSTON: Subject to check, but that's -- that sounds reasonable. I'll accept that.

DR. BYRON WILLIAMS: And there's been a particular focus on claims duration, especially longer-tailed claims, agreed?

MR. LUKE JOHNSTON: Yes, that has been a -- an issue over the last several years.

DR. BYRON WILLIAMS: And if we can just turn to page 3 of 5 of this CAC-1-36(b), and just scroll down a bit more on the page, Kristen.

And Mr. Johnston, before we get to Mr. Wennberg and some of the specific issues, would it be fair to say that one (1) of the challenges being felt not only by Manitoba Public Insurance but by other insurance companies is a general rise in psychological and psych -- psychiatric impairment claims?

Mr. Wennberg, it's over to you, apparently.

MR. CURTIS WENNBERG: Yes. We've experience it, and in discussions with some of the other providers that do a PIPP-like exp -- product, they -- they're seeing similar -- similar trends.

DR. BYRON WILLIAMS: Okay. And Mr. Wennberg -- and Kristen, perhaps we can go to page 6, Attachment A, of this CAC-1-36 from the 2019/20 GRA. And Mr. Wennsberg -- Mr. Wenn -- Wennberg -- my apologies. At a high level, Manitoba Public Insurance took "a deep dive review" of the personal injury protection plan, which was shared both with its board and the Public Utilities Board in 2018, correct?

MR. CURTIS WENNBERG: That's correct.

DR. BYRON WILLIAMS: And that's the document we -- a PowerPoint from that -- sharing the results of that --

MR. CURTIS WENNBERG: Yes. We shared

it, yes.

DR. BYRON WILLIAMS: And that's what we have before us here, sir?

MR. CURTIS WENNBERG: I -- I believe -- yes, I believe so.

DR. BYRON WILLIAMS: And one of the points Mr. Johnston was making earlier, and we've heard at -- at other times in -- in the hearing, I'll suggest to you, is that for the 2010-2016 years in particular, MPI has had some struggles with the accuracy and consistency of personal injury protection plan claims reserving. Would that be fair, sir?

MR. CURTIS WENNBERG: Yes. Are you referring to those specific years or between that period of 2010 and 2016?

DR. BYRON WILLIAMS: Between that -- that --

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: -- 2010 to 2016 period, sir.

MR. CURTIS WENNBERG: Yes, and -- and we're still -- we're still living with the effects of that, and -- and I can give a little more detail if that's what you're looking for.

DR. BYRON WILLIAMS: Well, just --

just for continuity purposes, sir, that led to the implema -- implementation of the centralized case reserving approach in 2017. Would that be accurate?

MR. CURTIS WENNBERG: It -- there was a few other reasons for centralizing the case reserving. It -- it's -- why don't -- why don't I give a little bit more context so I can provide a fuller answer.

In reviewing -- in reviewing the business I joined in 2016 in -- in roughly July and very shortly after, my -- my actuarial colleague on -- on the panel and I were both talking about some of the issues we were seeing in reserving and the IBNR reports relative to the case reserves.

And -- and what there had been at MPI was a very consistent trend over a number of years pre the BI-3 experience that was shown in that -- in that graph, the -- the curve that we're talking about that the CAC pointed out, the curve of recovery. And it seemed like post-BI-3, we -- we were getting more people off the books earlier, but they were staying around longer.

There's two -- there's two (2) effects that -- that -- that -- that took place here. One of them was when BI3 came in -- it's like other software systems. You have to track and manage your case -- case management of your -- your injury clients. It -- it's a good thing. There's many companies around the U -- the world that use FINEOS; however, when MPI put it in, we did two (2) things that I don't think were, in hindsight, the correct strategies.

One of the first ones is that we exited out a number of case managers almost immediately, so we didn't wait for some of the work to actually get naturally out of the system, but we had actually dropped case managers, removed them to other parts of the business. So that reduced the FTE capacity to do active case management and work with clients.

That -- that was an unfortunate choice. It may have, at the short term, looked like it would positively benefit the business case of doing a big project like BI3, because you've got an immediate head-count reduction; however, the -- the insidious part of reducing case management is that it may not be entirely noticeable the year after or the following year after that.

But certainly, as you don't have people to case manage and assist customers in returning to work, you -- you can then expose the -- the business to longer-term claims, which are even more difficult and -- and also have mental health issues because -- because of that, because of a lack of going back to work.

The other thing that was done post-BI-3 was the reserving was -- was -- was changed, and this is before my time. But my understanding is that the way that reserving was done, it was given to each case manger, and case managers were not allowed to reserve for beyond the -- beyond the forecast efforts to get a customer back to work.

So with many injuries, unless they're fairly catastrophic, you really think a customer would go back to work within, say, six (6) months or twelve (12) month, and that would be the limit of your reserving on that case file.

So what we were seeing is basically under-reserving from a holistic or a systemic point of view from a company, because you're always going to have the 10 to 15 percent of customers who may struggle with their recoveries and end up being on our books even though you can't predict that up front. So that -- that was a second change that happened.

So when Luke and I got together with our teams to understand the impact of these two major issues, we looked to reverse it out. The deep dive review was also requested by our board. This was after the 2016/17 year, where you -- you had, I think, pointed out was a fairly high year in terms of the actuarial adjustments. We did add about $80 million in reserves in that year alone, and a lot of that was just acknowledging that we do have this underlying issue.

And then we centralized reserving. Centralized reserving does two (2) main things. One is we now go -- we are going back to reserving as you would in a -- in a bodily injury environment, meaning that we're allowing our case managers to look at a customer and reserve appropriate to the customer. But we are also, at the two (2) year mark, doing a global -- it's basically a calculator. So we are letting a calculator determine a percentage of that customer base is going to be there for us in the long term as well, so we're using actuarial calculators.

And so this centralizing takes some of this out of the case manager's hands. It also allows us to then use case manager capacity to actually active case manage the book, and I could get into a little more detail on that.

DR. BYRON WILLIAMS: Thank you. And if we can go to page 8 of this, and this will, perhaps, assist us with some of your -- the discussion.

MR. CURTIS WENNBERG: Yeah.

DR. BYRON WILLIAMS: Mr. Wennberg, one of the points that I -- that I -- I took from the -- the -- the knowledge that you shared with us was that in terms of the duration exposure that Manitoba Public Insurance is continuing to experience, you attribute some of that to the shortage of staff and -- and experienced staff in that 2010 to -- period, up to probably 2017. Would that be fair, sir?

MR. CURTIS WENNBERG: That's correct.

DR. BYRON WILLIAMS: And what we see here, sir, on the left-hand side is tracking the number of FTEs verus claims, I'll suggest to you, with the number of full-time equiv -- equivalents being reduced from a hundred and thirty-six (136) to ninety-nine (99) as we move to the right. Is that correct, sir?

MR. CURTIS WENNBERG: Correct.

DR. BYRON WILLIAMS: And you're also making the point that there was, at the same time, an increase in claims handled, correct?

MR. CURTIS WENNBERG: Correct.

DR. BYRON WILLIAMS: And sir, what you

have put on the right of this table, dating back to 2018, is some of the challenges that you just spoke of in -- flowing from the staff shortage, in -- one of them being not enough time to actively adopt return-to-work practices for claimants, agreed?

MR. CURTIS WENNBERG: Agreed.

DR. BYRON WILLIAMS: You also point out that 10 to 15 percent of the files with psychological factors and -- and more complex files, agreed?

MR. CURTIS WENNBERG: Correct.

DR. BYRON WILLIAMS: And also that the -- the current case managers have -- at least as in 2018, came prim -- primarily from the physical damage side, and were less well equ -- equipped to manage the complexity of claims, correct?

MR. CURTIS WENNBERG: Correct.

DR. BYRON WILLIAMS: And sir, as compared to a physical damage claim, it would be fair to say that a pure no-fault claim adjudication process requires more complex skills?

Do you agree?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And those skills would include insight into mental and physical health connections? That would be one (1) of them?

MR. CURTIS WENNBERG: Or at least an awareness of how to access that experience, if -- if you need to. You know I -- the -- some of the adjusters in the physical damage side are -- they -- they have very complex claims to work through too, and -- and so I don't mean to diminish their role, but when you're dealing with customers that are injured, there's a -- there's a sensitivity that comes with it. There's a -- there's an emotional intelligence that comes with it.

But then you also need to work with them, and -- and their employers as well, and make sure that you've got the -- the full understanding of the injury types than the magnitude.

DR. BYRON WILLIAMS: And the point you're making, sir, is on the personal injury side, one (1) of the skill sets required is insight into work processes and workplace accommodations, agreed?

MR. CURTIS WENNBERG: Yes. In fact, it's -- it's part of our five (5) step review on active case management, and on -- we've done some retraining on our staff on what we expect. But, you know, step 1 is getting yourself familiarized with the -- the claimant, and the history, and -- and all that stuff.

Step 2 is actually having a strong conversation with the customers and then their employer as well, including potentially the union, and -- and there's just a -- there's a lot of steps in that -- in part 2.

DR. BYRON WILLIAMS: And you'll see at the bottom right, a reference to getting thirteen (13) more full-time equivalents.

Do you see that, sir?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And I can give you the cites if you'll requirement -- or you can take these subject to check. But am I correct in suggesting that Manitoba Public Insurance hired additional injury claims management staff in -- in around September 2018 to try and address the persistency issue?

MR. CURTIS WENNBERG: Yes, that's correct.

DR. BYRON WILLIAMS: And it adopted, I'll suggest to you -- or piloted, excuse me -- standardized case management and metrics at the beginning of November of 2018?

MR. CURTIS WENNBERG: Correct.

DR. BYRON WILLIAMS: And those went live effective March 1st, 2019?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: Sir, can you tell -- tell -- share with us what is meant by standardized case management and metrics?

MR. CURTIS WENNBERG: Yes. So one (1) of the examples is that we are expecting forty (40) clients for a case manager now. So we -- we would -- we would have previously not had strong benchmarks and -- and managed with the -- the amount of -- number of -- of folks, basically, that our case managers would be dealing with.

And we also were looking for throughput. So we -- we managed them at an individual and a -- and a -- we call them pods, but -- but a group of case managers together. We manage them on throughput. So how many cases are they taking in, so intake, and then how many cases are they taking out, and what's the balance, plus or minus.

So there's -- there's -- it's one (1) of the things we been pushing for the last three (3) years, essentially, is a little bit better metrics, and a lot more productivity related metrics. And -- and injury is one (1) of those where it may sound --

it may sound -- not a -- a kinder, gentler type of process, but you need to be -- you need to manage these things. You need to monitor them. You need to make sure that our -- our folks are having the right conversations with customers and moving them in and out.

DR. BYRON WILLIAMS: And I'm assuming -- I'll suggest you that -- or I'm going to assume, and you'll correct me if I'm wrong, that MPI will get regular reports in terms of standardized -- this -- the -- the case management metrics. Would that be fair?

MR. CURTIS WENNBERG: We do internally, yes.

DR. BYRON WILLIAMS: And would MPI be in a position for the next General Rate App -- Application to provide a report on the outcomes, at least at an aggregated level, sir?

MR. CURTIS WENNBERG: By "outcomes," are you referring to some of the part --

DR. BYRON WILLIAMS: Just the metrics, sir.

MR. CURTIS WENNBERG: In terms of the metrics?

(BRIEF PAUSE)

MR. CURTIS WENNBERG: We have no problem with that.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Johnston, recognizing that these additional staff were hired in September of 2019, and that the standardized case management went live effective March 1st, 2019, would it be fair to suggest that the impacts of the additional staff cannot be fully measured until after the 2019 loss year develops beyond the twenty-four (24) to sixty (60) month period?

MR. LUKE JOHNSTON: Yeah, I talked with our injury department. Training the staff as well takes a little bit of time, but you can see in the -- in the chart I presented in my presentation some evidence that we're moving the curve. But until it gets that twenty-four (24) month period, where we're putting in large lifetime reserves, you can't really lock down the -- that you've -- you've achieved a reduction.

And then even then, if you have one (1)

year, well, you know, maybe just the batch of claimants that year were -- were less seriously injured, or -- right? So twenty-four (24) months at minimum.

DR. BYRON WILLIAMS: Recognizing the twenty-four (24) month at -- at minimum, Mr. Johnston, and the long tail on PIPP claims, it would be too early to report on cost savings until we're -- we're out beyond that period, sir?

MR. LUKE JOHNSTON: It would be difficult to make those assumptions. And I would also caution from the implementation of -- of BI3, and -- and the, you know, desire to make some, you know, statements about savings and such. You know, you have to really -- we didn't see until four (4) or five (5) years out that there was, you know, a 30 percent increase in lifetime claims. So that way, I would say it's too early to -- to put hard savings numbers.

DR. BYRON WILLIAMS: Okay. Thank you, both -- both panel members and Mr. Wennberg. From my perspective, you're excused. I don't know if others have questions for you, but I do thank you for coming over and -- and sharing your insights, sir.

MR. CURTIS WENNBERG: Thank you. One (1) thing I might add is we do have metrics that we track before the twenty-four (24) month mark as well. We -- we do track the percentage of customers that have actually closed their claim with us. And what we see on the 20 -- 2017 and '18 year at this point is that we -- we like where the closure rates of are -- are becoming.

So this isn't strong enough evidence for Luke to be able to make actuarial adjustments, but 2014 was a very good year for us. 2014 also happened to be a very low accident year. So our staff was able to actually handle the number of claimants that came in that year.

We're now seeing some of the closure rates of the more recent couple of years emulating 2014 in terms of the closure rates, which is more like the BI3. So we really like this. This is a trend, that we're not baking anything on this at this point in time, but -- but we like where we're going with this, and -- and it feels like we're getting a little more control on it.

DR. BYRON WILLIAMS: Just based on that, I -- I will ask a couple more questions of Mr. Johnston.

Mr. Johnston, you'll recall that there was a review of the BI-3 initiative. I can't remember if it was Ernst & Young or not, but you'll rec -- you'll recall that, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And you'll recall as well, sir, that one (1) of the limitations of that review was that it was really only able to look out -- the claims out to that twenty-four (24) month period, sir.

You'll recall that?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And you'll recall, sir, that based upon only that lookout to twenty-four (24) months, Ernst & Young was fairly laudatory about the BI-3 initiatives?

MR. LUKE JOHNSTON: I -- yeah, the -- the instructions provided to Ernst & Young was to look at the business case for BI-3 in a very limited view on the business case, being only closed claims, not those that remained open.

And so if we were going to replicate that analysis, we'd probably ask a different set of questions of Ernst & Young.

DR. BYRON WILLIAMS: Okay. And just to finish, but we'll agree that an important limitation is that they were really looking only out about two (2) years?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: Okay. Thank you.

THE CHAIRPERSON: Mr. Williams, if I could ask your indulgence right now, and direct to Mr. Wood whether he has any questions of Mr. Wennberg specifically before he leaves for the day, and then I'll ask the panel members for the same question.

MR. JAMES WOOD: I don't.

(BRIEF PAUSE)

THE CHAIRPERSON: Panel, do you have any questions for Mr. Wennberg?

(BRIEF PAUSE)

THE CHAIRPERSON: Thank you, Mr. Wennberg. And we will carry on with Mr. Williams's cross-examination after lunch. If we could reconvene at one o'clock. Thank you.

(CURTIS WENNBERG STANDS DOWN)

--- Upon recessing at 11:59 p.m.

--- Upon resuming at 12:58 p.m.

THE CHAIRPERSON: Good afternoon. Mr. Williams, we will carry on with your cross-examination.

CONTINUED CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Yes. Good afternoon, members of the panel. If we can go to Figure RM-15 from Part 7, rate-making.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: It should be page 5,459 of the document. Thank you.

Mr. Johnston, you'll recognize this -- this table, sir?

MR. LUKE JOHNSTON: Yes, I do.

DR. BYRON WILLIAMS: It's from the original application, and therefore based upon the 0.1 percent rate increase -- overall rate increase, sir?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And what this table does, I'll suggest to you, sir, and ask you to confirm, is describe the proposed impacts on ratepayers in terms of dollars whether decreases, increases, or no change, flowing from a 0.1 percent overall rate change.

Would you agree with that, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And so in essence, we're looking at an application that was essentially a zero?

MR. LUKE JOHNSTON: That's right. Yeah. Pretty close, yeah. Yeah.

DR. BYRON WILLIAMS: And, sir, dir -- directing your attention to line 18 in particular, in term -- even though it was a zero percent, or 0.1 percent overall rate change, only about one hundred thousand (100,000) vehicles had no rate change.

Would that be correct, sir?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: That's right. Sorry.

DR. BYRON WILLIAMS: And if we direct your attention on the decrease side for a moment, sir, lines 5 to 1. Would you accept, subject to check, that even with an essential zero rate increase, over two hundred thousand (200,000) customers were getting a rate decrease of fifty dollars (50) or more?

MR. LUKE JOHNSTON: I accept that. It looks like about 20 percent or so.

DR. BYRON WILLIAMS: And going down to line 11, sir, in terms of increases between fifty (50) and ninety-nine dollars ($99), you'll agree that there were over two hundred thousand (200,000) vehicles getting a rate increase between that fifty (50) to -- to ninety-nine dollar ($99) range?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And with another thirty-five thousand (35,000) getting an increase of at least one hundred dollars ($100), sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And if we can go down to Figure RM-16, Mr. Johnston, at a high level, this essentially does a -- a similar exercise, but in terms of a percent rate change.

You'll agree?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And again, if we looked at consumers getting a decrease of greater than 5 percent, that would be in excess of three hundred thousand (300,000) consumers, sir?

MR. LUKE JOHNSTON: Correct, or vehicles, pardon me.

DR. BYRON WILLIAMS: Vehicles. Excuse me, I misspoke. Thank you for that.

And so you've confirmed that the numbers here --

MR. LUKE JOHNSTON: That's -- yeah, confirmed, yes.

DR. BYRON WILLIAMS: And sir, in terms of number of vehicles getting an increase of at least 5 percent, it would be more than a hundred and fifty thousand (150,000), you'll accept, sir?

MR. LUKE JOHNSTON: I accept that.

DR. BYRON WILLIAMS: So while the newspaper headlines might read -- read zero percent rate increase, sir, there are significant rate changes, both in dollar in percentage terms --

MR. LUKE JOHNSTON: That's --

DR. BYRON WILLIAMS: -- for over four hundred thousand (400,000) rate payers, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And Mr. Johnston, you and have had this conversation before. You'll agree that for many individual consumers, the actual bill that they pay is what they're focused on rather than the overall rate increase?

MR. LUKE JOHNSTON: Abs -- absolutely, yes.

DR. BYRON WILLIAMS: And Mr. Johnston, I think you'll have this memorized, but if you'd -- if you need a reference, it's from your certificate of the actuary from the amended application.

And recognizing that My Learned Friends from CMMG may have some questions, you'll agree, even in the context of the proposed negative zero point six (0.6) rate decrease, it is acc -- accurate to say that the motorcycle class will average a 5 percent rate increase, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And that's over seventeen thousand (17,000) vehicles, sir?

MR. LUKE JOHNSTON: Approximately, yes. Yeah.

DR. BYRON WILLIAMS: And my reference for that, you do not need to go there, is Mr. Triggs' letter, page 1.

And another class, sir, I'll suggest to you is being public vehicles will average a 10.9 percent rate increase, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And again, I'll suggest to you, subject to check, that there's over twelve thousand (12,000) vehicles in that class, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: Mr. Johnston, so let's stay on this page, and let's chalk this up to one of the no doubt many foolish questions I'll ask you during this history -- during this history -- during this hearing.

Directing your attention to Figure RM-1, indicated rate changes, you'll confirm that the indicated average rate for overall is eight hundred eighty-five dollars ($885), sir?

MR. LUKE JOHNSTON: That's right, recognizing and -- that it includes trailers and ORVs, so it makes it look little smaller than you probably really think it is. Yeah. Yeah.

DR. BYRON WILLIAMS: No worries. And if we just looked for the indicated average rate for private passenger class, it's one thousand one hundred and fifty-four (1,154) sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: I wonder if we could go to Appendix 1, Item Roman Numeral II, major classification required rate changes, break --

breakeven rates, again for the amended application.

It should be just a couple pages previous.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And if we could go to the -- scroll down the page a little bit, keep -- keeps -- thank you. Mr. Johnston, in terms of the overall indicated average rate of eight hundred eighty-five (885), can you help my client understand where that would appear on -- on this page?

(BRIEF PAUSE)

MR. TAI PHOA: So that we set everything into the proper context, the -- the chart that you're seeing in front you to -- is based on -- assumed there -- there is the element of drift.

Basically, we are saying that, you know, the rates will -- the average rate will increase naturally as a result of, as Mr. Johnston has explained, the changes in the population of vehicles.

The number that was quoted earlier is based on what our modeling does to the population of vehicle as of November 1st, 2000 -- 2018. So it doesn't include the drift component that's included here.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So to actually model real customers in their impacts, we have to take a snapshot of the customers at a point in time, and then apply the changes, and that's the only way we can create that rate distribution table, whereas in terms of the application and totality, obviously, we know that the customers earn, and -- and upgrade happens, and things like that.

DR. BYRON WILLIAMS: Okay. And thank you. And -- and I understand this now. And so when we go back to the -- the indicated average rate in the certificate of the actuary, that is based upon a -- a snapshot in time as of November of -- of a certain year, and it -- it is pre-drift?

Is that correct?

MR. LUKE JOHNSTON: That's right. We need -- yeah, we need actual customers to model, so yeah. And that's...

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Motorcycles and ORVs use different as-of dates, because that's -- we're trying to maximize where the most vehicles are insured, but snowmobiles are modeled on January 1st, and motorhomes, motorcycles, mopeds, trailers on August 1st.

DR. BYRON WILLIAMS: Thank you for that. If we go again to MPI Exhibit number 42, Pro Forma 3, statement of changes in equity.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And down to line 17 and 18. Thank you.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Johnston, for the 2021 year, would it be correct to suggest that the minimum capital required, as per the 100 percent MCT, would be three hundred and sixty-seven million nine hundred and -- and sixty-five thousand (367,965,000)?

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

right.

DR. BYRON WILLIAMS: Okay. And Mr. Johnston, if we go up one (1) line and see the capital available for that year, that is 363.261 million, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And would it be far too simplistic, Mr. Johnston, to suggest that to bring the capitable -- capital available to a level consistent with a minimum of 100 percent MCT, that would be about a 4.7 per -- $4.7 million increase?

MR. LUKE JOHNSTON: It's -- it's not completely one-to-one, but in -- in general, it would be pretty close to that, yeah.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Johnston, we've probably gone over this point too often this hearing, but I'll ask you to confirm that you're aware that those customers choosing to purchase Extension insurance, about 95 percent of them choose MPI Extension insurance, correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And that market dominance in the extension market dates back at least to 2008, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And would it be fair to suggest that over 80 percent of Basic customers take Extension insurance, sir?

MR. LUKE JOHNSTON: I believe the number is around 86 percent. Obviously, the -- some customers purchase more Extension than others, but I believe it's around eighty-six (86).

DR. BYRON WILLIAMS: Mr. Johnston, your history with MPI and with the pea -- Public Utilities Board rate-setting process dates back to the 1990s, agreed?

MR. LUKE JOHNSTON: Yeah. I was the young guy for a while, but yes, those days are over, I guess.

DR. BYRON WILLIAMS: So was I, Mr. Johnston, even before you. As a participant in many regulatory hearings, you're generally familiar with the rate-setting process of the Public Utilities Board?

MR. LUKE JOHNSTON: I am.

DR. BYRON WILLIAMS: And you have assisted in the preparation of general rate applications, including on issues such as appropriate rate setting and appropriate targets for the rate stabilization reserves, sir?

MR. LUKE JOHNSTON: I have.

DR. BYRON WILLIAMS: And you have participated, sir, in technical conferences with Interveners and PUB staff regarding appropriate considerations in establishing the rate stabilization reserve?

MR. LUKE JOHNSTON: Yes, I have.

DR. BYRON WILLIAMS: And that, of course, has included discussions of risk tolerance, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And you have been a witness for many years before the Public Utilities Board, including on issues related to the rate stabilization reserve, sir?

MR. LUKE JOHNSTON: I have.

DR. BYRON WILLIAMS: And you have super -- supervised dynamic capital adequacy testing and minimum capital test analysis, which has become evidence in certain hearings, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And of course, Mr. Johnston, you've also had occasion to review the decisions of the Public Utilities Board as they relate to rate -- the rate stabilization reserves, sir?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: Mr. Johnston, it's fair to say that in your experience, among the issues canvassed for the hearings before the Public Utilities Board, one (1) of them would be the appropriate level of the reserves for rate-setting purposes within the context of the overall health of the Corporation?

MR. LUKE JOHNSTON: That's true.

DR. BYRON WILLIAMS: And another of the issues canvassed in hearings would have been the appropriate methodology for determining the rate stabilization reserve level, including appropriate consumer and corporate risk tolerances, sir?

MR. LUKE JOHNSTON: That has definitely been on the agenda, yes.

DR. BYRON WILLIAMS: And that analysis would have involved in various years considerations of metho -- methodologies such as the percent of premium, the minimum capital test, and the dynamic capital adequacy test, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: It also would

have explored various levels of risk tolerances, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And finally, just the last couple, sir, you also would have explored whether additional premiums should be charged to bring the RSR within appropriate levels for rate setting in the course of those hearings, or does that predate your time, sir?

MR. LUKE JOHNSTON: I just -- that's what I was thinking about whether I've --

DR. BYRON WILLIAMS: Well, let me ask that a different way, and we'll skip that. In the -- in the preparation of your dynamic capital adequacy testing, you certainly would have reviewed the experience of the Public Utilities Board in setting surcharges for the purposes of rate stabilization, sir.

MR. LUKE JOHNSTON: Absolutely, yeah.

DR. BYRON WILLIAMS: And you certainly, in your experience with the Board, have experienced whether debates before the Public Utilities Board on whether a rebate should be given to consumers because the RSR was above appropriate levels for rate setting. Agreed?

MR. LUKE JOHNSTON: Yeah, that's

right.

DR. BYRON WILLIAMS: If we can go to DCAT Section 4.5 at page 26 discussion of prior year's DCAT results?

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Johnston, you were here at the start of the hearing this year. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: You heard the opening statement of the Board when it talked about its role in balancing the interests of ratepayers on the corporation?

MR. LUKE JOHNSTON: I can't recall exactly, but that's the theme -- the general theme, yes.

DR. BYRON WILLIAMS: And you are well familiar, sir, with the concept of risk tolerance in terms of setting appropriate levels for the rate stabilization reserve? Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And notionally, one could establish rate stabilization reserves to withstand a one (1) in twenty (20) year event, a one (1) in forty (40) year event, a one (1) in one hundred (100) year event, or a one (1) in five thousand (5,000) year event depending upon one's risk tolerances, sir?

MR. LUKE JOHNSTON: That's true.

DR. BYRON WILLIAMS: And if one is protecting against a one (1) in twenty (20) year event, that might suggest a different risk tolerance than a one (1) in one hundred (100) year event in terms of risk tolerance, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And all other things being equal, the more conservative the risk tolerance, sir, the higher in dollar terms the reserve one would want to protect against rate volatility or instability. Agreed?

MR. LUKE JOHNSTON: Generally, yes. Yeah.

DR. BYRON WILLIAMS: And Mr. Palmer -- Mr. Palmer, oh, dear Lord.

Mr. Johnston --

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

DR. BYRON WILLIAMS: -- Mr. Crozier

predicted this by the way.

MR. LUKE JOHNSTON: Am I getting a Don Palmer question here?

DR. BYRON WILLIAMS: I don't think I asked it of Mr. Palmer but -- Mr. Johnston, with apologies both to you and to Mr. Palmer --

MR. LUKE JOHNSTON: I'll let him know.

DR. BYRON WILLIAMS: -- conceivably a consumer who has to pay credit card bills at higher interest rates at the end of each month might have a different view on how high the reserves should be for rate stability than a large corporation earning interest on reserves. Is that conceivable, sir?

MR. LUKE JOHNSTON: It has -- in a general sense, everyone -- people have different risk tolerances based on their own financial considerations. Sure. Yeah.

DR. BYRON WILLIAMS: And, sir, would it be fair to say that during last year's general rate application the discussion of risk tolerances for the purposes of the RSR and rate setting was focused on one (1) in forty (40) probability level, sir?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And, Mr. Johnston, I have a citation for you if you require it, but you could accept subject to check that in Order number 159/18 and flowing from a one (1) in forty (40) risk tolerance, the Public Utilities Board last year established a lower equity target of about a hundred and forty million and an upward total equity target of about 315 million, subject to check, sir?

MR. LUKE JOHNSTON: Subject to check, that sounds consistent with what I'd expect. Yes.

DR. BYRON WILLIAMS: I wonder if we can go to RSR.7.2 DCAT "Key Assumptions." That's -- just scroll down just a little bit. Thank you, Kristen. Mr. Johnston, line 17 to 23 of this section set out the key assumptions employed. Just one second.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And, Kristen, can you scroll over to the next -- oh, no. That's fine. I've got it up above. Go ahead.

This details some of the key assumptions used in the dynamic capital adequacy testing report for this general rate application, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And you'll see that it was set at a one (1) in one hundred (100) year outcome level, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: Okay. And, Kristen, could you scroll up on that page just a little bit? Keep -- perfect.

And, Mr. Johnston, in lines 11 through 16 of this page from RSR-7.2, you note, first of all, the DCAT assumptions in prior reports were determined based on collaborative discussions with PUB stakeholders for the purposes of determining the lower and upper RSR targets?

MR. LUKE JOHNSTON: That's right. These are -- these are my words in the DCAT. Yes. Yeah.

DR. BYRON WILLIAMS: And you indicate as well that you will select assumptions that more closely align with the risk appetite of the Manitoba Public Insurance Board of Directors, sir?

MR. LUKE JOHNSTON: Yeah. Essentially what I'm doing in the DCAT is letting people know here that the reserves regulation and targets have been changed and what I've done to the DCAT as a result of that.

DR. BYRON WILLIAMS: And in terms of the minimum capital test, Mr. Johnston, you'll agree that under the 2019 MCT or minimum capital test guideline, the office of the superintendent of financial institutions has selected a conditional tail expectation of 99 percent, sir?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And put into humble lawyer talk, that means that OSFI directs to use at a minimum a one (1) in one hundred (100) year assumption to assess capital requirements across the risk requirements?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And, of course, that's what was employed in your most recent DCAT, sir?

MR. LUKE JOHNSTON: That's true. One second.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I just wanted to make sure. We continue to show one (1) in forty (40) results just for transparency purposes, but we are using one (1) in a hundred for selection purposes. Yeah.

DR. BYRON WILLIAMS: And without

asking you to elaborate, to your knowledge does a one (1) in one hundred (100) year risk tolerance more closely align with the risk appetite of the MPI Board of Directors?

MR. LUKE JOHNSTON: Yes. Because we have been targeting a 100 percent MCT as our capital, not just in this application but in -- in previous applications.

As you're aware, we didn't get the hundred percent MCT. We had a one (1) year order on that. But the 100 percent MCT aligns with -- with this risk tolerance, and that's -- that's to the comfort level of our Board.

DR. BYRON WILLIAMS: And, Mr. Johnston, just in terms of that one Board order, you're not suggesting that that was a hundred percent MCT for the lower range of the target, sir?

MR. LUKE JOHNSTON: Correct. I -- I can't remember what -- what year it is but not the lower range, no.

DR. BYRON WILLIAMS: So what you're suggesting, sir, is that in one (1) year it was a hundred percent MCT was established as an upper range for the -- for the RSR target, sir?

MR. LUKE JOHNSTON: Correct. And in

many ways, this -- the reserves regulation acts in a manner as well. Once it's over a hundred, it becomes a rebate type of environment. Yeah.

DR. BYRON WILLIAMS: And, sir, just to confirm to your knowledge flowing from the 2016 general rate application on, I'll suggest to you that the hundred percent MCT was no longer used as a upper limit for the purposes of PUB rate approvals for the upper limit of the reserve target?

MR. LUKE JOHNSTON: Subject to any check I have, I'd accept that.

DR. BYRON WILLIAMS: And, Mr. Johnston, if we can just go to PF.3 from the amended application statement of changes in equity. Again, Mr. Johnston, you'll recall our conversation of the Public Utility Board establishing a lower total equity target of about a hundred and forty million in last year's general rate application, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And, sir, in terms of the minimum capital of 100 percent MCT, would the comparable number be for the '19/'20 year -- the 355.481 million, sir?

MR. LUKE JOHNSTON: For the '19/'20 year? Yes, that's correct.

DR. BYRON WILLIAMS: So, sir, the difference between that 355.481 million under the hundred percent MCT versus the PUB lower target of a hundred million, I'll suggest to you, sir, is more than $200 million? Would that be fair mathematically?

MR. LUKE JOHNSTON: The -- no debate to your -- to your math. I would just say that if -- if that -- as long as that -- I can't recall the details of that target in terms of MCT, but we may have to adjust it a bit for the growth of business, et cetera.

But let's say it's hundred and fifty-five whatever order of magnitude, I -- I understand your point. Say around 200 million, maybe a little less.

DR. BYRON WILLIAMS: Thank you for that, sir. I wonder if we can go to Figure RSR-App-1-2 (phonetic) Minimum Capital Test, basic capital -- req -- required, page 2 of 2 and if we can scroll down till we see on line 30 operational risk margin?

And, Mr. Johnston, one of the categories to determining the minimum capital test analysis is an operational risk margin? Is that correct, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And you'll agree that operational risk is defined by the office of the superintendent of financial institutions is the risk of loss resulting from inadequate or failed internal processes, peoples and systems, or from external events? Agreed?

MR. LUKE JOHNSTON: I'll accept that.

DR. BYRON WILLIAMS: You'll -- I'm sorry.

MR. LUKE JOHNSTON: I'll accept that. Yeah.

DR. BYRON WILLIAMS: So in essence one of the elements of the operational risk assessment is a calculation that provides a cushion for bad management, sir?

MR. LUKE JOHNSTON: I don't know if it's phrased in those words, but there are operational risks that occur, and they're not necessarily from bad management. Things don't always work out as planned. Business cases don't always meet the original intended objectives.

But bad management could result in -- in losses. I -- I accept that.

DR. BYRON WILLIAMS: Okay. I wonder if we can go to the corporation's application RSR.8

minimum capital test introduction and page 17 at the top?

Mr. Johnston, on this page, the corporation suggests that the minimum capital test is also used by regulatory bodies in Saskatchewan and British Columbia to determine the minimum capital requirement for Saskatchewan Government Insurance and the Insurance Corporation of British Columbia? Agreed?

MR. LUKE JOHNSTON: That's our understanding. Yes.

DR. BYRON WILLIAMS: And at lines 11 through 13, you note that ICBC has historically targeted a minimum 100 percent MCT, but the target is currently under review. Agreed?

MR. LUKE JOHNSTON: Agreed. There -- there are some issues there, and I'm -- I won't pretend to fully understand all the -- all the details, but there's some major financial issues there. Yeah.

DR. BYRON WILLIAMS: And some of the major financial issues, Mr. Johnston, may have come from not charging rates that were actuarially indicated, if you're able to comment, if not?

MR. LUKE JOHNSTON: Not in any detail,

but that appears to be part of the issue for sure.

DR. BYRON WILLIAMS: If we could pull up PUB-CAC-1-1, the second page of that response, and go down to footnote 2. Mr. Johnston, there's a -- a suggestion in this response that the 100 percent MCT target in B -- British Columbia has been temporarily suspended from the perio -- for the period up till March 31st, 2022. First of all, do you see that reference, sir?

MR. LUKE JOHNSTON: I do see that.

DR. BYRON WILLIAMS: And that's consistent with your understanding?

MR. LUKE JOHNSTON: I couldn't remember the details, but I knew there was essentially something on ho -- on hold there. Yeah.

DR. BYRON WILLIAMS: And if we go to the next page, footnote 3, Mr. Johnston, you recall suggesting in your general rate application that the 100 percent MCT was under review in British Columbia, agreed?

MR. LUKE JOHNSTON: Suspended, under review, being looked at, yeah. Yeah.

DR. BYRON WILLIAMS: And sir, you're aware that -- although I see a typo here, Ernst & Yug (phonetic) should be Ernst & Young. You're aware that

Ernst & Young did a -- a review of the ICBC program -- Insurance Corporation of British Columbia -- on or about 2016, sir?

MR. LUKE JOHNSTON: I'm aware of that, yes.

DR. BYRON WILLIAMS: And sir, in the course of your many duties, did you have the opportunity to become aware of the Ernst & Young report or to review it, sir?

MR. LUKE JOHNSTON: I can't recall right now. It -- it would seem very reasonable that we'd look at that report if we had access to it, but my -- my memory might just escape me here.

DR. BYRON WILLIAMS: Okay. So Mr. Johnston, you're not sure whether the Corporation reviewed the document or not?

MR. LUKE JOHNSTON: I feel like we definitely should have. I just can't remember. I'm trying to remember what it looks like or the details of it. It's not coming to me, so I -- I -- I don't know.

DR. BYRON WILLIAMS: Okay. And so I don't want to test your memory in terms of the document you may or may not have reviewed. But I'll -- I'll sug -- you do see the suggestion here from

Ernst & Young that the consideration should be given to whether the OSFI MCT ratio is the appropriate framework for setting capital of the Basic product? Last line there, sir.

MR. LUKE JOHNSTON: I do recall those discussions, yes. Yeah.

DR. BYRON WILLIAMS: Okay. And sir, so you do recall those. So I was just going to say if you weren't -- if you thought that was an inaccurate presentation, I was just going to invite you to get back to me, sir, on that.

MR. LUKE JOHNSTON: Yeah. No, I accept that -- that -- I understand those discussions happened on that topic. Yes.

DR. BYRON WILLIAMS: If we could go to CAC-MPI-2-7C. That's fine. And Mr. Johnston, here you -- you see that our -- our client was asking MPI if they had any information suggesting that the capital targets for SGI or for Saskatchewan or British Columbia were dev -- developed through an independent rate setting process?

MR. STEVEN SCARFONE: Are you just asking for -- for the witness to confirm that?

DR. BYRON WILLIAMS: I am.

MR. LUKE JOHNSTON: So yeah, I can

confirm our answer. What I'm -- what I was kind of -- what I was inquiring about is I can't really confirm any details of why ICBC or SGI do what they do or the governments in those provinces.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Okay. And in that sense, you're not aware of whether the capital targets were imposed by government or -- or set through an independent rate setting process, sir?

MR. LUKE JOHNSTON: I -- I'm not aware.

DR. BYRON WILLIAMS: If we can go to DCAT Section 1.6 recommendations. And Mr. Johnston, you -- you may have had a bit of a discussion this morning with my learned friend from the Public Utilities Board, but you see a recommendation on this page, being page 15 of 70, that over the next twelve (12) months, management should sol -- solidify its profit targets for Extension insurance given the importance of Extension capital transfers to both Basic rate setting and basic MCT forecast, sir?

MR. LUKE JOHNSTON: Yes, I do.

DR. BYRON WILLIAMS: And Mr. Johnston, bu -- what is meant by solidifying profit targets, and does it refer simply to your discussion with PUB counsel in terms the timing of it, or is there something more anticipated, sir?

MR. LUKE JOHNSTON: There -- as -- as we saw, I can't remember the question -- the -- but the profit targets of Extension have been -- have varied even just in the last five (5) to ten (10) years. And if -- if these profit targets are not con -- consistent or -- or set out with some kind of clarity, it could create volatility in the results of Basic and, obviously, make it difficult for me to assess a risk of the two (2) lines of business without having some consistency in the profit target selection.

DR. BYRON WILLIAMS: Okay, and -- and we -- I believe we don't need to go there right now, but we will come in a couple minutes. I'm assuming you were probably referring to PUB-2-11, but we'll -- we'll get there in a second.

Mr. Johnston, since May of 2018, you've been not only Chief Actuary but Vice-President, Product and Risk Management. Is that correct, sir?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And I neglected to congratulate you last year, so on behalf of my clients, let me do that this year.

MR. LUKE JOHNSTON: They were just waiting to see how it went, and... Thanks. Yeah.

DR. BYRON WILLIAMS: If there's -- if there's a performance evaluation, just send them to us, sir.

MR. LUKE JOHNSTON: Will do.

DR. BYRON WILLIAMS: Mr. Johnston, as an actuary and a VP, you have insight into the operations of the Corporation as a whole, including the relationship between Basic and Extension. Would that be fair?

MR. LUKE JOHNSTON: Yes, I do.

DR. BYRON WILLIAMS: And Mr. Johnston, I'm going to define the term underwriting -- or, underwriter for you, and we'll see if you're prepared to work with that definition. Would I be correct in suggesting that in the insurance world, underwriters determine whether an insurance agency should undertake the risk of insuring a client; they determine the risk and exposure of clients and also how much insurance should be granted to a client, how much they should pay for it, and whether or not to offer an insurance policy to the client in the first place?

MR. LUKE JOHNSTON: That is a -- yeah

-- better definition than I would have give -- given. I accept that.

DR. BYRON WILLIAMS: And we'll come back to that definition in just a second. Mr. Johnston, would it be fair to suggest that in areas such as higher third-party liability and lower deductibles, Extension insurance enhances the coverage of Basic insurance?

MR. LUKE JOHNSTON: Correct. It's additional coverage, by definition, basically. Yeah.

DR. BYRON WILLIAMS: And it's designed to fit with Basic insurance and provide more options given the policyholder's needs and risk tolerances, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And it's accurate to suggest that Basic and Extension insurance are issue on -- on -- on one (1) document by Manitoba Public Insurance to those choosing to purchase?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And you would agree that in terms of renewals or reassessments, it's a pretty straightforward and uncomplicated process?

MR. LUKE JOHNSTON: I don't want to say it's always straightforward and uncomplicated.

All of us have had a vehicle for a few years and just had, you know, same as last year, please. Obviously, when there's new vehicles and changes for certain needs people have, it can get more complicated. So just to be fair. Yeah.

DR. BYRON WILLIAMS: Let me ask that question a different way, sir. There is no underwriting required by the broker or MPI in issuing a Basic or Extension policy, sir.

MR. LUKE JOHNSTON: I see. Right now and in the -- as long as I've been here on Extension -- or, sorry, as long as I've been here, there has not been no significant underwriting of any kind on Extension. It is something we're looking at a little bit right now in terms of, you know, how -- how many Extension claims can you have until we're not going to sell you the Extension insurance anymore. But at least in -- in my time here, there hasn't been any underwriting.

DR. BYRON WILLIAMS: And sir, both -- both basic and Extension operate off of shared IT platforms -- information technology platforms -- such as Autopac online. Would that be fair?

MR. LUKE JOHNSTON: That's fair.

DR. BYRON WILLIAMS: And focussing on

the reserves in Extension, sir, would it be fair to suggest that they come primarily from Basic customers who choose Extension insurance?

MR. LUKE JOHNSTON: Yes.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: We're going to go to Part 8, AR Appendix 3, page 19. And Mr. Johnston, you did go over some of this information with my learned friend from the Public Utilities Board, so I will try to not touch upon the same issues. It's page 21 of 44 for the PDF, if that assists, and down to the bottom under Extension.

Mr. Johnston, just in terms of net income for Extension as reported in the annual report, the second highest year of the last five (5) years was the 2018 year, sir, correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And the highest year, at 56.725 million, was the 2019 year, sir?

MR. LUKE JOHNSTON: Correct. Unfortunately, there's not investment income in this table, but that's part of the story. But point taken, yes, that's the high -- the highest.

DR. BYRON WILLIAMS: And if we could go to PUB-2-11 for a second. And Mr. Johnston, again, not wanting to trespass -- scroll down, please; thank you -- upon what's already been canvassed by my learned friend, Ms. McCandless. In terms of the overall profit target, you'll see that set out in the third cou -- column for the years 2012 to 2018, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And it has ranged from a low of 6.2 percent in 2012 to a high of 32.1 percent in 2018, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And your evidence from Ms. -- PUB counsel this morning, as I understand it, was it appears that you're targeting around the 27 percent range.

MR. LUKE JOHNSTON: That's for -- for 2020 --

DR. BYRON WILLIAMS: Yeah.

MR. LUKE JOHNSTON: -- the implied profit's around 27 percent.

Sorry. Pardon me. I got them mixed up.

Twenty nineteen, 27 percent, and the implied profitability of 2020 at about 28 percent.

Yeah.

DR. BYRON WILLIAMS: And so Mr. Johnston, when you were speaking of solidifying, perhaps you can just elaborate a little bit with reference to this document.

MR. LUKE JOHNSTON: If --

MR. STEVEN SCARFONE: I just want to -- before Mr. Johnston responds, I just want to remind counsel, and I'll borrow your language, Mr. Williams, trespassing onto PUB counsel's earlier questions, but also be aware to the extent that the Extension line of business and its profit targets, its margins, are all before the PUB -- and quite rightfully, given what's in the capital management plan -- we want to caution counsel on questions that would go behind the numbers that are on the screen before you.

And so I just want to preface or make that comment before Mr. Johnston responds to questions concerning the Extension line of business and its profitability.

DR. BYRON WILLIAMS: Madam Chair, I don't intend to explore this deeply, but I will note when this line of cross-examination began, we premised this with a reference to the recommendation of the external acura -- ac -- actuary highlighting the importance of Extension capital transfers to both Basic rate setting and Basic MCT forecast.

So our clients would submit that it's highly relevant and within the scope of this -- this hearing.

THE CHAIRPERSON: Thank you, Mr. Williams. You can proceed.

CONTINUED BY DR. BYRON WILLIAMS:

MR. LUKE JOHNSTON: If you can repeat the question, sorry. Yeah.

DR. BYRON WILLIAMS: Mr. Johnston, you remember when I -- I shared with you the recommendations of the external actuary, there was a discussion about solidifying the profit target for Manitoba Public Insurance. Do you recall that, sir?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And in the course of that conversation, we talked about both aligning the schedules so that the GRA and the profit targets were aligned for the -- at about the same time. You recall that, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And you also said, with reference to a mysterious Information

Request, that if you look at the historic data, there's been numbers that -- that tend to move that -- that show some variation.

Do you recall that, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: So in that context, sir, of solidifying the profit targets, perhaps you can elaborate with reference to this information request, sir.

MR. LUKE JOHNSTON: So the -- the recommendations in the -- in the DCAT report, which I sign, are again intended to for our management and our board and relate to the risks of -- of MPI. And given the con -- the close connection between Basic and Extension going forward, volatility in the profit target equals volatility in the projections made for -- for Basic.

So the -- where it's coming from on that recommendation is the stability of -- of Basic has now become a -- somewhat of a direct function of Extension.

And if we can be consistent in the selection of the profit targets, especially in the year of the GRA, we'll bring more stability to -- to the results.

DR. BYRON WILLIAMS: Okay. If we can go -- go to Part 8, annual report Appendix 1, and page 44 of that annual report.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: That's fine right there. Mr. Johnston, directing your attention to the second last page -- or the second last paragraph, on this page, you see a reference to the Corporation's board of directors approving risk-based capital adequacy targets by line of business.

Do you see that, sir?

MR. LUKE JOHNSTON: Yes, I do.

DR. BYRON WILLIAMS: And you see also reference to the Corporation's capital targets being determined based on the underlying risks and the competitive nature of each line of business, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And leaving aside the regulation and focusing on the board of directors, and -- and their determinations, would it be fair to say, sir, that with regard to the Extension line of business, they selected a 200 percent MCT target with a minimum of one fifty (150), sir?

Is that consistent with your recollection?

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And I can hear you.

MR. LUKE JOHNSTON: Sorry, just getting used to answering Extension questions at the -- this hearing.

The -- so that's correct. The -- the threshold for which Extension capital becomes excess is at 200 percent, and the minimum, 150 percent. So internally, we would have targets to get back to 150 percent, should we be below that target.

DR. BYRON WILLIAMS: And again, just focusing on the board of directors's deliberations as represented here, sir, when we go to the 200 percent MCT target, that would be analogous to a -- a target adopted by a number of firms in -- in the private sector, and in competitive markets, sir, agreed?

MR. LUKE JOHNSTON: Agreed. The Extension line, as we've discussed, is lower risk than a, you know, you're not seeing Special Risk Extension, but it's a lower risk line than Special Risk

Extension.

We've selected essentially the -- the minimum federally regulated insurer target of one fifty (150) with a -- with a absolute max of 200 percent for -- for the line.

DR. BYRON WILLIAMS: And Mr. Johnston, given the 95 percent market share in Extension extending back over a decade, a 208 -- a 2018 profit target in excess of 30 percent, and flat expenses, as you confirmed with My Learned Friend, would it not be fair to describe the assertion that Extension is a competitive market is a myth?

MR. LUKE JOHNSTON: I -- I didn't hear the last couple words. I'd describe it as...

DR. BYRON WILLIAMS: Myth, M-Y-T-H.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I -- I wouldn't call it a myth. I can tell you on the commercials -- trucking side, we have a large percent of the market, too, and there's no question that competition exists there as well.

We -- we obviously, as you know, have 95 percent of -- of the market, but competition does exist, and customers have their reasons for choosing MPI.

DR. BYRON WILLIAMS: Thank you, Mr. Johnston. I have what we call some short snappers for you just to finish up my examination.

Mr. Johnston, you had an extensive discussion with My Learned Friend from the Public Utilities Board about the capital build provision. Do you recall that from this morning, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And hastening to point out that I am not asking for a legal opinion, would it be fair to say that the MPI five (5) year plan for rebuilding the capital build provision is contingent on an assumption that achieving a minimum 100 percent minimum capital test in each app -- in each rate application is not mandatory.

That's the assumption underlying it, sir?

MR. LUKE JOHNSTON: If you are saying that achieving 100 percent MCT in the rating period of the application, then MPI would say that is not mandatory. It -- we were suggesting that it's within five (5) years per our proposed Capital Management Plan.

DR. BYRON WILLIAMS: And that assumption is the hinge upon which the five (5) year Capital Plan operates, sir?

MR. LUKE JOHNSTON: Right.

DR. BYRON WILLIAMS: It's a critical assumption?

MR. LUKE JOHNSTON: It is. Yeah.

DR. BYRON WILLIAMS: If we can go to Figure Revenue-5-H, Highway Traffic Act and non-highway Traffic Act earned units, 2004/'05 to 2018/'19.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: So it's Revenue-1-1 volume factor, Figure Revenue-5-HTA and non-HTA earned units, HTA being the Highway Traffic Act.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And it might be on page 9 of that document, I'm not sure.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Just while we're going there, Mr. Johnston, you'll recall that the volume factor in 2018/'19, was 1.01 percent, sir, subject to check?

Here we go.

MR. LUKE JOHNSTON: The HTA -- which I think you've already said what that is, that was 1.1 percent in '18/'19.

DR. BYRON WILLIAMS: Okay. Well, let's back up for a second. Sir, on -- last week in giving your direct evidence, you talked about the -- the beauty of the volume, and the volume factor, and the upgrade factor in terms of provided -- providing some growth in Manitoba Public Insurance revenues historically, correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And in estimating the -- the growth factor -- the volume factor, excuse me, in a general rate application, Manitoba Public Insurance relies upon Highway Traffic Act units.

Would that be fair, sir?

MR. LUKE JOHNSTON: Yes. Non-highway Traffic Act units are ORVs and trailers, and they -- they -- that's very small premiums. So more than 97 percent. I think the premiums are under the HTA category. So that's what's used.

DR. BYRON WILLIAMS: And sir, if we scan the years 2004/'05 through 2018/'19, in terms of percentage change for Highway Traffic Act units, would it be fair to suggest that the 1.01 percent is the lowest year in history -- in that history?

MR. LUKE JOHNSTON: That's true. We -- I don't want to speculate, but you'll recall that there was some -- I believe some increases in interest rates, and some tightening of credit and stuff, in -- in those years.

We also saw upgrade deteriorate. We noticed that people were buying or trading up vehicles at a lower frequency in that year as well. So we do believe that economic conditions have something to do with that, but it is, to -- to your point, the lowest in this period, and -- and one (1) of the lower ones we've ever seen, yeah.

DR. BYRON WILLIAMS: And Mr. Johnston, this goes to your -- thank you for that helpful answer -- how closely tied is the volume factor to -- to economic growth?

MR. LUKE JOHNSTON: That's -- it's -- it's tough to parse out the details. But we have seen things in the past, such as when -- I can't remember the year, but when we saw some of the highest gas prices of all time, we noticed the frequency of collisions go down.

We -- and as I had mentioned, in this year, we did see people moving vehicles around less, and -- and you can even see on the -- the non-HTA growth, when times are good, and you have extra money to get trailers and ORVs, you know, that's when you see, like, the 7, 8 percent type of growth.

We've been waiting for that one to come down for a while, and it's starting to do that.

DR. BYRON WILLIAMS: Okay. Could we go to Part 8, AR Appendix 4 scenario analysis, 2019/'20 budget base to scenario summary for the Corporation.

Mr. Johnston, in your conversation with Public Utilities Board counsel this morning, would I be correct -- or would it be correct to suggest that you -- you suggested that the -- the trend in terms of frequency collisions in the first half of the year has been reflected in your outlook for the second half the years, sir?

MR. LUKE JOHNSTON: Correct.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And Mr. Johnston, if we go to scenario 6, being the 1:40 adverse winter collision frequency scenario.

Do you see that, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: Does that suggest that the change from the base scenario would be an excess of -- on a corporate basis of $66 million?

MR. LUKE JOHNSTON: In this 2019 year, that's what we say one forty (140) looks like, yes.

DR. BYRON WILLIAMS: And sir, of that 66 million, recognizing the year it was taken in, how much of that would fall -- fall out to Basic in the event that -- that adverse circumstance took place?

And it's -- Mr. Johnston, I -- just magnitude is fine. I'm not looking for precision.

MR. LUKE JOHNSTON: I'd be surprised if it wasn't at least 90 percent of that number.

DR. BYRON WILLIAMS: Thank you. Madam Chair and members of the panel, I have no further questions of this panel.

THE CHAIRPERSON: Thank you, Mr. Williams. Mr. Wood...?

(BRIEF PAUSE)

CROSS-EXAMINATION BY MR. JAMES WOOD:

MR. JAMES WOOD: If we could start with MPI Exhibit number 52.

(BRIEF PAUSE)

MR. JAMES WOOD: And perhaps just go to...

(BRIEF PAUSE)

MR. JAMES WOOD: I don't have the slide number here, sorry. Oh, it's 15. Sorry. Just page 15 then. Looking at the claim category for PIPP...

(BRIEF PAUSE)

MR. JAMES WOOD: I believe, Mr. Johnston, you had said that there was -- the current PIPP situation is that there's a lower frequency overall. Is that correct?

MR. LUKE JOHNSTON: In this accident year -- so the '19/'20 year -- we've seen lower collision frequency, and that has transferred to lower injury frequency as well. Yeah.

(BRIEF PAUSE)

MR. JAMES WOOD: And has that also been the case for motorcycle claims for PIPP? Is it a lower frequency in severity?

MR. LUKE JOHNSTON: Unfortunately, I don't have that detail in front of me. If you just give me a moment...

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Thank you. We don't have that readily available, but obviously, we -- we have a database with that information.

MR. JAMES WOOD: Perhaps I could ask if we could look at CMMG-1-12? This would be 1-12 page 3 of 3. And if I can direct you to the frequency in severity at lines 24, 25, and 26. Sorry. We're looking at motorcycles, so lines 11, 12, and 13.

Not only is the count -- if we look at the count, it's decreased as far as -- this is the loss comparison between motorcycle and private passenger major classes. So lost -- losses for PIPP under the motorcycle class, we're seeing that in 2016, 2017, 2018, the frequency is lowering from 1.22 percent to 0.99 percent to 0.92 percent.

MR. LUKE JOHNSTON: That -- yes -- that does appear to be the case from the -- from the table provided.

MR. JAMES WOOD: And then also the severity in those -- these past three (3) years is also reduced by each year.

(BRIEF PAUSE)

MR. TAI PHOA: Yes. But just to provide a little bit more context, the losses and the counts here are not at ultimate values. They are based on the values as of February -- February 28, 2019. We could update the analysis to see what it looks like today, but again, this is not based on ultimate values.

So the 2018 year, for example, the six six five seven seven twenty-four (6657724) for the incurred line is just based -- is likely to see some significant growth as it develops.

MR. LUKE JOHNSTON: So when we talked

earlier about the centralized reserving process, there -- unless the claimant is clearly catastrophically injured, we wouldn't put on the -- like the larger reserves until the claim sustain past the twenty-four (24) month period.

So that's -- that's what Mr. Phoa means by development. There'd be more confidence in that number as it develops beyond twenty-four (24) months.

MR. JAMES WOOD: Okay. Then can we turn to Part 5 of the general rate application, sub 2 and Appendix 9. I'd be looking at page 60.

(BRIEF PAUSE)

MR. JAMES WOOD: Perhaps I have a different page here. Just going down to the -- right there. Stop there, Kristen. I believe that's what we're looking at. Yes. So this is the accident benefits other index for the major class motorcycles.

And so this is the incurred claims. In this particular category, we see that again in the last three (3) years, there's been somewhat of a decrease in the incurred claims. You'd agree with that? And that would be under incurred claims at line -- for the years '16/'17 to '18/'19.

MR. TAI PHOA: Yes. But Perhaps what's missing from here again is the incurred claims once you consider the loss development factor. The incurred claims is again as of February 28, 2019.

And then as you can see, we -- in respect of, say, the '18/'19 incurred claims, we would actually multiply that by a loss development factor of 1.55. Yeah. So -- so I -- probably what's missing here is a column that says the ultimate claims by -- ultimate incurred claims probably.

MR. JAMES WOOD: Was that -- are those numbers provided in the GRA this year?

MR. LUKE JOHNSTON: So the -- the loss development factor is about -- it looks about six (6) columns in. When it -- when you see a factor of 1.55, that means that based on history we're expecting claims to develop 55 percent from where they are -- additional from where they are today. Obviously, there's variability in that.

As you slide over to the right and you see the estimated pure premium costs per -- per motorcycle, those numbers take into account the -- the development assumptions.

MR. JAMES WOOD: And then if we do look at that adjusted pure premium if we look at serious losses, that number has come down quite significantly from 2016/'17 to 2017/'18 and continues in 2018/2019. Would you agree with that?

MR. LUKE JOHNSTON: The -- well, the -- you can see the -- obviously see the history there, and there's -- there's good years and -- and not as good years. And that's the reason that we use ten (10) year averages for this line.

We -- we want to provide as much stability as we can. Obviously if there was a -- you know, a real outlier in terms of the trend of what motorcycle behaviour, we'd have to ask ourself if we thought we were making a best estimate.

But as of -- based on this information, I'm still comfortable that the -- you know, that a ten (10) year average is -- is good for -- for motorcycle rate stability and appropriate.

MR. JAMES WOOD: If we can look at page 63 of that same appendix, this is Table 9 Basic bodily injury of the motorcycle -- Basic -- major class of motorcycles.

Just looking at the incurred claims of Basic bodily injury, I'm not sure that -- if these numbers are accurate. It's showing in 2016/2017 five eighty-seven, and then in the next two (2) years, it's zero and zero. Can you comment on that?

MR. TAI PHOA: Yeah. So the table shows Basic bodily injury. By "bodily injury," we mean third-party liability bodily injury for the motorcycle major class.

Generally, we expect to see either really low numbers or zero. For the most part when -- when you talk about bodily injury, we are talking about the motorcycle hitting a vehicle that is not covered by PIPP.

So, for example, the -- the motorcycle was driving and it's -- and it is at fault for a collision, we would say, an out-of-province vehicle -- like an out-of-province car, and that resulted in bodily injury damage to the occupants of the out-of-province car. And for the most part, that rarely happens.

MR. JAMES WOOD: If we could go back to MPI Exhibit number 52, page -- or Slide 24. So here we show that the -- for motorcycles, the percentage of PIPP -- the PIPP percentage of total loss costs 91 percent makes up the -- I guess the cost for motorcycle class. Is that accurate?

MR. LUKE JOHNSTON: That's right. Motorcycles don't have comprehensive insurance under the Basic plan. And as you've shown on the earlier slide, it's not that motorcycles necessarily crash more than -- than cars. They probably crash less, but when they do crash, they tend to have major PIPP costs. So that -- that number has been fairly consistent over time.

MR. JAMES WOOD: And when we're talking about loss transfer, does this include when a vehicle that crashes into a motorcycle? Is that loss transfer, I guess, it's -- my understanding it is 50 percent transferred to the other vehicle if a -- if, let's say a truck hits a motorcycle as far as those costs go. Is that accurate?

MR. TAI PHOA: Yes. Like the 91 percent here reflects the PIPP costs allocation methodology as approved by the Public Utilities Board.

MR. JAMES WOOD: And that 50 percent is spread across all classes just for those particular instances. Is that accurate?

MR. TAI PHOA: The way the -- sorry. The PIPP cost allocation methodology -- I think that's -- we -- we have it somewhere on record. But essentially when there are two (2) vehicles involved -- say a motorcycle and another vehicle -- a car or another motorcycle -- what happens is that

50 percent of -- sorry -- the total costs -- total PIPP costs for that incident is allocated equally between the motorcycle and the other vehicle.

In the case whereby a motorcycle -- an incident involves a motorcycle and, say, a pedestrian or a cyclist or an out-of-province vehicle, then the PIPP cost is allocated 50 percent to the motorcycle and the remaining 50 percent to what we call a pool -- a pool. And then that pool cost is allocated on a per unit basis to all -- all HTA vehicles.

MR. JAMES WOOD: And is there data kept by MPI that would indicate what that breakdown is for -- within the 50 percent what is being attributed to motorcycle rider error versus other vehicle error?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Well, we -- I could tell you what we do have. We obviously know the motorcycle cost before loss transfer, so we could do a before and after -- or, before PIPP cost allocation, pardon me. And we also assign a fault to -- to claims so we would know, you know, what -- you know, how often motorcyclist is at fault, et cetera.

But I'm not know -- I don't know if we

have the specific thing you asked for, but we have most of the underlying details, I think, so we can probably find something for you.

MR. JAMES WOOD: Okay. Thank you. The application this year is suggesting the removal of the capital maintenance provision, and essentially, in effect, if it's required, a capital build provision would -- would essentially replace that if necessary. Is that correct?

MR. LUKE JOHNSTON: Yes. We're trying to get rid of, you know, all -- various adjustments, capital maintenance, investment income on RSR, and other -- other items, and just roll everything into, you know, do we need a capital build? Yes or no. And then at a -- at the most, what should that adjustment be to meet what ultimately becomes the capital management plan objectives?

MR. JAMES WOOD: Mr. Johnston, you had suggested that perhaps if there was, say, a 5 percent release -- capital release, that would potentially be reflected on a customer's bill just to let them understand why that happened in that particular year. Is that correct?

MR. LUKE JOHNSTON: That's -- maybe not so much the -- the why, but definitely for them to understand the difference between the -- you know, the monopoly, mandatory, you know, breakeven rate, which we think it's important customers understand that that's the non-profit --

MR. JAMES WOOD: And --

MR. LUKE JOHNSTON: -- piece. And then the -- the adjustment so they know that this is a one (1) time, circumstance-related type of adjustment that you shouldn't expect to continue.

MR. JAMES WOOD: And if that, obviously, was in the reverse, where it was a capital build provision, that percentage would be reflected on their bill as well if necessary.

MR. LUKE JOHNSTON: Correct.

MR. JAMES WOOD: Is it fair to say that because the projected MCT targets for future years are not 100 percent, that -- that your customers can expect a capital build provision forthcoming?

MR. LUKE JOHNSTON: I wouldn't -- I wouldn't say that necessarily. The -- in the near term, as we've discussed, or in this -- like, in this rating period, we're comfortable with the growth in the MCT level. I recognize that in the forecast beyond the rating period, it kind of hovers around the 97, 98 percent range.

If -- if it -- if we update at -- our forecast at the next GRA and the MCT isn't moving at least in a incremental, you know, five (5) year, kind of, uniform manner, particular in the rating period, then the capital management plan would be -- would be triggered. That's -- that's correct.

But we're not asking for that today. That would be something that we update next year, and -- and if -- if positive results continue, for example, and -- and we talked about collision and -- and things like that, it could go the other way as well, if we're over a hundred percent. So I don't know the answer to that at this time.

MR. JAMES WOOD: Given the -- the changes this year in the original request of motorcycle riders to contribute 3.9 percent and now 5.1 percent, is there going to be something -- if that's approved by the Board, would there be something in your customers' bill this year to reflect that change?

MR. LUKE JOHNSTON: We don't have anything planned in that regard because that is the -- the breakeven need of that -- that class. The other -- motorcycles are -- are obviously not the only ones getting rate increases or decreases, and to -- to attempt to explain the reason behind the rate change for every customer would be -- would be difficult. Yeah.

MR. JAMES WOOD: Subject to check, I would suggest the change in the average rate for motorcycle riders from eight hundred and ten dollars ($810) to eight hundred and fifty-one dollars ($851), the 5.1 percent change, given that there's approximately seventeen thousand five hundred and eighty-five (17,585) motorcycle riders, that would be approximate requirement from them of seven hundred and twenty thousand nine hundred and eighty-five (720,985). Is that accurate?

MR. LUKE JOHNSTON: Subject to check, and again, that's not -- that -- that's reflective of the kind of ultra-low interest rates we have right now, and if we don't -- if we aren't expecting to earn as much investment income off those premiums, then we need to collect more at the beginning. So it's -- it's unfortunate, but that's -- that's the reality of the -- the calculation.

MR. JAMES WOOD: You had mentioned earlier, Mr. Johnston, that the -- I guess the -- the checks on the -- on the -- on the -- on the RSR and -- and other numbers are done on a quarterly basis but now on a monthly basis?

MR. LUKE JOHNSTON: So we -- obviously, from a financial reporting standpoint, the accounting side has, obviously, very high standards for what goes into a financial report, et cetera. On the modelling side, we try to be a little bit more proactive and -- and know what those results are month to month so we can inform management of changes and -- and react to any kind of risk situations.

Those are modelled outcomes. We expect them to be pretty close to actual, but they're not exactly actual. So they're -- they're not -- they're not held to the -- we don't do the full, detailed MCT calculation every month. We -- we estimate it.

MR. JAMES WOOD: Has MPI ever put thought to a semi-annual adjustment for ratepayers?

MR. LUKE JOHNSTON: Trouble with the word "put thought to" it because obviously we're here with a semi-annual rate adjustment. The -- the -- the gap between rate calculation and rate implementation date has -- has been problematic for us in past years, especially with interest rate changes, and that's why you see interest rates coming to the PUB and an update of that -- of that nature.

This year is a unique case in the sense

that we're saying, you know, we're doing a lot better than -- than we anticipated, and we need to provide a revision on -- in that respect as well. But yeah, so -- so we've kind of considered. That -- that's an issue. But doing it every six (6) months hasn't -- we haven't explored that. Doing, like, the full rate analysis every -- every six (6) months.

MR. JAMES WOOD: Is it fair to say that the primary driver of the increase in motorcycle rate request is interest rates?

MR. LUKE JOHNSTON: I'd say it's two (2) things. You saw on the PIPP side that PIPP tran -- PIPP is trending poorly, and to the extent that the motorcycles have reflected any of that, that obviously affects the -- the -- the class.

But the interest rate change is a -- is a very big driver, so when I talked earlier, about a 1 percent change in that interest rate is about a 6 percent increase for motorcycles, so that's -- that's very sensitive to interest rates.

MR. JAMES WOOD: You'd agree with me that most of the calculations that are driving that increase are related to long-tail forecasts.

MR. LUKE JOHNSTON: Yes. My last recollection was that more than 50 percent of motorcycle losses are long-term, serious losses.

MR. JAMES WOOD: And is that data -- or, is that data collected and reflected in the GRA that's provided to us?

MR. LUKE JOHNSTON: Yes, it is. There will be a loss history for every -- every vehicle type.

MR. JAMES WOOD: Yes, we do have the loss history, but it -- it -- it -- and certainly, it does show -- perhaps I need to find that for your reference. It would, of course, show the number of actual claims and the -- the amount of those claims for the motorcycle class and, particularly, whether or not it's in the -- anywhere beyond, you know, a certain number, like whether or not a single claim is two hundred thousand (200,000), three hundred thousand (300,000), or four hundred thousand (400,000). Is it the case that -- that you define a serious injury as -- as over five hundred thousand dollar ($500,000) claim? Is that -- is that your definition?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Sorry, I was just confirming. Over -- yeah, over five hundred thousand

(500,000) would be considered a serious loss for the -- for rate making.

MR. JAMES WOOD: And is it the case that there are no claims for motorcycles over five hundred thousand (500,000) in the past year?

MR. LUKE JOHNSTON: Well, the past year would not be a good --

MR. JAMES WOOD: Well, let's say in the past three (3) years.

(BRIEF PAUSE)

MR. JAMES WOOD: And I'm -- I'm going to apologize because I should have reference this earlier for your reference. I'm looking at CMMG-1-10. Sorry, Kristen, if you could bring that up.

MR. LUKE JOHNSTON: Maybe we can go to --

MR. JAMES WOOD: CMMG-1-10, page 5 of 5. If we're looking at motorcycle claims loss data by insurance year -- and again, caveat here, this is all physical damage and injuries for all heads of coverage. And here we're looking at in 2018, we see one (1) -- one (1) claim amount for four hundred and seven thousand (407,000) and a claim amount for three hundred and sixty-three (363).

And it doesn't look app -- according to this table, that in the last three (3) years, there's been any claims above five hundred thousand (500,000). Is that accurate?

MR. LUKE JOHNSTON: Can you scroll down to the table below and just -- it says paid. So I'm just -- go up. Actually, go up, sorry. Okay. Yeah. If you stop there. Scroll down a little bit, please.

MR. JAMES WOOD: Yes, I am looking at paid versus incurred.

MR. LUKE JOHNSTON: Yeah. So on the -- if -- if a -- if a claimant, for example, is receiving income replacement for their whole life, they wouldn't have been paid much in the first couple years, obviously, right? But so if you see on -- in this chart, at the bottom there -- I can't see both. If you can maybe just reduce the magnitude of it a little bit so we can get everything in. A little bit more.

It's at 2017. You'll see at the bottom there's one (1) count currently reserved at 2.389 million.

Twenty eighteen and 2019, it's quite

possible that they don't have reserves on yet, but they're -- there are some claims kind of in the five hundred thousand dollar ($500,000) range. And that meri -- may very well be like a precautionary put up -- you know, it's just that we see that there's a large exposure there, and it will be fully reserved at twenty-four (24) months based on assessment of their lifetime needs.

MR. JAMES WOOD: And when we're looking at the incurred, and also the paid tables, we see in 2018 on the paid tables that there's, I'm going to suggest, two (2) claims at the -- the higher end, maybe three (3) for 2018, and then approximately four (4) in 2017.

And out of about a hundred and ninety-seven (197) total claim count, and a hundred and sixty-seven (167) total claim count, it would be fair to say that that's a very small, like, number of people that are -- are, I guess, responsible for a larger percent of the claims.

Is that accurate?

MR. LUKE JOHNSTON: I -- again, I wouldn't suggest looking at paid. But -- but your -- your point is -- is well taken.

A small number of claims due are --

cause most of the claim costs for motorcycles. So the -- the comments I made earlier that more than half of their motorcycle pool losses are just from serious losses tells you that -- that it really is a small number of -- of folks causing the premium to be what it is.

MR. JAMES WOOD: So you'd agree with me, then, that it's not equitable or fair that the 90 plus percent PIPP rate is, I guess, imposed on the motorcycle class as a whole, when it's only a few riders that are causing that long-term costs?

MR. LUKE JOHNSTON: I -- I wouldn't say that. All riders are entitled to these PIPP benefits, and I'm pretty sure none of them want to be in an accident like this that -- that's serious. And to -- to suggest that, you know, you know, maybe we shouldn't charge other riders these premiums because the -- they'll -- they'll never have a claim like this I don't think is -- is realistic.

If -- if we found out that there was a fundamental issue with a certain type of riders, and that they shouldn't be on the road, and -- and we need to do something about that from a road safety perspective, then I -- I -- that -- that I could appreciate more, but a lot of times, the -- these serious losses are not, like, any kind of ill will from the rider. It's an -- it's an accident, and -- and that's what the PIPP coverage is -- is there for.

MR. JAMES WOOD: And does MPI keep data on these long tail claims on -- on the actual cause of the -- of this particular claim, like, perhaps it -- it was a pedestrian that caused this particular accident, that this motorcycle rider has to claim a large sum.

MR. LUKE JOHNSTON: We'll have general circumstances of -- of pretty much every accident. So yeah, if it was a pedestrian involved, or if it was -- if the motorcycle was at fault, or not at fault, or what vehicle was involved in the accident, or if it was a single vehicle, alcohol was involved, things like that, those would all be in the record.

MR. JAMES WOOD: Can that high level data, without obviously going against FIPPA, be provided in next year's GRA?

MR. LUKE JOHNSTON: Okay. So I -- I think the -- the question is -- yeah. Can we -- so you -- there's -- 2018 has a hundred and sixty-seven (167) claims. There is some groupings that we could put them into, maybe by fault, or by certain single vehicle, not multi vehicle.

We've done something like that before. I don't see why we couldn't do it again. So I'll have our team take a note of that, and -- and try to do that for next year's GRA.

MR. JAMES WOOD: If we could turn to CMMG-1-11. And on page 2 of 2.

(BRIEF PAUSE)

MR. JAMES WOOD: I believe this would be the updated data of the history of rates and rate changes for motorcycle major class.

And if we look at the approved average rate change versus the sought-for average rate change, if we look at 2019, correct me if I'm wrong, it -- the -- MPI's -- last year sought a rate change of 3.06 percent for motorcycle riders.

Is that accurate?

MR. LUKE JOHNSTON: Yes.

MR. JAMES WOOD: And the approved average rate change was 2.14 percent.

Is that correct.

MR. LUKE JOHNSTON: Correct.

MR. JAMES WOOD: And so that 2.14 percent would have been what the -- the Board -- the

Public Utilities Board approved, contrary to what MPI was requesting.

Is that correct?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yes, but I'm just trying to remember why, and we're just having a moment.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So that adjustment appears to be interest rate related. Our original application used an interest rate of three point two-one (3.21), and the -- the updated was 3.4 percent. So in that -- in this case, that was a benefit to -- to the rate ask.

MR. JAMES WOOD: So is it the case that the sought-after average rate change was the original appli -- this three point zero-six (3.06) was the original application, and there was an amended application that was a different sought-after rate change?

MR. LUKE JOHNSTON: Related to

interest rates, yes.

MR. JAMES WOOD: Okay. So this sought-after rate change more accurately should be what is -- is -- was actually amended at that time.

That would be more accurate number?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah. Sorry, I'm just making sure I -- I got it right.

I understand your point. So you're -- I think your point is if we're going to do an interest rate update, like we're doing right now, why wouldn't we show that as the sought-for average rate change?

That makes sense to me. I think just from a historical perspective, we're -- we're showing our original filing in -- in June.

MR. JAMES WOOD: And would you -- what would be, I guess, the factors in 2018 of the 2.7 percent sought-after change to the -- to the approved rate -- average rate of 2.48 percent for motorcycle class?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'd -- I'd have to have someone remind me of the details on that.

MR. JAMES WOOD: Just to use this as a -- as a -- an example, if we look at 2006, the sought-after change -- sought-after average rate change was 12.7 percent, and in 2006, the approved average rate change was 5.0 percent.

Is it the case that there has been sought-after rate changes that have not been approved by this Board and MPI that are not related to interest rate changes at -- at the -- in -- in the amendment, where MPI had to make up or find a way to adjust their formulas based on the approved rate by this Board?

MR. LUKE JOHNSTON: We wouldn't adjust our formulas so much, as they're -- you know, obviously, I can't remember all the details of the 2006 GRA, but for whatever reason, at that time, a 5 percent was -- was approved ultimately. That wouldn't have been any adjustment to our formulas, and we would have said, well, we're going to probably lose money on -- on the motorcycle class based on -- on that rate.

But -- but yeah. Like what -- you know, I was here when motorcycles were -- were getting large rate increases for quite a stretch of time, and we did have caps in to prevent it from being too --

too extreme, so.

MR. JAMES WOOD: Would you agree with me then it's not the case that if this Board does not approve the amendment that the only alternative is for them to go back to the June application numbers?

MR. LUKE JOHNSTON: I -- I don't know what basis the Board would have to, say, use interest rates of this amount for, you know, all the vehicles except motorcycles, for example.

MR. JAMES WOOD: No. And I don't mean just the interest rates. I mean, I guess, what Mr. Scarfone had said is that perhaps the CMMG did not appreciate that if we -- if we oppose this amendment that then we -- the only alternative is to raise it from 5.1 percent to 7.3 percent.

I'm asking is -- that would you not agree that that is not the only alternative under these circumstances?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: The interest update, my understanding, was requested by the Board. So we've provided that. The additional update in terms of the updated forecast and -- and removal of the capital maintenance was -- was MPI's choice.

But the interest rate adjustment on its own was a request of the -- of the PUB which -- which we complied with. And that's -- that's really the driver of the -- the change in the motorcycle rating.

MR. STEVEN SCARFONE: If I could just add to that, the -- the update that was provided as at September 30th, counsel, was the result of MPIC having proposed a new methodology in this year's general rate application by filing what the corporation called provisional rate indication in June.

And that was something that was proposed to the Board and ultimately approved by the Board which then resulted in the updated indication on -- in September 30th, 2019. So -- so --

MR. JAMES WOOD: Yeah. We definitely understand that. We saw that in the original application back in June that there would be an update on September 30th.

MR. STEVEN SCARFONE: Yeah. So in our view based on that, the option of a -- of a June rate indication is -- is no longer available.

MR. JAMES WOOD: And that we understand. I guess the question more is: There's other alternatives, wouldn't you agree?

MR. STEVEN SCARFONE: No. In fact, we -- we just indicated we don't think that's an alternative. The June -- the June numbers --

MR. JAMES WOOD: No. I don't mean that.

MR. STEVEN SCARFONE: -- in our view --

MR. JAMES WOOD: I don't mean the June numbers. There's other alternatives that MPI perhaps -- if this rate is not approved, MPI will have to find the money somewhere else. Is that not true?

MR. STEVEN SCARFONE: Okay. So that's a different question.

MR. JAMES WOOD: Yes.

MR. LUKE JOHNSTON: We -- we have fairly longstanding rate-making rules in place that address larger changes in rates -- so how to cap, how to recognize experience which we do over longer periods of time, et cetera -- with the intent of -- of smoothing results.

Sometimes motorcycles is an example where we have needed a rate increase nearly a hundred percent, and it took probably a decade to -- to get there, and we lost money all along the way. But we were willing to do that at that time recognizing that, you know, the -- the shock of ongoing 15 percent rate increases every year was for that group.

This is not a 15 percent rate change. I'm not saying anybody wants a 5 percent rate increase, but we are pricing based on the approved rate-making methodology, and -- and we don't think it'd be appropriate just to, you know, say, you know, motorcycles don't need it and someone else pay for it.

CONTINUED BY MR. JAMES WOOD:

MR. JAMES WOOD: If we could go to MPI Exhibit number 49. This is page 6 of 274 of the executive summary.

(BRIEF PAUSE)

MR. JAMES WOOD: Page 6. And if we look down about halfway down the page right to that, it says -- it talks about people that are -- that are killed and seriously injured in Manitoba traffic collisions in 2018 and that drivers account for the largest proportion of seriously injured at 58 percent. You see that?

MR. LUKE JOHNSTON: I do.

MR. JAMES WOOD: And that motorcyclists account for 6 percent -- only 6 percent versus fifty-eight (58) of people seriously injured.

MR. LUKE JOHNSTON: But what percentage are they of all the vehicles say? Right? Like if -- if there's fifteen thousand (15,000) motorcycles and a million cars, that's not necessarily a good ratio.

MR. JAMES WOOD: But we did look at, I guess, the -- looking at the numbers of seriously injured and that the seriously injured numbers are certainly declining, if not -- not necessarily evident in at least the paid amounts by MPI. Is that correct? For the last three (3) years.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I -- I've put some caveats on the last three (3) years in terms of development experience. If there are, you know, a lower frequency of motorcycles accidents in the last three (3) years, that's good news for everyone.

But I don't see it as a reason to change our rate-making methodology and just look at the last three (3) years or something if that's what you're suggesting. We use a ten (10) year average for a reason, and there are still serious claims in those years.

And if, in fact, results are better, that should reflect through in -- in their future rate asks.

(BRIEF PAUSE)

MR. JAMES WOOD: Last week, Mr. Williams from the CAC was cross-examining yourself, Mr. Johnston, and, I believe, that was also -- it was in relation to the -- SGI's larger allocation to growth assets. Do you recall that?

MR. LUKE JOHNSTON: I do.

MR. JAMES WOOD: And so I believe you had confirmed that SGI does match claim liabilities to equities in the tail and that MPI does not do that.

MR. LUKE JOHNSTON: That is correct. Yes.

MR. JAMES WOOD: And so essentially that for longer lived liabilities, SGI is allocating equities towards them. Is that accurate?

MR. LUKE JOHNSTON: For -- in terms of the -- yes, that is accurate. Yes. Yeah.

MR. JAMES WOOD: And I -- while I understand the conservative approach to protecting the assets here, would it not be prudent to increase some of the allocations of equities for MPI slightly in those long-tail liabilities?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: That's -- that's something -- we obviously looked at all scenarios when we did the recent investment portfolios. Our Board settled on a certain risk tolerance in those portfolios, and that's -- that's what -- that's what we're using.

I -- I recognize your point which is if -- obviously if we had more growth assets tied to the rate indication, it -- it would bring the motorcycle rate down. The -- but it's not our -- our current practice, so I -- I don't have anything to offer you in terms of the -- in terms of that.

(BRIEF PAUSE)

MR. JAMES WOOD: Those are all my questions. Thanks.

THE CHAIRPERSON: Thank you, Mr. Wood. It's ten (10) to 3:00 right now. I'd like to break for fifteen (15) minutes, returning at five (5) after 3:00, please.

--- Upon recessing at 2:50 p.m.
--- Upon resuming at 3:05 p.m.

THE CHAIRPERSON: Okay. Thank you, everyone. Questions from the panel? Mr. Gabor...?

BOARD MEMBER GABOR: Yeah, I've -- I've got a few questions.

Mr. Johnston, you don't have to be worried. I -- I never met Mr. Palmer, so -- unless we were talking golf, I wouldn't call you Mr. Palmer.

CMP, as I understand it, MPI is asking the Board to prove the CMP proposed by MPI.

Is that correct?

MR. LUKE JOHNSTON: That's correct.

BOARD MEMBER GABOR: And that includes an MCT one hundred (100) for Basic, two hundred (200) for Extension, and three hundred (300) for SRE.

Is that correct?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'm just getting some clarification. My understanding is that the targets them -- and this may be discussed at a later date. The targets themselves aren't necessarily up for debate, but how we move around the targets is the Capital Management Plan, and that's definitely being proposed by MPI, and -- and -- for the Board to approve. So the -- I'll let Mr. Scarfone talk about the targets if he has to, but I'm operating on the assumption that the targets are set when I propose the Capital Management Plan, or I -- when I discussed today.

BOARD MEMBER GABOR: Okay. And if we look at the regulation, the reserves regulation, I note that the minimum amount in Section 2 are the similar numbers, an MCT ratio of 100 percent for Basic, 200 percent for Extension, and 300 percent for SRE.

Is that correct?

MR. LUKE JOHNSTON: That's correct.

BOARD MEMBER GABOR: Okay. And as I understand it, there's a divergence between the proposed model under the CMP and the rate -- or the reserve regulation in that under the CMP, the proposal is that if it -- if the amount in the MCT is over 100 for Basic, the amount will be used to reduce the rates going forward.

MR. LUKE JOHNSTON: That's correct.

BOARD MEMBER GABOR: Okay.

MR. LUKE JOHNSTON: We'd still do the AAP, but we'd calculate a -- a release, which would be a separate request, say --

BOARD MEMBER GABOR: Correct. But under the regulation, it doesn't say that. What it says is that it may be used.

MR. STEVEN SCARFONE: I see. Yeah, and I was going to jump in, Mr. Gabor. So when you said divergence, to the extent that the regulation uses permissive language --

BOARD MEMBER GABOR: Correct.

MR. STEVEN SCARFONE: Yes.

BOARD MEMBER GABOR: But you're proposing under the CMP, it's not permissive, it's --

MR. STEVEN SCARFONE: Mandatory.

BOARD MEMBER GABOR: -- it's mandatory, correct?

MR. STEVEN SCARFONE: Yes.

BOARD MEMBER GABOR: Okay. And in terms of the CMP, you're putting forward a proposal that there be a provision that if the Extension is over 200 percent MCT, that the amount above the 200 percent would be transferred to Basic.

Is that correct?

MR. STEVEN SCARFONE: Yes. So one (1) way of looking at it is -- is the Extension line of business is really backing --

BOARD MEMBER GABOR: Correct.

MR. STEVEN SCARFONE: -- the Basic program.

BOARD MEMBER GABOR: Right. So -- but -- so the MCT is not intended to be above 200 percent to correct -- collect this pool of money. Anything above the 200 percent will go towards the -- will go towards the Basic coverage, will be transferred to Basic coverage?

MR. STEVEN SCARFONE: Automatically --

BOARD MEMBER GABOR: Automatically.

MR. STEVEN SCARFONE: -- even without board of director approval.

BOARD MEMBER GABOR: Right.

MR. LUKE JOHNSTON: Just -- just to add to that, sorry, and -- and the logic being they're the same customers, and -- and we also don't know how -- know how to give a rebate to Extension customers.

So, like, you know, if we sent it to

Basic, it can be released through the normal means there, whereas you can't -- like, some of these Extension policies are really small. You're not going to mail someone a dollar or something like that.

BOARD MEMBER GABOR: Right. And that I assume, in part, was intended to satisfy the Board's previous concerns that you -- that there was nothing requiring Extension funds beyond a certain point to be transferred to Basic; it was simply a discretionary decision of the board of MPI?

MR. STEVEN SCARFONE: I -- I think that's fair. I don't want to jump in too much on Luke's answers, but I think that's fair, Mr. Gabor, that those transfers now, as I've said, will happen -- will happen automatically.

BOARD MEMBER GABOR: Yeah. I just want to confirm there's nothing in the regulation that addresses the issue of transfers from Extension to Basic?

MR. STEVEN SCARFONE: No. It's only in the Capital Management Plan. So essentially, what Mr. Johnston will tell you, and again, I'm -- I shouldn't be speaking out of turn, but the regulation serves as the anchor to the Capital Management Plan. And so the Capital Management Plan looks to the regulation for a -- a fixed capital target, and then the mechanics of -- of the plan work under the -- under the CMP, obviously.

BOARD MEMBER GABOR: Okay. Mr. Johnston, did MPI suggest to the government what the numbers should be for the regulation, that MPI wanted 100 percent for Basic, 200 percent for Extension, and 300 percent for SRE?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'm trying to remember the -- the steps, but these -- these definitely align with MPI's recommendations. We've come here before with 100 percent Basic.

As I mentioned earlier today, in order to be a truly competitive line on Extension, it -- we think it's appropriate to have a capital target that other competitors would have to have, and -- and target a -- a profitability level that would be appropriate, that people can actually compete.

And then in the Special Risk Extension line, which isn't up for discussion here, it is a very high risk line. And we believe it needs that -- that threshold just to meet the risk tolerance of the

Board.

BOARD MEMBER GABOR: Yeah, and I'm not suggesting anything improper or whatever. I just -- in relation to coming up with the same levels, I assumed the government and MPI discussed, and the proposal was here -- here are the levels that would -- which would satisfy us in terms of -- of Basic, Extension, and SRE.

MR. LUKE JOHNSTON: Yeah. Where I'm struggling is it's not necessarily me having those conversations.

BOARD MEMBER GABOR: Right.

MR. LUKE JOHNSTON: Right? So Mr. Graham could probably provide better insight.

BOARD MEMBER GABOR: Under the proposal, if you have a fabulous year, and you're over 200 percent in Extension, and you're over 100 percent in Basic, is the Extension money still going to go to MCT -- to -- sorry, to Basic?

MR. LUKE JOHNSTON: It -- it does on -- in that -- like, as a purposeful part of the plan for the reasons as, how do you rebate the money. So you send it over.

And again, the -- the forecast will say how much do we think is -- is coming in, and use that beginning of the rating year, or MCT is the guide for whether we should release some of those funds, and -- and then we propose a three (3) year window.

BOARD MEMBER GABOR: Is there anything stopping the government from asking for a dividend from Extension if it's over 200 percent and Basic is over 100 percent?

MR. STEVEN SCARFONE: Yeah, there is a provision under -- under the MPIC Act that would allow the government -- you're talking about a payment directly to the government for excess capital that the Corporation is holding?

BOARD MEMBER GABOR: Correct.

MR. STEVEN SCARFONE: Yeah. There is a provision under the MPIC Act, Mr. Gabor, that provides for that. That would be unprecedented. It's never before happened, and there's a -- there's a calculation in there. I don't have it up before me. But it speaks to the -- the amount of capital that would have to be held by the Corporation before that transfer would occur to the government.

BOARD MEMBER GABOR: Okay. Thank you, Mr. Scarfone.

In terms of the rebuilding fee, Mr. Johnston, you talked about the five (5) year time frame, and you set a limit of rate -- of 5 percent.

Is that correct?

MR. LUKE JOHNSTON: So we -- again, there's some questions about did, you know, did we ask customers, and -- and for the most part, we -- we did use past discussions in the -- about what we do in the DCAT if -- if things really got bad on the adverse side.

And in the -- the DCAT analysis, we had assumed 5 percent kind of as the -- the maximum you'd -- you'd charge customers in an adverse scenario. So what we said is, if -- first off, whatever the breakeven rate is, we would always ask for that. If that's more than 5 percent, then so be it. The -- the, you know, the PUB could rule if they don't want to do that. But we should always ask for that.

And then in the absence of it -- the breakeven rate being 5 percent, we would have a surcharge up to a maximum total overall rate change of 5 percent. And we haven't formally defined rate shock. But if -- that's a pretty strong indicator, what we're suggesting is the tolerance.

BOARD MEMBER GABOR: What -- that -- that was the question I was going to ask.

MR. LUKE JOHNSTON: Yeah.

BOARD MEMBER GABOR: Is -- did the Company decide internally that 5 percent is rate shock?

MR. LUKE JOHNSTON: The -- it's -- it's a -- it's a difficult word, because there's obviously a bunch of policyholders, even in this application, that are getting more than 5 percent. Motorcycles are getting five point one (5.1). There's others; taxis.

So we're -- we're looking at it on an overall basis. It's a proposal to this Board. The, you know, Board's approved other kind of shock targets, but not on an overall -- like we have -- you know, we have -- we control individual rate changes.

So our proposal is that it's -- that it's 5 percent, that is -- that is our proposal.

BOARD MEMBER GABOR: The reason I asked about the 5 percent is do you -- do you look at -- do you look at the issue of rate shock in different years and determine different amounts, or is 5 percent sort of the -- the level you've been at for a while?

MR. LUKE JOHNSTON: We -- we haven't had many times where we've needed 5 percent. We had it a few years ago, where we were really struggling and it looked like it was going to be around seven

(7). But that's rare. Hopefully, we'd never need to use it.

But barring any, you know, that first day I showed the long term trend of the Basic program, and it was growing fairly consistently over time, our objective would be to try to keep those rate changes under inflation, and never have to use that 5 percent rate shock.

If there is big changes in our trends, then maybe we discuss it, but 5 percent is a -- we believe is a good number.

BOARD MEMBER GABOR: I'd suggest to you, Mr. Johnston, that a few years ago, MPI defined rate shot -- rate shock as 3 percent.

Do you remember that?

MR. LUKE JOHNSTON: I -- I don't, but I -- I obviously believe you.

BOARD MEMBER GABOR: I -- I'll bring it up. Kristen, can you bring up --

MR. STEVEN SCARFONE: I can confirm that Mr. Yien --

BOARD MEMBER GABOR: Yeah.

MR. STEVEN SCARFONE: -- did that, Mr. Gabor.

BOARD MEMBER GABOR: Yeah. So at page

1,072, just for the record, Mr. Yien was cross-examined by Mr. Williams. I'm sure Mr. Williams is sorry he's not here to see this. And in the middle paragraph, Mr. Yien said:

"We understand that anything greater than 3 percent is considered a rate shock, and we use that as a definition."

Now, you were at that hearing, Mr. Johnston. Has -- has the Company gone -- applied different standards, or how did they move from 3 percent and later -- down, they did -- just go to line 24, Kristen. It says:

"But 3 percent is essentially what we consider as rate shock."

He seemed to be pretty definitive there, and I'm just wondering what happened in the last two (2) years to move it from 3 percent to 5 percent because interest rates really haven't gone up, and we don't have much in the way of inflation.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah. I can't recall the full context around Mr. Yien's 3 percent rate shock comments, but all I can really say to that is from -- from the management action perspective used in -- in our DCATs and other risk analysis, we've used 5 percent for -- assumption for quite a -- quite a long time. I'm not pretending that there's some magical science behind picking that, but we think it's appropriate, and again, hopefully, never have to use it.

BOARD MEMBER GABOR: Okay.

MR. STEVEN SCARFONE: And -- and Mr. Gabor, if --

BOARD MEMBER GABOR: Yes, sir.

MR. STEVEN SCARFONE: -- I just would have the Board consider CAC-2-29, one of the Information Requests that deals with the issue of rate shock. It's admittedly somewhat of an unsatisfactory response because the Corporation has said it hasn't really come to terms yet on what it now would define as rate shock. But I think --

BOARD MEMBER GABOR: Okay.

MR. STEVEN SCARFONE: -- in CAC-1-12, it certainly disavows itself of Mr. Yien's definition back in 2018.

BOARD MEMBER GABOR: Okay. Mr. Johnston, you mentioned Extension profitability's at

28 percent. Is that correct?

MR. LUKE JOHNSTON: Approximately, yeah.

BOARD MEMBER GABOR: Is that before or after paying broker commissions?

MR. LUKE JOHNSTON: That would be a fairly simplistic view, just the net income divided by the -- the premium level, the -- in -- in that year, so that would be after.

BOARD MEMBER GABOR: Okay. After. And what -- what is -- what are the amoun -- what -- what do you pay brokers as commission on Extension?

MR. LUKE JOHNSTON: It's -- it's roughly 20 percent, and again, that would be on our -- our pro formas filed on Extension, but it's around 20 percent.

BOARD MEMBER GABOR: Okay. And in terms of Extension coverage, I'm just -- I don't know if you're the -- the right person or -- or it may be the next panel. When I go to a broker and I want to buy insurance, and the broker starts asking the questions, the broker's looking at a screen. Is that correct? At least the broker I went to was looking at a screen.

Is -- is it a -- a separate screen for

Basic and separate screen for Extension, or is it just one (1) screen that lists different levels? So for example, the insurance would be two hundred thousand (200,000), five hundred thousand (500,000), a million, 2 million, 5 million.

MR. STEVEN SCARFONE: I don't know that either of the panel members have an answer to that, but I -- I can tell you this, Mr. Gabor. Save that question for Ms. Hora --

BOARD MEMBER GABOR: Okay.

MR. STEVEN SCARFONE: -- on the service delivery model panel.

BOARD MEMBER GABOR: Right.

MR. STEVEN SCARFONE: She will -- she will have those answers.

BOARD MEMBER GABOR: I -- I appreciate that, Mr. Scarfone.

Those are my questions. Thank you very much.

MR. LUKE JOHNSTON: Thank you.

THE CHAIRPERSON: Do you have any questions? Thank you very much.

Mr. Scarfone, any re-direct?

RE-DIRECT EXAMINATION BY MR. STEVEN SCARFONE:

MR. STEVEN SCARFONE: Thank you, Madam Chair. I did have just a couple questions for Mr. Johnston on re-direct. I can assure you, they won't be as pointed as Mr. Gabor's questions, and people will probably be wondering why I'm asking them.

But I'm going to ask you a couple questions, firstly, Mr. Johnston, on the -- the inclusion of investment income on -- from the RSR. And you'll recall that Ms. McCandless, Board counsel, had asked you questions about -- about the RSR investment income?

MR. LUKE JOHNSTON: I do.

MR. STEVEN SCARFONE: And if I understand the Corporation's plan, your evidence was that there's a couple means by which capital can be built, one, of course, is -- as being the transfers from the Extension line of business under the capital management plan?

MR. LUKE JOHNSTON: Correct.

MR. STEVEN SCARFONE: And another source would be the -- the Corporation retaining investment income on the -- the rate stabilization reserve.

MR. LUKE JOHNSTON: That's right.

MR. STEVEN SCARFONE: So the question

I have for you -- there seems to be some debate on whether use of that investment income is -- is proper. And so is there any actuarial standard that prevents a -- a fellow like yourself from retaining that investment income and not including it in the actual AAP rate indication?

MR. LUKE JOHNSTON: We -- we talked about that, and to -- to my knowledge, I -- I -- I can't find any requirement that says we ha -- we must do that when calculating AAP rate indication. And again, just to add to that, we're not doing this as a means to hide this money somewhere. Like -- like, we're -- we're really trying to roll all capital-related factors into -- into one (1) decision. You know, are we maintaining, you know, the capital and moving toward the target, or are we not? And rather than have three (3) separate things we have to calculate, let's just roll them all into one (1) capital adjustment and make a decision on that basis.

MR. STEVEN SCARFONE: Thank you. And then Ms. McCandless also asked you some questions about, in previous years, the Corporation had suggested capital targets, whereas this year there's one (1) single target for the Corporation to achieve. Can you say what the amount of -- what's the dollar value of the 100 percent MCT target?

MR. LUKE JOHNSTON: Obviously, it's different depending on what date you're looking at, but we're -- we're in the 350 to $400 million range today and into the forecast period.

MR. STEVEN SCARFONE: And are you aware, sir, if that would exceed the -- the amount of the upper target that was ordered by the Board last year?

MR. LUKE JOHNSTON: I -- I can't recall the exact dollar value of the upper target. On an MCT basis, my recollection was it was around 85 percent MCT equivalent, but again, we've since changed our -- our investment portfolio, which dramatically lowered our capital needs. So prior to the investment portfolio redesign, a hundred percent MCT was over 400 million, and the -- the de-risking of the Basic line brought that almost a hundred million dollars lower.

MR. STEVEN SCARFONE: Okay. So in any event, whatever that number may have been last year, it was something less than 100 percent MCT?

MR. LUKE JOHNSTON: Yes.

MR. STEVEN SCARFONE: Mr. Williams showed you a document. Kristen, if you could pull up the MPIC annual report. It was in Part 8 of the application, Appendix number 1, at page 44, I believe.

(BRIEF PAUSE)

MR. STEVEN SCARFONE: Sorry about that. I should have given you a heads-up on that. I didn't mean to catch you off guard.

(BRIEF PAUSE)

MR. STEVEN SCARFONE: Perhaps while -- oh, there you go. Thank you very much. Page 44. And you'll recall that Mr. Williams directed your attention, Mr. Johnston, to the paragraph that reads:

> "The Corporation's board of directors has approved its risk-based capital adequacy targets by reference to what the superintendent of financial institutions has at their office."

Do you recall those questions?

MR. LUKE JOHNSTON: I do.

MR. STEVEN SCARFONE: That -- that particular comment, sir -- do you know when the annual report by the Corporation is prepared every year?

MR. LUKE JOHNSTON: Sorry, can you repeat that, sir?

MR. STEVEN SCARFONE: Yes. So what -- what date is the annual report rep -- prepared to? The end date.

MR. LUKE JOHNSTON: Our annual report? Like the --

MR. STEVEN SCARFONE: Yes.

MR. LUKE JOHNSTON: -- February 28th?

MR. STEVEN SCARFONE: Yes. Okay, and so when that discussion was being had by the board of directors, had the reserves regulation yet been implemented? Are you aware?

MR. LUKE JOHNSTON: I can't -- I can't recall the exact date. So the -- yeah, I can't. I'm sorry.

MR. STEVEN SCARFONE: Okay. So I'm going to suggest to you, and do you have any reason to disagree, that the reserves regulation came in in April, which would have been about two (2) months after the annual report was prepared?

MR. LUKE JOHNSTON: That sounds reasonable, yeah.

MR. STEVEN SCARFONE: Okay. And then one other one, Kristen, if you don't mind. It was --

Mr. Williams had put to Mr. Johnston PUB-CAC-1-1. Yes, thank you. And at the footnote there, number 3, Mr. Johnston had indicated or had brought to your attention that the Ernst & Young report had concluded that Crown corporations such as ICBC and SGI are not required to adhere to the OSFI guidelines. Do you see that there, sir?

MR. LUKE JOHNSTON: I do. Right, I do.

MR. STEVEN SCARFONE: And the question to you -- is MPIC, in its capital management plan -- is it adhering to the OSFI guidelines, or is it adhering to the reserves regulation that was enacted in April of 2019?

MR. LUKE JOHNSTON: We're adhering to our reserves regulation. We're using this industry standard test as a basis for calculating the capital -- the capital ratio to be consistent with all other insurers in the -- in the country, but we're not binding ourselves to the -- OSFI's minimum regulatory or supervisory capital targets.

MR. STEVEN SCARFONE: And then one last question, just following up on Mr. Gabor's questions to you. The Board asked, with the automatic transfer of capital from the Extension line of business into Basic, if that automatic transfer was to consistently push the MCT score of Basic above 100 percent, what would that mean on an ongoing basis, if -- if the Corporation was to see Basic operating at above 100 percent year after year?

MR. LUKE JOHNSTON: The -- those funds would perpetually be rebated as long as we continued to operate at or above a hundred percent and the -- and the funds continued to transfer.

MR. STEVEN SCARFONE: And -- and could that mean if -- if the Corporation was consistently seeing release provisions being engaged or perhaps even rebates, would the Corporation or could the Corporation change its approach to retaining investment income on the RSR, for example?

MR. LUKE JOHNSTON: I would suggest that we -- we shouldn't do that, again because whatever reason capital is -- is growing, whether it's transfers or investment income or rebuilding fee or whatever, if it's more than a hundred percent, we should bring it towards a hundred percent based on our three (3) year plan.

So we shouldn't, you know -- that's really what we're getting at. Like, should we just put some money over here for this and a maintenance provision over here for that? I'd rather say no. If -- if we're over a hundred, it's excess, and let's provide a release as required per our capital management plan.

MR. STEVEN SCARFONE: Thank you.

(BRIEF PAUSE)

MR. STEVEN SCARFONE: Those are all my questions on re-direct, Madam Chair.

THE CHAIRPERSON: Thank you, Mr. Scarfone.

Ms. McCandless, could we have an outline with regard to what will happen as far as the hearing tomorrow is concerned, because I think at this point we're waiting for some further information?

MS. KATHLEEN MCCANDLESS: Yes. So we had a discussion at the break with MPI about when we can expect the remaining documents required pursuant to the -- the Board's letter of March 28 of this year as well as the Q2 financial report. So I gather that from MPI's perspective, they will be in a position to provide those documents this evening.

Is that...?

MR. STEVEN SCARFONE: That -- that's

my understanding, yes.

MS. KATHLEEN MCCANDLESS: So assuming that they're received on a timely basis, then we would have some follow-up questions on those documents at 9:00 a.m. tomorrow, if that works. My only concern is that if we receive them late into the evening, that may not be adequate. I know Mr. Makarchuk is here at 10:00 a.m.

THE CHAIRPERSON: Thank you, Ms. McCandless.

Mr. Scarfone, just one question. If MPI cannot provide them within what would be a reasonable time, which is not going to be particularly late into the evening, then it seem to me that the only alternative we have is to start with the other panel at nine o'clock in the morning, break for Mr. Makarchuk, and then carry on with this panel.

So if it's possible to receive them within a reasonable time, then we can continue with this panel, complete it, and then move on to the next panel, which certainly would be preferable.

MR. STEVEN SCARFONE: I see. Oh, so -- so the Board would -- its preference would be to start with the IT panel if necessary.

THE CHAIRPERSON: No, I'm sorry. I

didn't state that clearly. Our -- our preference would be to complete this panel --

MR. STEVEN SCARFONE: Yes.

THE CHAIRPERSON: -- based on the information that, hopefully, our counsel will receive tonight at a reasonable time so that the advisors can consult, and we can start at nine o'clock.

The alternative to that, which I think is not preferable, is to start with the IT panel and then break for Mr. Makarchuk or however you wish to present your case, but have that go, and then bring this panel back for the additional questions that our counsel has.

MR. STEVEN SCARFONE: Right. So Mr. Johnston can tell -- tell the Board when his team can expect to have the documents ready.

MR. LUKE JOHNSTON: The -- the documents are sitting on the table back there. I just have to si -- approve them. So they're -- they're done. Yeah. Yeah.

THE CHAIRPERSON: That -- that's -- that's great news. So we'll start back with you, Mr. Johnston, at nine o'clock tomorrow morning, and we'll adjourn now for the day. Thank you.

MR. STEVEN SCARFONE: Thank you.

(PANEL STANDS DOWN)

--- Upon adjourning at 3:37 p.m.

Certified Correct,

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Donna Whitehouse, Ms.