MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2021/2022 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Robert Gabor, Q.C.	-	Board Chairperson
I Hamilton, Q.C.	-	Panel Chair
C. Hainsworth	-	Board Member
(by Teleconference)		

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

November 3, 2020

Pages 2162 to 2310

APPEARANCES

Kathleen McCandless	)Board Counsel
Robert Watchman (by phone)	)Board Counsel
Steve Scarfone	)Manitoba Public
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Byron Williams	)CAC (Manitoba)
Charlotte Meek	) CMMG
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--- Upon commencing at 9:00 a.m.

THE PANEL CHAIRPERSON: Good morning, everyone.

Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Good morning, Madam Chair. So this morning we will begin with follow-up questions on answers to undertakings. After that, we will move into closing statements, Board counsel and MPI, today.

THE PANEL CHAIRPERSON: Okay. Thank you.

Mr. Scarfone, do you have exhibits to enter?

MR. STEVE SCARFONE: I do believe they've all been circulated, but I have a number here that I can read into the record. And I have hard copies available if anybody wants them.

MPI Exhibit Number 73 is a response to Undertaking Number 41, and that was dealing with the methodology change of separating out serious losses versus non-serious losses.

--- EXHIBIT NO. MPI-73: MPI's response to
Undertaking No. 41

MR. STEVE SCARFONE: MPI Exhibit Number 74 is response to Undertaking Number 35, which was to provide the number of licences in each year between 2015 and 2019 with a registered vehicle that had a negative DSR change.

--- EXHIBIT NO. MPI-74: MPI's response to
Undertaking No. 35

MR. STEVE SCARFONE: MPI Exhibit Number 75 which responds to Undertaking Number 42, and that was the question about how long it would take an employee to perform the -- the fleet calculations.

--- EXHIBIT NO. MPI-75: MPI's response to
Undertaking No. 42

MR. STEVE SCARFONE: MPI Exhibit Number 76 is a response to Undertaking Number 30, and it pertained to providing the build-up amounts shown at various DSR levels.

--- EXHIBIT NO. MPI-76: MPI's response to
Undertaking No. 30

MR. STEVE SCARFONE: MPI Exhibit Number 77 is Undertaking -- response to Undertaking Number 38.2 due to a -- an error in ordering, I guess. And that was to provide the average duration of the motorcycles major use classification claims reserves.

--- EXHIBIT NO. MPI-77: MPI's response to Undertaking No. 38.2

MR. STEVE SCARFONE: MPI Exhibit Number 78 was response to Undertaking Number 29, an update on PIPP loss experience.

--- EXHIBIT NO. MPI-78: MPI's response to Undertaking No. 29

MR. STEVE SCARFONE: MPI Exhibit Number 79 is a response to Undertaking Number 31, and it was another build-up question on underlying data used in the rate model.

--- EXHIBIT NO. MPI-79: MPI's response to Undertaking No. 31

MR. STEVE SCARFONE: MPI Exhibit

Number 80, a response to Undertaking Number 34. MPI calculated how it determined additional revenue accrued if -- if vehicles were spread across different discount levels on the DSR.

--- EXHIBIT NO. MPI-80: MPI's response to Undertaking No. 34

MR. STEVE SCARFONE: And those are the exhibits to date, Madam Chairperson. There may be a couple more including MPI's closing submission, of course, which I'll mark after the lunch hour.

THE PANEL CHAIRPERSON: Okay. Thank you, Mr. Scarfone.

Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you. And before I begin, just for the record, there was a presenter who was scheduled to present on October 19th, James Nash. He was having technical difficulties so he wasn't able to present on that day.

Yesterday, the Board circulated his written presentation to counsel, and so I just wanted to make a note of that for the record.

THE PANEL CHAIRPERSON: Okay. Thank you.

MPI PANEL NO. 10 - FOLLOW-UP TO UNDERTAKINGS

GLENN BUNSTON, Previously SWORN
LUKE JOHNSTON, previously Affirmed

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: All right. Thank you, Mr. Johnston, Mr. Bunston. I'm going to have follow-up questions on Undertakings 1 and 9.

So first, with respect to Undertaking 1, which is MPI Exhibit 36, here the Corporation was asked to provide an exhibit providing details on the assumed Government of Canada ten (10) year bond yield and spreads for both provincial and corporate bonds in the October 9th update based on August 31, 2020, market yields.

MR. GLENN BUNSTON: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And also to provide the cashflow -- cashflow discount rate, which we see at the bottom of -- or under Figure 1, yes?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And so Figure 1 shows the new money yield calculation at

August 31, 2020, with provincial of 1.66 percent and corporate of 2.69 percent, yes?

MR. GLENN BUNSTON: Yes, that's right.

MS. KATHLEEN MCCANDLESS: If we go to MPI Exhibit Number 30, which was the investments presentation, at page 8 it shows the yield at August 31, 2020, for provincial to be 1.46 percent in the middle column?

MR. GLENN BUNSTON: Yes, that's what it shows.

MS. KATHLEEN MCCANDLESS: And the yield for corporate 'A' to be 1.84 percent?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And for corporate BBB to be 2.33 percent, yes?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Is the reason why the yield in Exhibit Number 36 -- or, pardon me, the YTM, which would be the -- the Yield to Maturity, is that right?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Is there -- is the reason why, in the answer to Undertaking 1, the Yield to Maturity is significantly higher because it's based on bonds with a ten (10) year duration instead of a ten (10) year term as was used for Exhibit Number 30?

MR. GLENN BUNSTON: So the information on the screen here from my presentation was taken from the FTSE Russell Debt Market Indices.

So -- so these are in -- indices that -- that FTSE publishes that represent the -- the yields of corporate and provincial bonds as of August 31st, whereas the information that was provided in response to Undertaking Number 1 are the yields on the bonds that MPI owned on August 31st.

So they're two (2) different sources of information, which is why the yields are different.

MS. KATHLEEN MCCANDLESS: Okay. So it's not an issue of term versus duration?

MR. GLENN BUNSTON: No, it is not.

MS. KATHLEEN MCCANDLESS: Do you have an estimate of the entire yield curve -- yield curve for provincial and for corporate bonds?

(BRIEF PAUSE)

MR. GLENN BUNSTON: We do. It, I guess, would depend on what date you're looking for, but we could certainly gather that information.

MS. KATHLEEN MCCANDLESS: We aren't asking for an undertaking today. It was just if you had the information available right now.

MR. GLENN BUNSTON: Do I have it here with me?

MS. KATHLEEN MCCANDLESS: If the answer's no, that's fine.

MR. GLENN BUNSTON: No, I don't.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. Now, with respect to the -- the -- Exhibit 30, if we could just jump back, just to clarify your evidence with respect to the yield, what duration was used for the yields in this exhibit?

MR. GLENN BUNSTON: So FTSE publishes indices. They have overall indices which would cover all bonds of all terms, and they publish -- publish also short-, mid-, and long-duration indices.

I believe that these are the overall indices, so they would represent all provincial bonds that are traded in -- in Canada and all corporate bonds rated single 'A' and all corporate bonds rated BBB.

What the actual duration of those indices are, I don't have it at my fingertips, but that information is available from -- from FTSE.

MS. KATHLEEN MCCANDLESS: Thank you. Now, with respect to Undertaking 9, which is MPI Exhibit Number 46, here MPI was asked to explain the net impact of changes in interest rates in the amount of 34.8 million negative impact to net income as set out in Figure INV-37.

And if we scroll down to Figure 1, line 1 shows a Basic claims liability duration of nine point nine six (9.96) at 2019/'20 Q4?

MR. GLENN BUNSTON: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And nine point nine nine (9.99) at 2021 Q1?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Line 5 shows a fixed income weighted average duration of eleven (11) for 2019/'20?

MR. GLENN BUNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And ten point nine three (10.93) for the same points in time?

MR. GLENN BUNSTON: For Q1 of 2020/'21, yes.

MS. KATHLEEN MCCANDLESS: Indicating an ALM duration gap of one point-o-four (1.04) and point nine four (.94) respectively? That's at 6, line

6.

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: In 20 -- in the Figure INV-39, thank you, Kristen, line 10 shows a fixed income duration of ten point eight six (10.86) at March 2020?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And a claims duration of ten point seven two (10.72) years shown at March 2020?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And that's for a difference of only point one four (.14) years then?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Can you explain why the claims duration shown in Undertaking 9 at March 2020 of nine point nine six (9.96) is so much lower than the value shown in the previous schedule?

MR. GLENN BUNSTON: Yes. The previous schedule, there's an asterisk. And it says at the bottom that the claims duration is lagged by one (1) month.

So, this a practical reality that ourselves and the fixed income manager have -- have to deal with, which is that we don't know the March 31st duration when we're managing the fixed income portfolio.

The only information we have at the time is the duration of the claims liability from the prior month. So, we're managing to the information from the previous month.

And so, in this table, that's what we show here. So, the ten point seven two (10.72) year duration for the -- for the claims was as of -- actually, as of February of 2020. And that's the information we knew in the month of March.

And so, as a result, we had -- ourselves and the fixed income manager brought the duration of the Basic claims fixed income portfolio to ten point eight six (10.86) years, and those were within the acceptable tolerance range of zero point two five (0.25) years.

When we got the March 2020 duration which we don't typically get until at least two (2) weeks after month end, it was at nine point nine six (9.96). So, then we would have managed to that duration in the following month.

So, we're always a month behind when we're managing to the claims liability duration.

MS. KATHLEEN MCCANDLESS: So, did the claims duration drop by that much on one (1) month?

MR. GLENN BUNSTON: It did, yes.

MR. LUKE JOHNSTON: I can add to that. The -- this -- we didn't talk a lot in detail about the actuarial valuation this year but, in general, we have lowered our liability estimates for the -- like, the tail of the -- of claims, so to speak, so beyond five (5) years after they've opened.

And that was partly due to some of the centralized reserving pieces we talked about with more dollars being put upfront, so we have release money by having less of the assumed payments. In the -- in the longer term, it -- it lowered the duration of the -- of the claims liabilities.

And then, for financial modelling purposes, the forecast would then be made based on the updated actuarial valuation and would reflect the -- I guess the cashflow duration of -- of the valuation.

So, that -- there were both -- in the October and February valuations we had a lower claim duration.

MS. KATHLEEN MCCANDLESS: Just to follow up on Mr. Bunston's response, that significant drop in a claims duration over one (1) month, do you have any information as to why it dropped so much in one (1) month?

MR. GLENN BUNSTON: Yes. It was -- it -- it was primarily due to the -- the discount rate. The claims discount rate increased by about thirty (30) basis points in the month of March which -- which impacted the duration for that month.

MS. KATHLEEN MCCANDLESS: Why is there such a large asset liability duration mis -- mismatch of one point-o-four (1.04) years at March 2020 in the answer to Undertaking 9 given the very quick speed at which MPI is able to adjust its fixed income duration?

MR. GLENN BUNSTON: So, that -- that duration mismatch you see there in Q4 of 2019/2020 reflects the actual difference in duration when both assets and liability duration is calculated at March 31st.

But like I said, we don't have the claims liability duration at March 31st until halfway through April. So, that's not information that we are able to manage to during the month of March, when -- when we're adjusting the duration of the bond portfolio.

MR. LUKE JOHNSTON: That -- that was kind of my point around the actuarial valuation. To the extent that we make changes in the valuation that impacts duration, that would be an instantaneous change in the claims liability duration.

In -- in -- most times, changes would be slow, but we have been adapting to centralized reserving.

So, the investment side would see a completed actuarial valuation get an updated duration calculation and have to adjust accordingly.

MS. KATHLEEN MCCANDLESS: Why was the difference still there at Q1?

(BRIEF PAUSE)

MR. GLENN BUNSTON: I believe that the model -- there's assumptions built in to the financial model. And I believe that one (1) of those assumptions is that it takes two (2) quarters to adjust duration, which is what we see here, so it doesn't happen instantaneously within the financial model.

MS. KATHLEEN MCCANDLESS: Thank you. Those are all my questions.

THE PANEL CHAIRPERSON: Thank you. Mr. Williams...?

DR. BYRON WILLIAMS: Yes. Thank you and good morning. If we could turn to MPI Exhibit 53, the second page, please. And go down to the notes, if you don't mind, Ms. Schubert.

CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Johnston, this is a res -- MPI response to a request for the -- to compare the -- the claims frequency vers -- versus some mobility data that is publically available during the COVID-19 crisis.

Would that be fair, sir?

MR. LUKE JOHNSTON: That's right. I wasn't sure at the time if it was publically available, but it's noted here, yes.

DR. BYRON WILLIAMS: And if we -- we won't spend much time on Apple, but we'll just note that one (1) of the comparators that you -- you looked at was Apple and the explanation of where that data is derived from can be found in note 2?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And also available is data from Google, which I'll suggest to you uses mobility data representing visits and lengths of stay at locations based on user location history.

Would that be fair, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And this -- the Google data charts movement tre -- trends over time by geography and desegregated by categories such as retail and recreation, groceries and pharmacies, transit stations, workplace, and residential, agreed?

MR. LUKE JOHNSTON: A little disturbing that they know that much about my -- my behaviour, but that is what -- what they say they do, yes.

DR. BYRON WILLIAMS: And -- and the data gives insight into how -- how -- how much time visit -- visitors spend in categorized places, and it's compared to a pre-pa -- pandemic fI've (5) week period, agreed --

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: -- not seasonally adjusted?

MR. LUKE JOHNSTON: That's right. It's -- the -- the baseline comparison is -- is a little bit problematic but, in general, we're just looking at trends in either direction, so it's not -- it's not that big of a concern.

DR. BYRON WILLIAMS: And we'll come to

this in -- in a couple moments, but of most interest to MPI is the relationship between the Google workplace data as compared to the Manitoba Public Insurance collision claims count, agreed?

MR. LUKE JOHNSTON: I'd say there's probably two (2) pieces of information that I consider most valuable, the -- the workplace data for -- for sure and particularly in summer, the kind of all other driving.

You know, like, we -- we know there's a lot of people driving to the lake and the -- and the beach and all these things, and so that -- there could be some relationship there between highway accidents. You know, we talked about having more serious claims, but we'll see what happens with that in the winter. And we can maybe see how much that was really cabin and beach traffic, I guess, yeah.

DR. BYRON WILLIAMS: Okay. And when we look at the MPI reported collision claims variance in -- in this undertaking, what you're looking at is the results for a certain period in the 2020 year as compared to a five (5) year average from claims costs -- from claims with loss from the years 2015 to 2019 that is seasonally adjusted, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: Okay. Maybe if just for a second we can go to Figure 1 on the page 1 of 3, and -- Table 1, excuse me.

And Mr. Johnston, I really on this table just want to focus on the -- the black line, which I'll suggest to you is the MPI 2020 reported collision claims, versus the five-year average?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And, sir, if we're looking for where the five-year average is, is it the zero baseline that we're comparing Manitoba Public Insurance to?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: Okay. And if we just look at the legend on the left-hand side, and I always get my x's and y's confused so you'll forgive me for that, but what that tracks is the percentage variance from baseline. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And at the bottom we see the seven-day moving average for the week ending in -- for a -- for particular weeks, correct?

MR. LUKE JOHNSTON: That's right.

And I just noticed that it looked like -- looks like the bottom is missing the last few weeks of dates, but you can assume that those would follow suit.

DR. BYRON WILLIAMS: Sir, and that was going to be one (1) of my first questions.

So the legend here ends at -- in terms of the weeks, ends at 9/18/20 but if we look at the pattern beyond the 18th of September of 2020, that is actual data, it just doesn't have the -- the weeks put -- put into the legend?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: So this would -- this shows a pattern extending into October, agreed?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And just maybe we'll pick a -- a couple dates. Perhaps if we can go -- direct our attention on the seven-day moving average to March the 6th, 2020. So that's the third week in.

Mr. Johnston, I'll suggest to you that at that time the 2020 reported collision claims verus this five-year average was tracking a bit above the historical five-year average, would that be fair, sir?

MR. LUKE JOHNSTON: It was. My guess would be that perhaps that was a -- a snowy week or some other weather issue. But it was -- it looks like a little bit over 10 percent.

DR. BYRON WILLIAMS: And if we move over five (5) weeks to April 17th, 2020, following that black line, sir, there we see that the 2020 reported collision claims versus the five-year average are at or below -- at or below 50 percent below the five-year average?

MR. LUKE JOHNSTON: That's right. More than 50 percent below. Yeah.

DR. BYRON WILLIAMS: And just if we get to the -- let's just go out to the end of August 2020, the fourth last week on the legend, being the 28th of August 2020, there we see the average as compared to the 2020 reported collision claims as compared to the five-year average being -- Mr. Johnston, I'm struggling to follow that, but is that 20 percent below average?

MR. LUKE JOHNSTON: In the -- I guess really if you look at from 7/3/20 to 9/18/20, that line is basically fluctuating between -10 and -20.

So if it's down -- if it's in the low end, it's around -20, if it's up it's around -10.

DR. BYRON WILLIAMS: Thank you. And if we go beyond that, it looks like there is some weeks where the 2020 reported collision claims versus the five-year average are actually below a 20 percent variance.

MR. LUKE JOHNSTON: In the last -- again, I apologize for the labelling of the bottom, but that's the last few weeks, very likely.

So we may get into this, but as winter becomes more of an effect, both in our actual results and our previous five (5) years, you will see more volatility.

But to your point, it's -- in that period it's in the -20 to -30 percent neighbourhood.

DR. BYRON WILLIAMS: And Mr. Johnston, just going up to -- just above Table 1, the first full paragraph -- second full paragraph.

You see a -- a -- you'll see a reference that since July collision claims counts have remained consistently 10 to 20 percent below the five-year average.

Do you see that, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And if we took it from September 18th on, there would be some suggestion that it -- it would be below that 20 -- 20 percent average?

MR. LUKE JOHNSTON: It appears that

way. The only -- the only note I would make here is just that we are talking only about counts, so we did have a bit of a discussion about that severity kind of went the other direction.

But for counts, specifically, that -- that is true that the last few weeks appear to be greater than 20 percent reduction. So, 20 percent or more, yes.

DR. BYRON WILLIAMS: Okay. And if we go below Table 1 on MPI Exhibit 53, MPI in this paragraph is making the point that MPI reported collision claims closely followed Google workplace mobility, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And it's also concluding that MPI reported claims counts and Google workplace mobility patterns both remain lower than pre-pandemic levels and have yet to rebound beyond pre-pandemic levels, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And just going to Table 2 for a moment, and Mr. Johnston again, and I thank you -- I can't -- this -- in terms of the legend, again, this -- this is the percent variance on the left-hand side at the bottom there is a seven-day moving average, agreed?

MR. LUKE JOHNSTON: I apologize for missing that, but yes, the -- there should be dates at the bottom, but seven-day moving average, yes.

DR. BYRON WILLIAMS: Yeah. And to the -- the fact that there aren't dates, we could simply transpose the dates from -- from Table 1 onto Table 2, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: Recognizing that there is data extended beyond September 18th, and flowing into October that is not identified in the legend?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: Yeah. Mr. Johnston, even I could figure that out, so I -- I just wanted to make clear of that.

And what we see here, Mr. Johnston, in terms of the workplace data, that is the -- I'm going to say purple line. Would that be fair, the Google workplace data?

MR. LUKE JOHNSTON: That's correct.

DR. BYRON WILLIAMS: And again, for comparison purposes, the 2020 reported collision claims versus the five-year average are the black line on this -- on this Table 2?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And what MPI is commenting on is the -- the fact that the workplace data from Google seems to be tracking quite closely with the 2020 reported collision claims versus the five-year average, agreed?

MR. LUKE JOHNSTON: It does, yes. Yes.

DR. BYRON WILLIAMS: Okay, thank you for helping me through that.

If we could turn to -- briefly, to MPI Exhibit 38. And Mr. Johnston, in this undertaking MPI was asked to provide, in terms of the October 9th update, the COVID-19 impact as aggregated in a version similar to what we find in the response to CAC-MPI-1-4B, agreed?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And just if we can direct your attention to figure 1, and just to remind ourselves when we think of the October 9th update, that is based on data for the Corporation up to August 31st, 2020, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And it assumes no

COVID-19 impact beyond that date, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: Okay. And just to -- if we can focus on lines 6 being the 2020/21 year, and just to orient ourselves -- or orientate? Just to focus ourselves, if we go to the second last column, being the 2020/21 GRA forecast, we see that for the 2020/'21 year, MPI was estimating at the time it felt the GRA total Basic ultimate incurred of $750 million, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And if we follow that seven hundred and fifty (750) four (4) columns to the left, under the COVID-19 adjustment, MPI had made a $43.6 million adjustment related to COVID-19 at the time of the GRA filing. Agreed?

MR. LUKE JOHNSTON: That's right. And we -- we understood the question here, but we just wanted to make it clear what we specifically adjusted for in the forecast versus what we've seen since. Yeah.

DR. BYRON WILLIAMS: No and it's -- that's much appreciated, Mr. Johnston. No apologies necessary.

If we go one (1) to the right, under

ultimate, that is what MPI is -- based upon the naive forecast, assuming no COVID-19 impact, beyond August 31st, 2020, is estimating to be the total Basic ultimate incurred. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And that's around 720 million?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And -- and, sir, just to make sense of the minus 9.23 percent in the annual percentage change, that is a comparison of the 2019/'20 ultimate actuals versus the revised October 9th update for the year 2021. Correct?

MR. LUKE JOHNSTON: Correct. And -- and just recognizing that the '19/'20 is the thirteen (13) month, but that is the -- yeah.

DR. BYRON WILLIAMS: Okay. And it shows a 9.23 percent decline, but you're cautioning that, in there, is an extra month?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: Okay. So if one were to compare the October 9th update versus the -- the 2021 GRA forecast, there's roughly a $30 million difference, sir?

MR. LUKE JOHNSTON: That's correct.

And -- and my comment earlier was I believe this question's trying to get around the additional COVID impacts since we made the original COVID adjustment. My team was -- and I guess MPI believes that a good portion of that $30 million impact is from COVID. Like, we have no reason to believe that's not true. Do we know it's all from COVID? We -- we don't.

So we just put it there in its totality and just to provide the number and we can have discussions about whether we think it's mostly from COVID or -- or otherwise. But that's the impact.

DR. BYRON WILLIAMS: Okay. I -- I think that's helpful and -- and just in terms of the -- the 2021 GRA forecast, the original one of 750 million for Basic ultimate incurred, sir, that did reflect a lower frequency expectation based upon the favourable frequency results over the last five (5) years in terms of collision repair.

MR. LUKE JOHNSTON: That's true, yes.

DR. BYRON WILLIAMS: Okay. Mr. Johnston, I'm going to take you to MPI Exhibit 82.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And -- and, sir,

the request here was to provide the relativity analysis for the other rating variables, namely, territories, use, and rate group. And to compare them to the existing relativities that are -- that underlie the General Rate Application. Correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And the product that we see in MPI Exhibit 82 is an output of the minimum bias analysis that -- that was a component of the Driver Safety Rating pricing review that was filed on October 9th.

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: Yes.

MR. LUKE JOHNSTON: And it was trying to look at these four (4) variables, being territory, use, rate group, and DSR and, using the minimum bias procedure, achieved the best fit between those four (4) relativities.

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And in essence, it was undertaking a multi-dimensional minimum bias procedure to give guidance on all classification relativities simultaneously.

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And that, sir, is

to make sure that there's no double counting -- recognizing the limits of any procedure, to make sure that -- to the best -- best fit available, that the -- to avoid double counting and to give due weight to correlations between these variables.

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And I wonder if we can go to figure 3, territorial relativity, Mr. Johnston.

And if we look at the third column in, being private passenger relativity, I'll suggest to you that that is the balance raw relativity that was part of the General Rate Application analysis, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And if we move to the next three (3) columns to the right, and see the heading 'Merit Eligible Vehicle Relativity', that is the insight into territorial relativities that flowed from the DSR pricing review and the minimum bias procedure with the four (4) variables that we talked about previously.

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And, sir, just to -- to explain this table a little bit. If we take territory 1, is that the Winnipeg territory, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And in the GRA, the relativity of territory 1 to base -- as compared to baseline, was one-point-zero-five-seven-five (1.0575). Correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And flowing from the -- the DSR relativity minimum bias procedure for territory 1, the relativity that flowed from it was zero-point-nine-nine-three-two (0.9932). Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And similarly, sir, territory 2, that would be outside of Winnipeg in the south of the province, including Brandon, Portage La Prairie, et cetera, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And the relativity for the purposes of the General Rate Application was zero-point-nine-one-eight-nine (0.9189). Correct?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: Again, that's compared to baseline.

And then, flowing from the Driver Safety Rating minimum bias procedure, it is one-point-zero-one-five-one (1.0151)?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: Recognizing, sir, that one must take care in pulling these figures out in isolation and referring you to the relativities used for territory 1, would it be accurate to suggest that -- that the relativities used for territory 1 in the MPI GRA overstate their risk as compared to the outcome of the DSR minimum bias best fit analysis?

MR. LUKE JOHNSTON: Tough to say. And -- and the reason I say that is because the current relativities are reflecting today's reality. So today's DSR discounts would be reflected in there.

The other piece that is new in the DSR analysis is the actual splitting out and creating separate analyses for PIPP and non-PIPP, I guess.

So -- but what you're seeing here, once all those adjustments are made, does appear that territory 1 and two 2 are much more similar than implied by the current relativities.

And what seems to be driving that is a much higher relativity in -- for PIPP. If you see line 2 and you go to PIPP, you see one-point-one-four-eight-one (1.1481) versus Winnipeg, point eight eight four zero (.8840).

So at least based on this analysis, there are a few disclaimers, but I don't think it -- it should affect this too much. This analysis basically is saying that we've potentially undercharged for PIPP in territory 2, and if that's properly accounted for, they're much more similar in risk. Of course, if we brought forward a -- a full DSR-based application, we would have to reflect these differences in -- in the minimum-bias calculation.

DR. BYRON WILLIAMS: Perhaps anticipate wha -- where I'm going, sir.

Mr. Johnston, in terms of this analysis, we won't go through it in detail. Were there -- apart from the territory 1 and territory 2, were there other ones that similarly caught your actuarial eye, perhaps Figure 4 and -- and pleasure vehicles?

MR. LUKE JOHNSTON: Well, in the chart in front of us here, Figure 3, you can see that territory 3 and 4 are suggesting a lower relative rate. We're still seeing a -- a commuter -- additional commuter charge, and that also seems to be driven by PIPP.

So it's -- there seems to be a relationship with additional driving on the highway, would be my -- my guess, the -- more likely to get into more serious claim versus city-only driving.

If you go to Figure 4, what -- if you look on the left side under Passenger Vehicle Relativity (a) and Light Truck Relativity (a), you can see, I guess, a range of -- of relativities, with a low of point seven one (.71) and a high of one point one five (1.15).

What seems to be happening when DSR is included in the analysis is all of these relative rates are less volatile, so if you -- or more similar, I guess. If you -- if you go to the far right, you'll see the variation between the lowest and the highest is considerably less.

So what this tells me is the -- the information gained from including DSR in the relativity analysis has changed what we would attribute to use or territory when calculating the other relativities.

DR. BYRON WILLIAMS: Okay. That's very helpful, and, Mr. Johnston, I don't know if you have -- want to make any comment on Figure 2, the rate group relativity, and any preliminary thoughts you have flowing from that.

MR. LUKE JOHNSTON: Yeah, not much to

say on this one. Whenever I've three (3) lines on top of each other, that's usually good news from the actuary, but nothing jumps out in terms of our rate groups, at least from the -- the relative risk.

And -- and, again, we get our rate group information from almost a country-wide data sample from Insurance Bureau of Canada, so I would hope to see this relationship no matter what -- what we do, yeah.

DR. BYRON WILLIAMS: So the primary learnings, apart from the DSR relativities, relate to territories and to use. Agreed, sir?

MR. LUKE JOHNSTON: Agreed. Using the DSR information, it clearly has an affect on some of those relativities or territory and use.

DR. BYRON WILLIAMS: Mr. Johnston, I think you anticipated these questions, but I just want to make -- want to ask them and make sure I understand your -- your thoughts.

From this analysis, sir, does MPI plan to adjust the relativities for all of these variables with the same timing to ensure the correlations between them are accounted -- counted for?

MR. LUKE JOHNSTON: Yes, that would be the sensible thing to do, yeah.

DR. BYRON WILLIAMS: And do you have a sense of the timeline for that plan, sir?

MR. LUKE JOHNSTON: The -- if you scroll to page 5, this talks about that some of the differences between how the analysis was conduc -- conducted.

The big piece we'd have to adjust for better is the serious losses, so, as I mentioned earlier, get everything on the -- the same basis so there's no -- there's clearly no -- you know, some groups have this much information; some groups only have five (5) years of information; that, to me, is really the only piece that -- that we'd need to sort out.

But once that is -- is done, we -- we could run this analysis as -- as shown here, and I -- I have no concerns that we could do that for next year's GRA.

DR. BYRON WILLIAMS: Okay. Madam Chair, those are the -- end our questions, and we do thank you, Mr. Johnston, for your insight.

THE PANEL CHAIRPERSON: Thank you, Mr. Williams.

Ms. Meek...?

CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Thank you, Madam Chair. Good morning. Kristen, if we could start with Exhibit 73, please. If we could just scroll down to page 3, please. Okay.

Mr. Johnston, here MPI had indicated that Figure 2 here provides the impact of using separate loss-development factors for serious versus non-serious losses on the required rates for each of the major classes. Is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: Okay. Kristen, do you think -- could we put this side by side, perhaps, with the Application, Rate-Making Appendix 8, page 2, please?

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: Thanks. So -- okay, so looking at the original Application on the left side of the screen there, on this chart, Mr. Johnston, at line 12, along the bottom, that provides the required rate change for each major class, and it represents what the required change would be had the methodology been the same as last year's GRA.

Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: And you'd confirmed with me previously, when we last spoke, that the impact of MPI separating out serious versus non-serious losses was 8.7 percent on the required rate change for the motorcycle class. Is that correct?

MR. LUKE JOHNSTON: That's -- that's what's showing here. The -- the other important piece, though, is that there is another change on this table. So the -- the order in which you do the changes does impact the answer, but -- but 8.7 was the -- the number we discussed, yes.

MS. CHARLOTTE MEEK: Right. And we'll get -- get into the -- the kind of issue that MPI has identified here.

So, basically, that 8.7 percent that we see on line 13 there, that represents the required rate change of line 12 to line 7. Is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: Okay. And the cumulative change of both of these methodology changes -- I think we had discussed this previously when we last spoke -- the cumulative change is a 4.2 percent increase for the motorcycle class. Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Okay. And we see that change in this chart -- or, again, still looking at the left side of the screen here, is the difference between line 13, at eight point seven (8.7), and line 8, at negative four point five (-4.5).

Is that correct?

MR. LUKE JOHNSTON: Yes.

MS. CHARLOTTE MEEK: Okay. And then if we look at Exhibit 73, so what's showing on the right side of the screen, page 3, Figure 2, MPI has provided us with just the impact of removing the methodology change of the separate loss-development factors. Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Okay. And when we look at this chart, we see the impact of using separate loss development factors is just -- on line 8 here, under motorcycles, is just 0.4 percent.

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Okay. And so MPI, as you said, gave some explanation as to the differences below, in the paragraph underneath there, and basically saying that the order of the changes has a major impact on the results that we see.

Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Okay. And then MPI provided Figure 3 -- if we scroll down on the right-side screen there; thank you -- which is the same figure as the original application but with the order of the changes reversed. Is that right?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Okay. So could you provide a little bit of further explanation as to why the impact of the methodology change -- or, the impact of each methodology change is so substantially different when the order is -- is switched?

MR. LUKE JOHNSTON: Yeah. So -- so the -- the process we went through in doing this, the first piece was obviously the -- the methodology change itself discussed at last year's hearings to separate out serious and non-serious losses.

When we did that calculation, we obviously noticed immediately that there'd be various impacts, but -- but the greatest impact would -- would be to motorcycles.

My next question I guess or concern was: Why was that happening? The two (2) most recent years have very large development factors for serious losses, and we've talked at these hearings quite a bit about how you don't really know much about PIPP claims until about two (2) years after the date of loss.

So we made the methodology change proposal to exclude those two (2) years in the calculation of -- of rates per -- so basically excluding the first two (2) years in that serious loss calculation.

That -- doing that eliminates a very large portion of the -- of the impact of -- of changing the methodology, you know, and is also consistent with what we've said in other parts of the Rate Application.

For example, in forecasting PIPP, we often exclude the two (2) most recent years 'cause they're deemed to be too immature to use for forecasting.

So the -- so backtracking a bit, the impact of the change to serious losses is very significant. However, when we exclude the two (2) most recent years from that, it -- it falls to the lower impact that -- that you see here.

So in -- in many ways, MPI did try to adjust the methodology in an appropriate way to offset some of this -- this impact.

MS. CHARLOTTE MEEK: Thank you. So in both of these charts, we still see that the cumulative change for all of the vehicle classes is the same, and specifically for the motorcycle class is still that cumulative change of the 4.2 percent.

Is that correct?

MR. LUKE JOHNSTON: Correct.

MS. CHARLOTTE MEEK: Okay. And this figure was basically provided so that we could compare this figure with the one in the original GRA.

Is that correct?

MR. LUKE JOHNSTON: That's right. Obviously, when we did the first answer, I had the same questions that you probably had: Why did -- why isn't this the same? And then, when we reversed the order, we realized why -- why that was the case.

MS. CHARLOTTE MEEK: Okay. So this figure is still based on the original GRA, and we don't have an update of this figure for the October update --

MR. LUKE JOHNSTON: This --

MS. CHARLOTTE MEEK: -- full figure?

MR. LUKE JOHNSTON: -- this figure is based on the original, yes. So the eight thirty-one fifty-six at the bottom is -- is the same and -- or all the rates for motorcycles, the starting and the ending rate are the same, yes.

MS. CHARLOTTE MEEK: Okay. Would you expect that the impact of both the methodology changes -- so the cumulative impact -- would be similar if -- in the -- if we brought it forward to the October update?

So would -- for example, with the motorcycle class, it would be a similar cumulative impact of about 4.2 percent?

MR. LUKE JOHNSTON: It would because really what's happening for motorcycles in the update is just we're I guess re-baselining the -- the rate based on the new discount or interest rates.

But the serious loss change is just the same development factors we had before, and the methodology to exclude the most two (2) recent years would be, again, not impacted significantly just from changing interest rates. So impacts should be very similar, yes, yeah.

MS. CHARLOTTE MEEK: Okay. And would you expect that the cumulative changes for the other major classes similarly would -- would be about the same?

MR. LUKE JOHNSTON: Yes. I'd -- given

that interest rates fell, everyone's initial rate would slide up a little bit, but proportionately, I'd expect them to be similar.

MS. CHARLOTTE MEEK: Okay. And just to review what the cumulative change is for the other classes, for private passenger vehicles, it's negative .1 percent change. Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: For commercial vehicles, it's a positive 1.8 percent change? I know they're not listed here. Just subject to check, is that okay?

MR. LUKE JOHNSTON: Yes, yeah.

MS. CHARLOTTE MEEK: Okay. Thank you.

MR. LUKE JOHNSTON: Yeah.

MS. CHARLOTTE MEEK: The cumulative change for public would be a .7 percent increase. Is that correct, subject to check?

So you can see it in the impact of the change on line -- so we're looking at the Undertaking 41. You can see that in the impact of change from line 13 to line 8, the .7 percent increase?

MR. LUKE JOHNSTON: Yes. Thank you.

MS. CHARLOTTE MEEK: Thanks. And for trailer and off-road vehicles, there's no impact of these changes?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Thank you. So to summarize, the impact of these methodology changes are a significant impact on the motorcycle class with a smaller but still negative impact on commercial vehicles, with all other classes having little to no impact. Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Thank you. Those are my questions.

THE PANEL CHAIRPERSON: Thank you. Do you know whether Mr. Hacault has any questions?

MS. KATHLEEN MCCANDLESS: I don't believe he has any.

THE PANEL CHAIRPERSON: Mr. Gabor, do you have any questions arising from this?

THE CHAIRPERSON: (NO AUDIBLE RESPONSE).

THE PANEL CHAIRPERSON: Ms. Hainsworth, any questions?

MS. CAROL HAINSWORTH (by phone): No, I do not.

THE PANEL CHAIRPERSON: Thank you.

So, Ms. McCandless, do you want to

start with your submission, and then at some appropriate time we'll take a break?

MS. KATHLEEN MCCANDLESS: Sure. Mr. Scarfone, you don't have any re-direct arising out of these questions?

MR. STEVE SCARFONE: Oh. Actually, I -- I guess I do 'cause I was just curious about this stuff that Ms. Meek had on the screen before Mr. Johnston. So maybe just a couple of questions on -- on this particular line of questioning.

RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: So, Mr. Johnston, just so I understand and it's clear, the -- the impact of the methodology change, that was implemented for the first time in this GRA. Is that correct?

MR. LUKE JOHNSTON: That's right. There's -- there's really two (2). There's the serious loss development methodology change and then the -- how we calculate the expected losses used for rating which is really to exclude the two (2) most recent years from the serious loss calculation, in particular, recognizing that those -- that data is not very reliable. So those are the two (2) changes.

MR. STEVE SCARFONE: Right. So but

for the exclusion of those two (2) most recent years, do I understand the chart on the left to mean that the motorcycles would have been looking at an 8.7 percent rate increase this year before the update?

MR. LUKE JOHNSTON: That's right. The -- the rate increase would have been substantially higher if not for making that change, yes.

MR. STEVE SCARFONE: And was that decision to exclude those two (2) most recent years one that you made unilaterally? Did you drop that just in fairness?

MR. LUKE JOHNSTON: The -- so previously, we hadn't split out serious losses. Once that split was made and we saw the indicated figures, it -- it was decided that, to be consistent with everything else we say about centralized reserving and PIPP forecasting and such, it wouldn't be appropriate to include those two (2) most recent years in the estimate of the long-term expected PIPP costs of a class. So that -- that was the reason we made that change.

MR. STEVE SCARFONE: Right. So when you say it was decided, the methodology change was -- was as a direction by the Board. But I'm wondering about the exclusion of the two (2) most recent years.

Was that Board directed, or was that MPI internally making that decision?

MR. LUKE JOHNSTON: The Board is -- was obviously run through the changes, and this would have been included in -- in their overall approval of rates if we're making any major methodology changes.

But that change was driven by MPI, and the -- the proposal was made not to benefit motorcycles, really to just make the rate-making calculation as fair as possible.

MR. STEVE SCARFONE: Okay. Thank you. and then going forward, is it your intention to calculate the motorcycle rates again excluding those two (2) most recent years?

MR. LUKE JOHNSTON: It is.

MR. STEVE SCARFONE: Okay. Thank you. Those are all my questions for Mr. Johnston.

(PANEL STANDS DOWN)

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone.

MS. KATHLEEN MCCANDLESS: Thank you, Madam Chair. I will begin, and I'm not sure if this will take us to a natural break point, but if I'm going too long, then I will let you know and we can take the morning break.

CLOSING REMARKS BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: We have now completed the evidentiary part of this public hearing with respect to the 2021 General Rate Application, or GRA, filed by Manitoba Public Insurance.

The Board will soon deliberate upon the application for base rates and premiums charged for compulsory vehicle and driver insurance to take effect April 1, 2021.

As counsel for the Board, I do not take any position on the merits of any part of the application or the positions taken by any of the parties. My role is to summarize the matters that are before the Board and outline issues that it may wish to consider in making its decisions.

To provide some context for the Application, rate indications are interest sensitive and market interest rates are always changes. These realities give rise to a significant risk of estimation error in deriving Basic rate indications.

Adoption of a naive interest rate forecast reduces the complexity of making that forecast. And using rate indications derived in accordance with accepted actuarial practice in Canada rather than Basic net income projections shorten the length of that forecast, but significant uncertainty still remains.

In this GRA, the Application filed in June and the public notice reflected a provisional rate request derived in the usual manner but with a declared intention of providing an updated rate request with a final rate indication prior to the commencement of the public hearing based on market interest rates at August 31, 2020.

The provisional rate request for an overall 10.5 percent rate level decrease was based on market interest rates as of March 31, 2020.

The provisional rate decrease was comprised of a 3 percent decrease resulting from changes to the automobile insurance coverage regulation for Basic Autopac coverage; a 2.5 percent provisional decrease in the breakeven cost of vehicle premiums calculated in accordance with accepted actuarial practice grounded in the naive interest rate forecast as at March 31, 2020, as ordered by the Board in Order 176/19, directive 13.4; and a 5 percent capital release provisionally in accordance with the

Capital Management Plan which was approved by the Board in Order 176/19, directive 3.6.

On October 9th, the Corporation filed its updated rate indication with the Board for an overall 8.8 percent rate level decrease.

The updated rate request was based -- or comprised of a Basic rate indication revised upwards by 1.7 percent to an overall .8 percent rate level decrease from an initial indicated rate decrease of 2.5 percent.

This was combined with the Basic coverage change impacts of 3 percent decrease and a capital release of 5 percent for the overall 8.8 percent decrease.

As I mentioned, the Application reflected changes to the Basic program design, also called the Compulsory and Extension Revision Project, or CERP, pursuant to which the Basic Autopac deductible will increase from five hundred dollars ($500) to seven hundred and fifty dollars ($750).

Third-party liability protection will increase from two hundred thousand (200,000) to five hundred thousand dollars ($500,000). And the insured value for vehicles under Basic will increase from fifty thousand dollars ($50,000) to seventy thousand dollars ($70,000) which MPI indicated was an inflationary adjustment.

MPI seeks no changes to vehicle premium discounts and does not propose any changes to service or transaction fees, permit and certificate fees, fleet rebates or surcharges, or the discount for after market and manufacturer or dealer installed anti-theft des -- devices.

The average rate adjustment proposed by MPI for each major vehicle class is as follows:

For private passenger, an overall decrease of 9.4 percent;

For the commercial class, an overall decrease of 2.1 percent;

For the public class, an overall decrease of 3.7 percent;

For motorcycles, an overall increase of 4.7 percent;

For trailers, an overall decrease of 11.3 percent.

And for off-road vehicles, no change, for an overall rate reduction of 8.8 percent.

After consideration of insurance use and territory and capping and balancing for experienced rate adjustments, the results were modelled by the Corporation to assess the impact of various rate and classification changes.

In total, the vehicle population for the year of the Application is 1,170,504 vehicles, to which the proposed rate would be applied as follows:

Nine hundred and fifty-four thousand eighty-nine (954,099) vehicles, or 81.5 percent, of the overall fleet would receive a rate decrease, the majority of which would be one hundred dollars ($100) or less;

Thirty-nine thousand five hundred and sixteen (39,516) vehicles, or 3.4 percent, of the overall fleet would receive a rate increase;

And one hundred and seventy-six thousand eight hundred and nine-nine (176,899) vehicles, or 15.1 percent, would receive no change in rates.

With respect to rate making in accordance with accepted actuarial practice, or AAP, as always, the Corporation's estimate of its overall rate requirement is sensitive to the methods and assumptions used in its derivation.

For the 2021 GRA, particular attention was given to four (4) assumption areas: new money yield, severity trends for PIPP and bodily injury coverages, the impact of catastrophe treaty on comprehensive hail forecast, and duration of motorcycle claims reserves.

With respect to the new money yield, the Corporation updated the 2021 rate indication with interest rates as of August 31 reflecting more recent yields consistent with the approach followed in the 2020 GRA.

The new money yield is based on a weighted average of estimated provincial and corporate yields of bonds with a duration of ten (10) years.

The 2021 GRA was based on yields as of March 31, 2020, generating a new money yield of 2.58 percent and a breakeven rate indication gen -- excluding the impact of coverage changes of negative 2.5 percent.

The October 9th update, based on yields as of August 31, 2020, generated a new money yield of 1.94 percent, a reduction of sixty-four (64) basis points, and a breakeven rate indication, excluding the impact of coverage changes, of negative .8 percent, an increase in the indication by 1.7 percent.

The use of more interest -- more recent interest rates is in accordance with AAP.

With respect to severity trends for

PIPP and bodily injury coverages, in this GRA, for weekly indemnity accident benefits other indexed, accident benefits other non-indexed, and public liability bodily injury, the Corporation separates claims for each accident year into two (2) or three (3) severity groups based on size of claim, estimated severity trends for each severity group, and then weights the trends together based on the incurred loss amounts within each severity group.

Questions were raised about the difference between the indicated trends based on this approach and indicated severity trends without any split into severity groupings which were higher for each coverage.

The Corporation agreed that approaches with a split by severity group did not take into account any shift in proportion between the severity groups over time but did not consider the shift to be material.

The Corporation provided alternative indicated severity trends for each coverage using claims counts as weights instead of loss amounts and indicated that it considered the prior approach to be inappropriate.

The indicated trends were higher with

this approach than the approach contained within the 2021 GRA. The Corporation's evidence was that it did not update its claims forecast based on these alternative trends but intended to follow the alternative approach in the 2022 GRA.

With respect to the comprehensive hail forecast, in the 2021 GRA the Corporation forecasted projected claim counts for comprehensive hail claims without taking into consideration the number of historical claims that might be covered by the catastrophe reinsurance protection.

The premium for the catastrophe reinsurance treaty was considered an expense, but no benefit of the protection was included in the pricing.

The Corporation did provide evidence that the impact, if the cata -- catastrophe treaty had been in place for prior accident years, that the amount of recoveries that would have been received in each accident year, using actual historical claim severity trends rather than adjusting to forecast severity levels in the test year, would have been minimal, with total savings of $1.45 million over the ten (10) accident years, an average of a hundred and forty-five thousand dollars ($145,000) and, hence, the impact of not including the recoveries was not significant.

With respect to the duration of motorcycle claims reserves, in the 2020 GRA CMMG had put forward the proposition that the Corporation should explore the use of equities in its investments specifically for long-tailed liabilities, similar to other jurisdictions, to assist with the rate volatility that is being experienced by the motorcycle class.

In this GRA, the Corporation stated that it does not support the idea of creating a special backing portfolio for motorcycle claims liabilities.

However, the Corporation recognized that a reasonable consideration would be to apply interest rates at points on the yield curve that correspond to the duration of the liabilities for discounting purposes.

Such an approach would provide a more appropriate discount rate for policy cashflows. The motorcycle class has a very large composition of personal injury protection plan claims that have a very long tail and, as a result, are more impacted by long-term interest rates.

As of March 30, 2020, the Corporation

considered the yield curve to be significantly flat, and so there would be no substantial benefit in using that approach in the near term.

The Corporation also stated in the application that it will consider making the change in the 2022 GRA after a more thorough impact assessment is complete for all vehicles.

The Corporation undertook to determine the average duration of the motorcycle claims reserves, and estimate the corresponding duration based new money yield at August 31, 2020 and estimate the indicated rate for motorcycles based on this alternative new money yield in order to determine the sensitivity of the motorcycle rate class indication to this consideration.

MPI does not have a claim reserve duration specifically for the motorcycle major class. However, the difference between the overall claim reserve duration and the corresponding picked claim reserve duration is approximately one year.

Assuming the claims reserve for the motorcycle class are 100 percent PIPP, the new money yield based on a duration that is one (1) year higher than the overall duration is 2 percent, compared to the overall new money yield of 1.94 percent.

Based on a new money yield of 2 percent, the required rate change for the motorcycle class would decrease by .4 percent, from 6.9 percent per figure RM-13 in MPI Exhibit 27 to 6.5 percent.

With respect to the impact of COVID-19, on March 20, 2020 the Government of Manitoba declared a province-wide state of emergency related to the COVID-19 pandemic. The restrictions resulted in a marked drop of driving activity and led to a material anticipated reduction of claims incurred.

In April 2020, MPI forecast a reduction in claims incurred from March 15th to May 15th of $58 million.

In a Special Rebate Application filed in April 2020, MPI sought approval to rebate this level of claims cost savings to Basic policyholders, along with $52 million, it had already rebated directly from Extension profits that would have flowed through the Capital Management Plan.

In order 67/20, the Board approved the $58 million rebate from Basic. The $110 million in rebates was issued at the end of May 2020.

In this GRA, MPI had incorporated $58.1 million in claims incurred savings. MPI recognized $14.5 million of the claims incurred savings in its

2019/20 actual results and adjusted its 2020/21 claims incurred forecast by $43.6 million.

The Corporation has provided to the Board its actual financial results with respect to the 2019/20 year, as well as an updated forecast of the current year, 2020/21.

For the 2019/20 fiscal year, Basic incurred net income of $120.6 million, compared to a forecasted net income of $29.7 million in last year's GRA, an improvement of $90.9 million over the forecast from last year.

This positive variance was attributed by the Corporation to a decrease of $95.1 million in total claims incurred cost, primarily due to decreased collision claims of $34.6 million, decreased PIPP and liability claims of $27.7 million, decreased comprehensive claims of $17.9 million, and COVID-19 impacts of $14.5 million, as previously mentioned.

These decreases in costs were offset by higher than forecast interest rate impact of $10.3 million, and an increase of $2.2 million in internal loss adjustment expenses.

Overall, there was a positive variance of $104.2 million in underwriting results from that presented last year.

Offsetting this improvement, investment income was $59.6 million, which was $13.3 million lower than the $72.9 million forecast last year.

With respect to the current year, 2021, the subject of this -- of last year's GRA, MPI revised its forecast net income to $78.6 million from a net income of $8.9 million forecast last year for rating purposes, an increase of $69.7 million.

MPI's revised forecast reflects a reduction of total claims incurred of $80.4 million from last year. The reduction was primarily attributed to a lower forecast of claims incurred by $103 million, lower forecasted write-down DPAC premium deficiency by $1.5 million and offset by higher claims incurred related to interest rate changes of $24.1 million.

MPI indicated that the $103 million in lower claims incurred was primarily due to lower claims related to COVID-19 of $43.6 million, lower forecast for collision and comprehensive claims of $37.4 million, and lower unallocated loss adjustment expenses of $10.7 million due to the reclassification of certain expenses.

Forecast investment income also contributed to the revised improved net income.

Investment income was $10.2 million higher than forecast last year, due to the higher than expected invest -- interest income, equity investment income, and alternative investment income.

MPI's financial forecast, in its update filed on October 9th, reflected actual claims experience to August 31st, and an updated forecast for the remainder of the 2021 year.

MPI now forecasts Basic net income of $105.4 million, an increase of $26.8 million from the $78.6 million forecast in the Application.

MPI revised its total claims incurred to $950.7 million from the $846.9 million in the Application, an increase of $103.7 million.

The increase in claims incurred was due primarily to an increase in claims related to interest rate changes of $122.6 million, an increase in forecasted write-down of Deferred Policy Acquisition Costs of $6.4 million, an increased forecasted internal loss adjustment expenses of $2.7 million.

These cost increases were offset by further reductions in forecast physical damage claims of $27.8 million, reflecting lower claims counts attributed to COVID-19.

MPI also forecast an increase in

investment income of $121.4 million, due to decreases in forecasted interest rates.

This is an expected offset from its asset liability management strategies objective to match the impact of interest rates on claims incurred with an offsetting impact of interest rates on investment income by matching the duration of marketable bonds with the duration of the claims reserve.

This resulted in a higher than expected impact due to interest rate changes of $123.9 million, and a recovery of equity investment write-downs of $10 million, offset by lower than forecasted investment income.

MPI now forecasts Basic net income of $105.4 million for 2020/21, an increase of $26.8 million from the $78.6 million forecast in the application.

MPI forecasts net income of $42 million for 2021/22, and a net loss of $41.2 million for 2022/23 based on the proposed 8.8 percent applied for rate decrease.

With respect to future COVID impacts, MPI's October 9th update reflects COVID-19 impacts until the end of August and a net income of $105.4

million.

MPI provided two (2) alternatives scenarios that forecast the continuing impact of COVID-19 on 2020/21. If the pandemic conditions persist through the third quarter, end of December 31st, 2020, or for the full fiscal year ended March 31st, 2021.

MPI has not forecast any COVID-19 operating impacts in the 2021/22 or 2022/23 rating years.

If COVID-19 impacts persist through the end of December 2020, MPI forecasts a net income of $127.5 million with operating profits higher by $22.1 million than the October 9th update.

This improvement in operating results is due to additional claims incurred savings of $16.4 million, claims expense reductions of $3.4 million, lower road safety expenditures of $.3 million, and a further decrease in operating expenses of $2.2 million.

The second alternative scenario assumes that COVID-19 impacts persist through the end of the fiscal year to March 31st, 2021. In that case, MPI forecasts a net income of $146.9 million, a further increase in operating profits of $19.5 million from the Q3 scenario.

The increased savings are due to additional forecast claims incurred, savings of $15 million, further claims expense reductions of $2.7 million, lower road safety expenditures of $0.3 million, and a further incremental reduction in operating expenses of $1.5 million.

With respect to the Corporation's overall financial strength. The Corporation's Board of Directors has approved risk-based capital targets by lines of business. The targets are based upon the capital management framework for the office of the Superintendent of Financial Institutions and the Minimum Capital Test.

The Minimum Capital test, or MCT, is a ratio of capital available to capital required and uses a risk-based formula to assess the capital adequacy of an insurer.

MPI has established an MCT target of 100 percent for Basic, 200 percent MCT for Extension, and 300 percent for special risk Extension.

MPI's Basic Rate Stabilization Reserve, or RSR, at March 13 -- March 31st, 2020, was $440.5 million and total equity was $406.2 million to support rate stabilization.

Basic's financial position can be attributed, in part, to past transfers that have been made from Extension. Between 2014/'15 and 2018/'19, $273.3 million has been transferred from Extension to Basic.

The Corporation has, as of March 31, 2020, $691.9 million in retained earnings, including 440.4 million Basic, 142.9 million in Extension, and 116.3 million in special risk Extension.

Overall Corporate total equity, as at March 31, 2020, including accumulate other comprehensive income, was $646.9 million. Of this, $406.3 million relates to Basic operations, 140.5 million to Extension, and 100.1 million to special risk Extension.

With respect to financial condition testing, although not required by statute as would be required for private insurers, federally regulated, or regulated in certain provinces, the Corporation has undertaken a Basic FCT, or Financial Condition Test, investigation.

This is a revision in terminology by the Canadian Institute of Actuaries from the former Dynamic Capital Adequacy Testing investigation as a matter of good governance.

The FCT investigation entails development of a Basic financial forecast and stressing that forecast under a number of plausible adverse scenarios, covering a variety of risk categories.

The report on the FCT investigation includes an opinion from a signing actuary on the financial condition of Basic. This report, formerly under the DCAT acronym, has been included with the Basic annual GRA for many years.

Over the course of several years, the Corporation has worked with the Board and Interveners towards the development of a consensus approach to adapting the Basic FCT investigation to estimate an appropriate Basic target capital range that directly reflected Basic experience and risk characteristics.

With the approval of the Capital Management Plan in last year's GRA, the role of the FCT investigation in the GRA has been diminished.

While the FCT investigation continues to provide insight into the resiliency of Basic's capital position, a matter of importance to the Corporation, the Board, and Interveners, the single Basic target capital level based on a 100 percent Minium Capital Test scenario, set out in the Capital

Management Plan of the Corporation, effectively severs the link between the FCT investigation and the setting of Basic target capital levels.

So with respect to the Capital Management Plan, or CMP. The CMP approved by the Board in Order 176/'19 includes:

A single Basic target capital level based on a 100 percent Minimum Capital Test ratio as set by the reserves regulation;

A commitment to transfer excess retained earnings from the Extension line to Basic where excess is determined relative to the single Extension target capital level of a 200 percent Minimum Capital Test ratio, as set by the reserves regulation;

A phase-in approach to move towards the Basic target capital level over a number of years through the capital build or capital release provisions;

Determination of the need for any capital build or capital release provisions in each GRA after consideration of the Basic rate level change indication and the expected capital transfers from Extension;

Use of a judgmentally selected five (5)

year and three (3) year phase in periods for capital build and capital release provision respectively;

Imposition of judgmentally selected 5 percent cap on the combination of the overall Basic rate indication and any capital build provision;

And imposition of a judgmentally selected 5 percent cap on any capital release provision.

In Order 176/'19, following the 2020 GRA, this Board found that the reserves regulation was invalid and, therefore, was not required to follow it for the purposes of setting the Basic target capital level for Basic. However, the Corporation has advised that it continues to consider itself to be bound by that regulation and it aligns with the 100 percent MCT target for Basic as set out in the CMP.

In last year's GRA, the Corporation committed to transferring excess retained earnings over 200 percent MCT from Extension to Basic, regardless of the Basic MCT scenario -- ratio at the time.

At that time, MPI forecasted transferring $75.1 million in 2019/'20, $42.5 million in 2020/'21, and $44.5 million in 2021/'22 from Extension to Basic.

Based on the 2021 GRA, MPI did not transfer any funds from Extension in 2019/'20, instead refunding $52 million from Extension to -- to ratepayers and forecast transfers of $63.2 million in 2020/'21 and $32.7 million in 2021/'22.

The annual transfers are now forecast to be lower in the forecast period due to reduced profitability of Extension under the changes in coverage in the CERP.

MPI has indicated that the Capital Management Plan does not stipulate what accumulated profits generated by Extension line of business may be used for, but, rather, stipulates that, at the end of each fiscal year, capital that remains in excess of 200 percent MCT is to be transferred to Basic.

MPI acknowledged that it is conceivable that Extension profits could be used for purposes other than transfers to Basic. MPI indicated that, at this time, there are no plans to use excess Extension capital for any purpose other than transferring to Basic, which is reflected in its current forecast.

Madam Chair, I expect to be ten (10) to fifteen (15) more minutes.

THE PANEL CHAIRPERSON: Why don't you continue then, please.

MS. KATHLEEN MCCANDLESS: Thank you.

Moving on to Vehicles for Hire. On March 1st, 2018, MPI introduced a new Vehicle for Hire or VFH insurance model for insurance coverages for the various subcategories of Vehicle for Hire, including taxis, limousines, accessible vehicles, and private passenger vehicles.

The premiums for each category of VFH were established separately. Insurance premiums were based on four (4) defined time bands and premiums would be established based on the number of time bands selected. The purchase of four (4) time bands would allow for twenty-four (24) hours, seven (7) days a week operation.

For the passenger VFH, or Vehicle for Hire, category, the Corporation employed a jurisdictional scan of the VFH rates in other Canadian jurisdictions. And judgmentally set the passenger Vehicle for Hire rate for purchasing all four (4) time bands at a 20 percent premium above the current private passenger all purpose rate for the corresponding vehicle type and rate group. Rates with them decline incrementally by 5 percentage points based on the level of coverage.

The Corporation acknowledged, at that

time, that this rating class did not exist and had never previously existed in Manitoba. Therefore, it had no internal data to support its rate making.

In implementing the new model, MPI indicated that it would follow the approved Basic rate-making methodology for adjusting vehicle group relativities, which would give at least 10 percent weight to the passenger VFH experience in each rate application.

However, if experience based rates were observed to be significantly different from the initial rates, MPI might come forward with a special rating adjustment falling outside of the approved rate making methodology.

Based on the last two (2) years of claims, experience shows the historical loss ratio for passenger vehicle VFH has been between 121.7 percent and 128.1 percent, while loss ratios were 88 percent to 88.9 percent for public VFH in total, and 85.6 percent to 86.5 percent for taxicab Vehicles for Hire.

MPI is in the process of conducting a review to determine how the VFH framework and -- or pricing structure can be enhanced.

Patrick Bowman and Jeff Crozier

appeared in the hearing as independent expert witnesses called by the Taxi Coalition to present issues regarding the Vehicle for Hire rates.

Mr. Crozier recommended that any changes flowing from MPI's review of the VFH framework should provide effective incentives for controlling risk, and the framework design -- redesign should be based on data gathered from the Vehicle for Hire operators in Manitoba in order to understand the operations and the nature of the risk. The framework redesign should attempt to address the incentive program gap that faces small corporate customers.

Mr. Bowman noted that the initial passenger VFH rate-setting was done explicitly to set rates that were intended to avoid cross-subsidiza -- subsidization between passenger Vehicles for Hire and the rest of the Basic major classes.

Mr. Bowman noted that MPI had indicated that if experience-based rates were observed to be significantly different from the initial rates, MPI might come forward with a special rating adjustment that falls outside the approved rate-making methodology.

No such special rating adjustment has been proposed. Mr. Bowman proposed a special rating adjustment of a 56 percent further rate increase; alternatively, the Board could step back the 56 percent by about 15 percent and inca -- instead consider a 40 percent further special-rate increase in the current year.

With respect to investments, in the 2019 GRA, the Board reviewed Mercer's 2017 asset-liability management study. MPI's adoption and recommendations flowing from that study were -- resulted in the following out -- outcomes:

Separation of the co-mingled investment portfolio into five (5) unique portfolios that back the Corporation's liabilities and surplus;

De-risking the Basic claims portfolio by eliminating exposure to growth assets;

and lastly, optimizing the Basic claims portfolio by increasing the exposure to corporate bonds and changing the allocation from government bonds to provincial bonds.

The five (5) unique portfolios include Basic claims; Basic rate stabilization reserve; employee future benefit or pension; Extension; and Special Risk Extension, or SRE. Each will have unique asset allocations and allow the Corporation to develop investment portfolios that better reflect the associated liabilities and investment goals of each portfolio.

Changes based on the implem -- implementation of the ALM study resulted in the portfolio backing claims consisting of 100 percent fixed income; the portfolios backing Extension, SRE, and RSR balanced with 50 percent growth assets and 50 percent income -- fixed-income assets; and the portfolio backing employee future benefits with a slightly aler -- higher allocation to growth assets, at 60 percent.

In this GRA, MPI filed a post-implementation review of the ALM recommendations. MPI reported that the transition to the new investment strategy was large -- largely compe -- complete by the end of the second quarter of 2019/'20. Remaining to be complete were funding of private debt mandates and infrastructure divesture (sic).

MPI has committed a total of $228 million to be invested in private-debt funds. MPI has indicated that $88 million had been invested as of December 31, 2019, and there remain to be 140 million, or 61.4 percent, of the commitment to be invested. MPI developed a plan to reduce the allocation to infrastructure, which involves the sale of two (2) coinvestments.

The funds available for investment are primarily unearned premium reserves and unpaid claims reserves. The investment portfolio supports both the plaim -- payment of accident claims as well as the pension obligations of the Corporation. The Corporation's investment assets as at March 31, 2020, are over $3.1 billion.

The size of the Basic line of business investment portfolio, including the Basic claims and RSR portfolios and Basic shares -- Basic's share of the employee future benefits portfolio is $2.8 billion for 2019/'20, is forecast to be $3 billion in 2020/'21, and projected to grow to $3.2 billion for 2022/'23.

Historically, the Corporation's investment income has been a major component of its income and has offset its annual an -- underwriting losses. Basic investment income was $59.6 million in 2019/'20 after an impairment charge of $42.7 million, which represented Basic's share of the Corporation's overall $67.7 million write-down.

The impairment write-down included a $54.4 million reduction in equity investments. This was a result of market volatility in March due to the declaration of the global pandemic, leading to a material decline in the investment portfolio at March 31, 2020.

MPI took the impairment charge due to the significance of the decline in market values, as prescribed by the Corporation's investment policy -- or, impairment policy, pardon me. MPI has reported that from March 23rd to August 31st, its public equity portfolio had increased by 34.5 percent.

Basic investment income was foreca -- originally forecast to be $84.3 million for 2020/'21, $89.4 million in 2021/'22, and $91.5 million in 2022/'23.

Based on the October 9th update, the new-money-yield rate declined from 2.5 per -- 2.58 percent in the ridg -- original application to 1.94 percent, a reduction of sixty-four (64) basis points. The reduction was due primarily to a narrowing of the spreads on both provincial and corporate bonds as at August 31, 2020.

The Corporation is now projecting investment income in 2020/'21 to be $205.7 million, an increase of $121.4 million. The increase is almost fully attributed to the change in interest rates. Investment income is now forecast to be $87.9 million in 2021/'22 and $86.6 million in 2022/'23.

With respect to operating expenses, total corporate operating expenses, including the costs of ad -- of administering claims and road safety, were $288.8 million in 2019/'20 and are forecast to grow to $306.1 million in 2020/'21. MPI is forecasting total corporate expenditures to be $310.1 million in '21/'22 and $319.6 million in 2022/'23.

MPI's global corporate costs are allocated among the insurance and non-insurance categories of business and by automobile insurance lines of business in a way that does not give rise to cross-subsidization. Costs are allocated to Basic through an integrated cost-allocation methodology approved by the Board in Order 157/'12. There have been no material changes to indecrated (sic) goss -- cost allocation methodology in this application.

Upon completing the allocation process, expenses attributed to the Basic program are established for normal operations and improvint -- improvement initiatives. Total Basic expenditures were $218.6 million in '19/'20, or 75.7 percent of corporate costs, and were forecast to be $231.7 million in 2020/'21. After that, Basic expenses are forecast to increase to $234.1 million in 2021/'22 and $241.4 million in 2022/'23.

Based on the October 9th update, MPI is now forecasting Basic operating expenses to be $222.5 million in 2020/'21, an increase (sic) of $8.5 million from the original application.

THE CHAIRPERSON: Sorry to interrupt. I -- I believe it's a decrease.

MS. KATHLEEN MCCANDLESS: Pardon me?

THE CHAIRPERSON: You said it was an increase of eight point --

MS. KATHLEEN MCCANDLESS: Pardon me. Yes, that's decrease.

Basic expenses are currently forecast to increase to $235.3 million in 2021/'22 and $242.7 million in 2022/'23.

Salaries and benefits are a significant component of Basic's operating expenses, representing over 59 percent of the total operating expenses in the year of the Application.

Since 2016/'17, the Corporation has experienced compound annual growth of salaries and benefits of 1.3 percent, with compensation that has grown from $122.2 million in 2015 and '16 to $128.2 million in 2019/'20. Salaries and benefits are forecast to be $133.9 million in 2020/'21 and are forecast to be 135 point million dollars (sic) in 2021/'22 and $138 million in 2022/'23.

Forecasted annual growth for the three (3) years 2021 -- twenty-on -- 2020/'21 to 2022/'23 is 2.7 percent.

MPI forecasts an increase in compensation expenses net of vacancy allowance of 3.1 percent in 2020/'21 and an increase of 2.02 percent in 2021/'22.

MPI attributed the growth in compensation in the current year to forecasting, filling many vacancies during the year.

Actual staffing for 2019/'20 was one thousand eight hundred and eight point six (1,808.6) full-time equivalents overall while last year the Corporation had forecasting -- had forecasted a staffing level of one thousand nine and eleven point one (1,911.1) full-time equivalents.

Actual staff level at the end of September 2020 was one thousand eight hundred and three point two (1,803.2) full-time equivalents compared to a budget of one thousand nine hundred and fifty-three point five (1,953.5) full-time equivalents, representing a hundred and fifty point three (150.3) vacant positions.

MPI has indicated that vacancies have averaged a hundred and forty-two (142) full-time equivalents for the year. It expects that actual salaries and benefit expenses to be under budget, currently estimated at $5.8 million.

Moving on to capital expenditures. A forecasted capital Basic exte -- expenditures are $36.1 million for 2021 -- 2020/'21, $45.5 million for '21/'22, and $23.9 million for 2022/'23, so over $105.6 million in the next three (3) years.

MPI is forecasting $93.4 million in capital expenditures in ongoing and future IT projects in the next five (5) years. MPI provided cost information on Project Nova which relates to replacing Legacy systems at a budgeted cost of $106.8 million. The budget includes an estimate of $85.4 million plus a 25 percent contingency of $21.4 million.

MPI has identified additional costs for the project related to program governance. MPI has applied a $1.3 million variance against the budgeted contingency.

MPI addit -- identified additional costs not anticipated in the original cost estimate, including $12 million for software licencing and $9.3

million in leadership and incremental resources to manage the project.

MPI has reported that the progress of Project Noda -- Nova has been delayed from what was expected in the previous GRA and it is in the process of re-baselining Project Nova.

MPI presented its information technology strategy for 2020/'21. The IT strategy remained consistent in terms of characteristics, components, and context when compared to 2019/'20 with many of the core elements of the IT strategy remaining unchanged.

Consistent with previous years, the IT strategy continues to be focussed on growth and refinement of enterprise architecture, reliance on commercial off-the-shelf solutions, reliance on external workforce to implement solutions, and transitioning to internal workforce for maintenance and operations, use of modern technology practices, including lean, dev ops, and agile practices.

The most dramatic influence on the IT strategy continues to be Project Nova. While the core elements of the IT strategy remain consistent and responsive, as expected, Project Nova will consistently continue to significantly affect how IT functions in years to come.

On benchmarking in IT, MPI continues to focus on benchmarking to support operational efficiency and IT service and delivery. For operational efficiency benchmarking, insights for the current GRA were not available as the contract for the previous vender, Ward Group, was terminated and MPI is working with other Crown insurers to -- to prepare a new benchmarking framework.

This process was to be completed in September, but the Corporation reported some delays attributed in part to the effects of COVID-19.

For IT service and delivery benchmarking, Gartner was contracted to provide services to MPI for three (3) years following an RFP process.

MPI filed an initial update from Gartner dated July 2020 which indicates that MPI spending service and maturity level remain on par or ahead appears.

Like other areas of the organization, Gartner indicates that IT service and delivery will be greatly influenced by Project Nova.

Finally, with respect to driver safety rating, as required by Board Order 176/19, in this

Application, MPI filed a driver safety rating pricing review.

In the pricing review, MPI acknowledged that the current discounts and surcharges do not reflect the relative risks of drivers at different DSR levels.

MPI indicated it is developing recommendations for the future of the DSR system. The future state ultimately recommended by MPI may require regulatory changes and must be coordinated with the implementation of Project Nova.

Madam Chair, members of the Board, I've attempted to comment on the main issues that arose this year. I would like to thank MPI and the Interveners for their cooperation extended throughout the Hearing.

Subject to any questions, those are my closing submissions. Thank you.

THE PANEL CHAIRPERSON: Thank you. Do you have any questions? Ms. Hainsworth, do you have any questions?

MS. CAROL HAINSWORTH (via phone): I do not.

THE PANEL CHAIRPERSON: Thank you. Thank you, Ms. McCandless. At this point, I think we should take the morning break, and then come back with closing remarks by MPI counsel.

Can you give me an indication, Mr. Scarfone, of how much time you would like before you start your closing remarks?

MR. STEVE SCARFONE: I think we'd would probably be just about an hour, Madam Chair. And -- but I did have a conversation with Board counsel last week when we were arranging for today. And MPI has planned to begin its opening -- or its closing, sorry, after the lunchbreak, and so, if that's agreeable to the Board.

I'm told that the -- the closing will be comprised of two (2) things, as we normally do, one (1) is the written submission. But we want to circulate to -- to the Board and Intervener counsel and Board counsel the slide presentation over the lunch hour so that everybody has it for when we come back to make the closing submissions.

THE PANEL CHAIRPERSON: Okay. Thank you, Mr. Scarfone.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you.

Can we adjourn now and come back at one o'clock this afternoon?

MR. STEVE SCARFONE: Yes.

THE PANEL CHAIRPERSON: Thank you.

MR. STEVE SCARFONE: Thank you.

THE PANEL CHAIRPERSON: And, Mr. Scarfone, just one (1) matter. I neglected to thank Mr. Johnston and Mr. Bunston for coming back this morning, so would you please do that for me?

MR. STEVE SCARFONE: I will do that on your behalf, yes, of course.

THE PANEL CHAIRPERSON: Thank you.

--- Upon recessing at 10:47 a.m.

--- Upon resuming at 1:00 p.m.

THE PANEL CHAIRPERSON: Mr. Scarfone...?

MR. STEVE SCARFONE: Yes. Good afternoon, Madam Chairperson and Chairperson Gabor and Ms. Hainsworth on the telephone. Just before MPI begins a couple of things, I want to confirm that everybody has the deck that's in front of them.

Mr. Gabor, I understand that a hard copy will be up momentarily, so what I intend to do before I begin is just mark the balance of the exhibits that are outstanding.

And I said earlier in this proceeding that I'm not very good at this, and so this morning I omitted some exhibits, I'm told. So we're going to go back to MPI Exhibit Number 67, which is a response to Undertaking Number 8, which was to provide an explanation for the interest rate impact on investment income.

--- EXHIBIT NO. MPI-67: MPI's response to Undertaking No. 8

MR. STEVE SCARFONE: MPI Exhibit Number 68 was a response to Undertaking Number 10 which was to advise or provide a explanation for the variation between the updates.

--- EXHIBIT NO. MPI-68: MPI's response to Undertaking No. 10

(BRIEF PAUSE)

MR. STEVE SCARFONE: I had a number of -- sorry, that had a number of pro formas attached to it.

MPI Exhibit Number 69 was a response to Undertaking Number 27, an update to a figure to include claim counts by accident year and severity bucket.

--- EXHIBIT NO. MPI-69: MPI's response to
Undertaking No. 27

MR. STEVE SCARFONE: MPI Exhibit Number 70 was a response to Undertaking Number 33. MPI was providing at each discount level the number of vehicles that were registered under pleasure use.

--- EXHIBIT NO. MPI-70: MPI's response to
Undertaking No. 33

MR. STEVE SCARFONE: MPI Exhibit Number 71 is a response to Undertaking Number 37. MPI was advising whether it conducted a review of the Experienced Rider Program, and the answer to that was no, and there's an explanation for that in the response.

--- EXHIBIT NO. MPI-71: MPI's response to

Undertaking No. 37

MR. STEVE SCARFONE: MPI Exhibit Number 72, a response to Undertaking Number 40. And again, that was sensitivity of analysis, it appears, on claim counts and adjusting for the impact of the new Aggregate Reinsurance Program.

--- EXHIBIT NO. MPI-72: MPI's response to
Undertaking No. 40

MR. STEVE SCARFONE: MPI Exhibit Number 81 -- and so I had marked up to Number 80 this morning. MPI Exhibit Number 81 is a response to Undertaking Number 36, MPI providing the total number and value of all PIPP claims from individuals without a registered vehicle in their name for each of the last five (5) years.

--- EXHIBIT NO. MPI-81: MPI's response to
Undertaking No. 36

MR. STEVE SCARFONE: MPI Exhibit Number 82, a response to Undertaking Number 32. MPI was providing a relative -- relativity analysis or outcomes of other rating variables, comparing those to the existing relativities.

--- EXHIBIT NO. MPI-82: MPI's response to Undertaking No. 32

MR. STEVE SCARFONE: MPI Exhibit Number 83 is a response to Undertaking Number 39, and it was calculating the duration of motorcycle reserves and applying an appropriate new money yield based on that duration.

--- EXHIBIT NO. MPI-83: MPI's response to Undertaking No. 39

MR. STEVE SCARFONE: And lastly, Exhibit Number 84 is the closing submission by MPIC, the written version of that, which will be circulated in short order.

--- EXHIBIT NO. MPI-84: Written version of closing submission by MPIC

MR. STEVE SCARFONE: And -- and the last exhibit would be MPI Exhibit Number 85 which is the presentation that's before you on the screen.

--- EXHIBIT NO. MPI-85: MPIC Final presentation

MR. STEVE SCARFONE: And just before I begin the presentation, Madam Chair, I'd like to thank Ms. McCandless for her comprehensive and accurate review of my client's Rate Application this morning.

CLOSING REMARKS BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: So these are the closing remarks of MPIC, and you'll see before you that, on that very first slide, we put a slide in there that shows what appears to be a road during the pandemic. And that was for the benefit of Mr. Williams. Mr. Guerra found that particular slide and included that as our cover page.

And the next slide, please, and we'll go through the agenda, the first one being the Request Summary, the COVID-19 pandemic and its impact, Revenues and Expenses. We'll go into investments, the Capital Management Plan, Project Nova, the DSR, Vehicle for Hire, and lastly, the Motorcycle Major Class, some commentary on that.

Ms. McCandless went through the relief

that's being sought by the Corporation in this year's Rate Application and indicated there in the first bullet negative 8.8 percent overall rate indication effective April 1, 2021.

Continuation of the Capital Management Plan -- and there was some debate internally whether the Corporation is now in year 1 or year 2 of the Capital Management Plan because last year it was approved, and so this year's Rate Application obviously has monies being transferred under the CMP at the end of fiscal year March 2021.

But as this Board knows, there were no monies transferred at the end of March 2020, and so that's something that I just raise and bring to the Board's attention. The -- the Corporation's position is that this General Rate Application represents year 1 of the Capital Management Plan, so they are asking for continuation of the CMP in this rate Application.

No changes as we see there to permits and certificates, no changes to the Driver Safety Rating Scale, no changes to transaction fees, no changes to fleet rebates and surcharges.

And there's the breakdown of the rate indication. Again, as Ms. McCandless indicated this morning, you'll see that the actuarial-approved breakeven rate is negative point eight (.8).

And then when you factor in the product review, or the CERP as it's been called throughout this proceeding, that adds an additional negative 3 percent, so the AAP break-even required rate change would be negative 3.8 percent.

And then, in addition to that, the -- Manitoba's ratepayers get the benefit of the maximum allowed under the Capital Management Plan, capital release of negative 5 percent for the overall required rate change.

Thank you, Kristen. 96.6 percent of vehicles will see their rates decrease or not increase if the Board approves the relief sought in this Application. And approximately 100 percent of private passenger vehicles will see their rates decrease.

And there, set out from the rate-making chapter, is the breakdown of the overall indicated rate and how each of those classes are impacted.

We bring this particular slide to your attention because it's important to note, and I know that My Friend for the Consumers Group indicated, that the ratepayers appear to be the beneficiaries of what amounted to an accumulation of approximately 8 percent in rate increases during a three (3) year period from

2017 to 2019.

The Corporation wants to make it clear, though, that there's a clear decrease happening there in the rate indication beginning in 2017 which we say marks the financial turn-around of this Corporation.

And then it was reduced further in 2019 to 1.8 percent -- you'll see that -- but also that, omitted from the CAC's analysis where the book ends there in 2016, there was a zero percent rate increase, and then last year, of course, the negative .6 percent decrease.

So that I think is important from a historical perspective, Madam Chair, to appreciate that although Mr. Williams is correct that there was, over those three (3) years, an 8 percent cumulative amount that, as he noted, it gets added to the revenue in perpetuity, that indication is clearly going down since 2017. And here we are today, before this Board, with a -8.8 overall rate indication ask.

This was a document that Mr. Johnston made reference to, and -- and we wanted to bring it back to this Board's attention, because it -- it serves to underscore the importance of why we are all here, and that MPIC is, clearly, since 2001 where you start to see the divergence at the bottom of this scale on the total average premium growth for the last twenty (20) years.

And as Mr. Johnston points out, these numbers, this data, it's not MPI's data. This is the data that's collected by Statistics Canada and so we feel this is a very compelling graph to present to this Board to show that MPIC is going a good job in -- in maintaining affordable rates and good coverage for its customers.

The COVID-19 pandemic and the effects of that cannot be overlooked, and we've heard evidence from Mr. Johnston about how MPI's Enterprise Risk Management responded to the -- to the pandemic. It was a major business disruption and continues to be a major business disruption.

MPIC implemented its corporate incident management structure and emergency operations centre, and those were designed by the Business Continuity Program, which amounted to approximately nineteen hundred (1,900) employees transition to work from home within just four (4) weeks of that declaration back in March.

The Corporation also provided assistance to the province through the provision of three (3) of its MPI service centres for use as drivethrough testing sites.

So you might well imagine the impact that this would have had on MPIC's normal business operations, having relinquished three (3) of its service centres where customers attend on a daily basis.

And lastly, as this Board well knows, there was $110 million returned to Manitobans in the form of emergency rebates in the special app -- rebate application that occurred in May.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So, MPI must remain positioned, as it has been to this point, to respond to the uncertainty that this pandemic has brought to our lives.

What is currently known is that there's approximately $6 million of incremental costs that the Corporation has incurred as a result of the pandemic. Those costs are mainly those at the repair shops, extra cleaning and disinfecting that the vehicles undergo before they're returned to the customer.

And then you'll see there approximately $9.5 million in savings due to COVID-19. Those are operational costs, not claims costs.

The claims experience was lower initially, as we've seen. But we heard Mr. Johnston indicate that that is now moving towards budget. Notwithstanding that, claims costs are likely to be less than the original forecast, of course, in the 2020 GRA, which didn't forecast the reduction in claims costs that we've seen since the pandemic started.

What is currently unknown, as we all know, is the timing and the magnitude and the impact on the claims experience and the financial markets with respect to this ongoing pandemic.

We don't know about any further impositions of restrictions that the government may place on Manitobans, or the lifting of future health restrictions on Manitobans.

So the -- more to the point, beginning yesterday the -- the City of Winnipeg moved into a new restricted zone, a red zone. The Corporation isn't aware of whether that will be lifted in the two (2) weeks that was initially selected, or if it will extend beyond those two (2) weeks.

What we do know is that the Corporation is not in the same position, and neither are

Manitobans with respect to the lockdown that occurred in the spring.

Schools are still open, people are driving more than they were during that lockdown. And -- and so the Corporation has to be careful, and I'll touch upon this later, not to base its forecasts on the 50 percent reduction that we heard about back in March and April, because we're not in that lockdown phase like we were then.

We also do not know about how the pandemic will impact upon future interest rate changes, which this Board knows are important to the forecasting and have dramatic effects on both investment income and claims costs.

And ultimately, we don't know the end date of this pandemic and when we might return to normal, or -- or the new normal, whatever that might look like.

So all of that to say that MPIC is proposing, in this rate Application, that this Board recognize that a calm and steady approach going forward is needed in the face of this pandemic.

And that dovetails into revenues and expenses. On forecasting revenues, the revenues for Basic are consistent with prior years. And you'll be aware that MPIC gathers 92 percent of its premiums for motor vehicles, and 6 percent from driver premium. That is the premiums that are collected under the DSR scale.

MPIC expects volume growth to decline this year, due to COVID-19, and you'll see there in brackets .14 percent. That is a substantial decline in volume growth where it's normally over 1 percent, 1 1/2 percent is normally where we see that number.

And so that, we say, is something that could be expected to continue with people not purchasing new vehicles during the course of this pandemic.

However, the Corporation is forecasting modest recovery in 2021/22, and thereafter. So you'll see that the recovery is -- is not insignificant at 1.79 percent and then dropping again down to the traditional levels of -- of around 1 percent.

MPIC also expects its vehicle upgrade factor to increase and be slightly lower next year, at 2.47 percent with -- again, with a return to normal levels beginning in 2022/23.

So these slides are really just to demonstrate, as Mr. Johnston indicated, that we are trending back to our normal trends, and that's what he fully anticipates to happen with the Corporation.

One (1) additional note there, because part of the revenues are collected from the DSR, they -- the impact of the pandemic may result in more drivers moving up the scale, if they're on the road less, that obviously means less accidents. And so that revenue might be lost to the extent that the discounts are applied, rather than the demerits.

Revenue forecasting is very difficult in light of COVID-19, but current revenue projections are close to forecasts, and therefore the Corporation says are reasonable.

And next slide please, Kristen. Oh, never mind, I didn't -- sorry. On the -- just to finish up on revenue and expenses.

That there is really just showing the combined expense ratio that has fallen, and you heard Mr. Giesbrecht say that's an important metric for the Corporation. It has operating expenses as against the net premiums earned, and that number has dropped.

Now, it should be noted, as I did in my opening presentation, that if the rate indication is -- is approved, we would expect that number to, again, climb to the benchmark, which is normally around 22 percent.

But that just shows that the -- the share of premiums needed to run Basic regularly below the -- the levels in 2014 and '15. So you'll see a steady decline there in the combined expense ratio.

On the investment side, you had both Mr. Bunston come to testify, as did Mr. Johnston, in a -- in a supporting role, I think I'd call it.

But the important takeaway from the investments, in our view, is the -- the infancy of the investment strategy under the ALM study from a couple years ago. And the Board has heard ample evidence about MPI's appetite for investment risk, which is low. And that each of the segregated portfolios is determined by its purpose.

There is no appetite -- as Mr. Johnston confirmed -- for equity exposure in the Basic claims portfolio. And -- and perhaps a medium appetite for equity exposure in some of the other portfolios, including the RSR.

The goal, of course, is to reduce premium and rate volatility by ensuring the MPI has capital available to pay its claims.

And -- and so, one (1) of the things that Mr. Johnston reminds us of is that the primary goal of the investment strategy now is not returns.

The primary goal of the Basic claims portfolio primarily is to mitigate against interest rate risk forecasting. The secondary goal, he would say, is -- is the returns that might be realized under that portfolio.

And -- and just re-visiting the Board Order from the -- from 2018, we remind the Board that it did, in fact, make a finding that the Corporation selected from a range of reasonable options for its portfolios as a result of the ALM study.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So this was the update that Mr. Bunston provided to the Board about where the implementation of the ALM strategy is currently at.

And you'll see there that almost all of the asset classes are now in place, with the exception of private debt, which is not yet fully funded. But of importance there, again, is the Basic claims portfolio, which we heard Mr. Bunston indicate has been fully operational now for eighteen (18) months -- fourteen (14) months, I beg your pardon.

And next slide, Kristen, please. So

there are some of the returns that were part of Mr. Bunston's presentation. And we see there that the Basic claims portfolio during that twelve (12) month period returned, what we would say is, a very reasonable rate of return at 4.4 percent.

And there was -- there was some returns that were set out in the initial Application in the investment section at Appendix 10, that showed a higher rate of return for the Basic claims portfolio, in the neighbourhood of 6 percent.

And I'm told that the discrepancy there is that, not unlike some of the other numbers that were seen during this Application, that 6 or 7 percent number was the thirteen (13) month return. And this represents the twelve (12) month return, as it says there, from April to March 31, 2020.

I just wanted to -- before I talk about this next slide -- touch further upon those returns. And we heard Mr. Bunston talk about the volatility in the equity markets. And, indeed, he testified that, in his time with MPIC, those seventeen (17) years, he'd never seen that -- that rate of volatility, other than perhaps during the global financial crisis in 2008.

And so, what he pointed out was the

MPI's public equity portfolio was down 18 percent in about a month, between February 2020 and March 2020. And then, it went up again by 34.5 percent, from March 23rd to August 31st.

So that, I would say, is a very significant swing. Again, those numbers -- down 18 percent in a month, up 34.5 percent from March to August.

And so, when you compare that against the -- the Basic claims portfolio, you'll see that, in the update that was provided by way of undertaking, that the return was about 6.46 percent and, earlier, the thirteen (13) month return from March to March was about six-point-nine (6.9) -- 6.19 percent. And that's in the Appendix 10 of the -- of the investments chapter.

So that, we would say, underscores the importance of MPIC's investment strategy and its risk tolerance. It's low risk tolerance.

The volatility that was -- that was seen in the equity market during the height of the pandemic is precisely the kind of investment risk tolerance that MPI was seeking to avoid when it implemented this -- this new strategy. And -- and it's positioned MPIC and its customers quite well, in our view, for this pandemic. They didn't -- the Basic claims portfolio didn't sustain the losses that the private equity portfolio did.

And more to the point, there is, as this Board knows, shadow portfolios to look to to compare how those did against the Basic claims portfolio. And, again, we see that, during the March to March period, in the Application, the Basic claims portfolio, as you might expect, outperformed the -- the equivalent shadow portfolio that had equities in it and it outperformed that portfolio by a substantial margin.

But then, when it was updated to August to August, it now, of course, showed the shadow portfolio with the equities outperforming the Basic claim portfolio, but not my much. By about a percentage, if you look to Appendix 10 in the investments chapter.

So, again, it's the steady predictable performance that MPIC was seeking under its new investment strategy and -- and we are firmly of the view that that has been achieved, at least to this point.

And there before you on the screen, you'll just see some of the performance of -- of what, essentially, is the co-mingled equities and co-mingled mixed -- or fixed income assets. And the -- the public equities up 16.6 percent and privates at two-point-seven (2.7), and 1.8 percent for real estate.

And then, the fixed income, the bonds, there was an increase in value of -- the yields were down, the value was up for public, 73 1/2 million; 80 million for the provincial bonds.

And next slide, please, Kristen.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So as I've indicated, one (1) of the important aspects of the new investment portfolio -- primary, and not the returns -- is the impact of the interest rate changes on the total fixed income assets.

And you'll see there that from March through to August, that impact was 12.7 million, or 8.3 million worse than budget. And as we've heard, the Basic claims portfolio is doing a good job of hedging against interest rate risk -- interest rate forecasting risk.

Kristen, I wanted to pull up an exchange that occurred on October 20th, 2020 transcript, at page 454. And this is an exchange between Ms. McCandless and Mr. Bunston.

And it reads there:

"Mr. Bunston, can you explain how the duration matching undertaking by the Corporation protects against the change in interest rates?"

And he goes on to explain:

"Sure. So the duration measures sensitivity of bond prices to interest rate changes. And our strategy is to match the dollar and duration amount of our fixed income portfolio to the Basic claims portfolio."

And if you scroll down further, after the explanation provided to Ms. McCandless, she asks:

"So in your view then, this portfolio allocation has achieved the de-risking of the impact of changes in interest rates."

The response to that:

"Yes. Relative to the portfolio that existed prior to March of 2019 when it was co-mingled, interest rate impacts have been reduced."

And so, that's an important point and I'll -- I'll bring this up later because there has been some recommendations, perhaps, about moving away from the 100 percent fixed income asset allocation in the Basic claims portfolio.

And -- and for that reason and others, MPIC is saying it's not a good idea and highly recommends that the Corporation maintain its current investment strategy.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Just on the forecasting, of course, the Corporation, I think, has made it clear that the use of its naive forecasting methodology, at -- at least now in this environment, is -- is the best estimate to make and to avoid using the other predictors until such time as these low interest rates that we're seeing start to climb again.

Next -- next slide.

The Capital Management Plan, as I indicated at the outset, MPIC is recommending its continued use. And the Corporation is pleased, as Mr. Johnston said, about how it's working and the benefits that it's providing to the -- to the Basic customers. And there out -- set out before you is the mechanism that appeared in last year's General Rate Application in the -- in the RSR chapter. And so the steps are set out there before you. I don't have to go through them.

But at the bottom there, taken from the Capital Management Plan, is an important point in our view, and it -- and it reads:

"If, at each fiscal year end, the Extension MCT ratio is over 200 percent, MPI will transfer capital from Extension to Basic until the ratio is back again at 200 percent."

This -- this too, I'd like to revisit some of the evidence that was provided during the course of the hearing.

Ms. Schubert, October 20th, 2020, page 579. Thank you.

And, again, Ms. McCandless was questioning Mr. Giesbrecht on the Capital Management Plan and the transfer of capital under that plan. And she asks Mr. Giesbrecht:

"But under this definition, should MPI not have transferred over the

excess amount to comply with the
CMP?"

And Mr. Gibes -- Giesbrecht said:

"Yes, but for the Special Rate
Application, we would have."

And then she goes on to read, at the bottom of this response, from -- from the Application:

"At this time, there are no plans to
utilize excess Extension capital for
any purpose other than transferring
to Basic, as is evidenced by the --
the transfers forecasted in the pro
formas."

"That is correct." --

-- Mr. Giesbrecht says. The important question here was put to Mr. Bies (sic) --:

"Could MPI make a decision to
utilize excess monies rather than
transfer it to Basic, as it had done
previously?"

"That is a possibility."

And so she has Mr. Giesbrecht confirm that the Corporation acknowledges its position that it has some flexibility to not transfer monies.

And then one (1) last exchange that was

important to note, at page 693 of October 21, please, Kristen.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Is that -- is that the October 21 transcript? Oh, it is. Thank you. Scroll up just a little bit, please.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Okay, stop right there.

Sorry, so that -- that isn't the right portion of the transcript. The part that I wanted to bring to the Board's attention was Mr. Gabor's question of Mr. Giesbrecht and -- and whether he maintained that there are -- there is some discretion that MPIC has in transferring those monies from -- yes, that -- I think that might be it -- from the Extension line of business into Basic, Mr. Gabor.

And so I think -- just to clarify the Corporation's position on that, and that's why I wanted to bring up that part that we cited from the Capital Management Plan itself. The Corporation's position -- and I think this is consistent with what Mr. Giesbrecht said -- is that the Corporation fully intends to make the transfers at fiscal year end, but it doesn't feel as though it would be precluded if the need arised to transfer or to make use of some monies before the fiscal year end.

And so the example that Mr. Gabor used was Project Nova and -- and whether, you know, before the end of fiscal year end, the Corporation could make use of some capital in the Extension line of business, meaning less would be transferred at fiscal year end. And the answer to that -- and as Mr. Giesbrecht emphasized, if the board of directors thought it was appropriate -- is yes.

And -- and the reason for that, I would suggest, is twofold. One, Extension is a competitive line of business, and it's designed to earn profits. And so it seems reasonable that if a need was to arise that was related to Extension -- so if, for example, an Extension capital project was under way -- that monies from the capital reserves could be used for that line of business.

And -- and to the extent that there's some allocation there -- so for Project Nova, we know that some monies are allocated to Basic, some monies are allocated to Extension. So if monies were used from the Extension line of business in excess of the 200 percent, that, of course, would fall in line with the -- with the allocation that's agreed to by this Board.

So what I mean by that is it would be in the spirit of the Capital Management Plan, in our view, to make use of some monies for Extension for Extension projects. But again, as Mr. Giesbrecht indicated, that is not something that the Corporation currently foresees happening, but it's -- it's something that the Corporation feels strongly about that the -- that the -- the Capital Management Plan not in any way fetter the discretion that the board of directors might have in making use of those monies.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Mr. Johnston did, as I say, testify that he's very pleased with how the Capital Management Plan has been working. We recognize that this Board allowed it to operate as a two (2) year pilot project, and it's -- and it's in its inaugural year, as I -- as I've said. We -- we're of the view that it's in Year 1.

This particular application, as we've seen, results in a 5 percent rate decress -- decrease, with 100 percent 15 percent MCT ratio is -- is the projection. More importantly, additional capital releases are -- are likely in future years, and we heard Mr. Johnston testify to that.

Touching upon the Special re -- Rebate Application and -- and you have my reasons for that, MPIC did not transfer the excess capital from Extension to the RSR, and that was in response to the -- the state of emergency that was declared by the Province, and the Corporation felt that was an appropriate response in -- in those circumstances.

But important to note that the present conditions are different, and I touched upon that earlier. We're not in a lockdown, the Corporation has not seen the 50 percent reduction in claims counts, and to the extent that it might be suggested here, additional rebates are not desirable by the Corporation.

And -- and there's reasons for that. One (1) is this Board can't properly assess whether the Capital Management Plan is working if we're not using it.

The Corporation recognizes that there

may be kinks to iron out, improvements to be made, but as I've said, it has to be done without fettering the discretion of the board of directors to make use of the excess monies in the Extension reserve.

(BRIEF PAUSE)

MR. STEVE SCARFONE: The top line there was -- was a favourite line of our -- our former president, Mr. Graham, where he would say that the -- the Corporation was, essentially, making use of an Atari to run its business and that it needed a full business transformation in order to operate into the future and, of course, to provide online services to its customer -- to its customers.

The important part there is that Project Nova has evolved from when the Legacy Systems Modernization business case was first advanced. It's no longer, if it ever was, a computer project. It is a transformational business project, and we hope that the import of that project was -- was apparent when the -- the panel was here that was led by Mr. Mitra.

We do -- we do see that there are some IT elements to it, and Mr. Bunko, you'll recall, was presented as part of the information technology panel.

But he was also, as I recall, asked questions that he candidly admitted were outside of his -- his purview. You'll recall he can't answer that question, I can't answer that question.

Questions were put to him about direct repair. Questions were put to him about how MPI arrives at its discount rates on high pro -- profile capital projects and those questions Mr. Bunko wasn't answering.

Mr. Bunko, if it wasn't obvious, was here as part of an IT panel to answer questions related to information technology. We say information security, the IT strategy, IT maturity levels, benchmarking, the use of consultants.

That is the area of expertise that Mr. Bunko brings. He was asked questions about how, you know, if Nova was one such capital project, about debt financing and whether that might pertain in some way to Nova again. Mr. Bunko couldn't answer that question.

And -- and I do recall that Madam Chair asked -- asked a question. She pulled up the Nova governance structure and asked Mr. Bunko, well, where -- where do fit on this, sir, as -- as vice-president of information technology.

And, again, his response quite candidly was, relatively small role. I'm on the executive steering committee, but certainly nothing to the extent of these project leads, the program director, Mr. Remillard, and certainly not to the extent of Mr. Mitra and someone with his business acumen as the chief transformation officer.

So, that -- the Corporation wants to impress upon this Board is why we presented the Nova panel separate and apart from the IT panel, because Nova is much bigger than information technology. It's transforming the business.

And we've put in our closing argument, and I think Mr. Williams confirmed, the largest such capital project, the largest endeavour perhaps since MPIC merged with driver and vehicle licencing.

So, just going forward, it's important to recognize that and it's not a computer project. And the Corporation wants to impress the Board with that message.

Just going back, Kristen, we do say that COVID-19, as I did in the opening remarks, really highlights the need and the importance of systemic change and bringing MPIC and Basic customers into the online world.

Nova is a very unique project because MPIC is a unique company. And that is unique because we provide both insurance services and driver services to all Manitobans.

Nova's about focussing on the needs of the customers, adopting industry best practice, and becoming lean and avoiding high customized applications. And we heard lots of evidence about off-the-shelf versus customizing the applications that will be -- that will form part of the Nova project.

(BRIEF PAUSE)

MR. STEVE SCARFONE: We did hear that the time line was adjusted to some extent due to the pandemic, but delay was -- only amounted to about one (1) month, now scheduled for completion by early 2024.

The vendors and system integrators selected or in the process of being selected for all four (4) platforms and that Nova was launched using the waterfall approach but now being delivered via the hybrid Agile approach which stops both -- the best of both approaches to manage the risk.

(BRIEF PAUSE)

MR. STEVE SCARFONE: And there's the roadmap that Mr. Mitra made reference to. And I won't go through it again in detail, but you can see the various time lines for each of the -- the various phases. Next slide, please.

It's important to note that Project Nova is not PDR 2.0, the Physical Damage Re-engineering Project. It's different in many aspects, one (1) of which the business plan was based on outside advice by two (2) reputable firms, Avasant and Deloitte.

The value management office is providing ongoing financial analysis to the Board of Directors throughout the process. Information from Gartner and PricewaterhouseCoopers -- and you'll -- you'll note that PricewaterhouseCoopers has been -- is the oversight in -- in a governance role, and they will be throughout the course of the project.

We also have monthly reporting to the technology committee of the MPIC board. Controls and vendor assistance are in place to avoid over customization. So, that is, like, representatives from Duck Creek are on the premises to ensure that the off-the-shelf products are being used and not being overly customized as may have been the case with the

Fineos project.

And -- and you'll see there that it's also -- Project Nova is implementing the lessons learned from the roll-outs of the Mitchell product under PDR and the Fineos applications.

As we've seen in the application, there is a business case re-baseline exercise that's currently underway for Project Nova, includes sensitivity testing, as well as an analysis of the assumed costs and benefits of the project. So, those will all be repurposed, if you will, and includes a review of costs, vendor contracts, project delays, contingency, and savings assumptions.

You'll see there that -- and we heard evidence about the $12 million in unanticipated licencing costs that made the Corporation aware of its needs for greater vigilance.

Mr. Remillard spoke to the puts and takes, or what I thought might just be properly said, a give and take that's accounted for -- or that will be accounted for in updating the net present value of the project.

Some assumptions we heard, like, full-time equivalent savings, will stand in the re-baseline business case, although the contingency we expect will likely be adjusted downward.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Mr. Johnston was testifying on the driver safety rating model which has been since the 2018 General Rate Application under examination.

I think the most important piece of that analysis was the pricing examination that formed part of this General Rate Application.

And the upshot of that, I think it's fair to say, would be that the customers at the top end of the scale are not receiving the -- the discount that they might otherwise if it was based on actuarial soundness and that those customers you see at the bottom of the scale perhaps are paying too -- not enough.

So, the second bullet there says:

> "Owners at the top of the DSR scale are perhaps subsidizing the drivers at the bottom."

The -- the scale, in terms of actuarial soundness, the Corporation would admit is not revenue neutral.

So, that leads us into, well, what -- what do we do about the -- the summary or the -- the analysis that was undertaken in the pricing examination and whether a new model might be more appropriate than the existing model.

A couple things there. Well, the primary driver model, if that indeed is -- is the alternative model, may be more actuarial sound, but any change must have two (2) conditions. It must be approved by government. And, as -- as we know, that's not guaranteed even if recommended. And we -- we say it must not needlessly interfere with the implementation of Project Nova.

So, just to be clear, ideally, what the Corporation would like is for this Board and MPIC to be ad idem on the best approach, the best model, in making any recommended changes to government; that's the ideal approach.

But we heard evidence about, and there was a response to an Information Request, well, what if the Corporation and this Board have differing views on which is the best model? That's not ideal. We'd like to be together on this.

So -- but if the Corporation, ultimately, decides that it wants to maintain the registered owner model and make the tweaks that Mr. Johnston spoke of about adjusting the scale so that it better reflects the discounts, then the -- the Corporation would take the Board's opposite view to government and make the government aware that this Board has concerns about maintaining the existing model.

But again, there's a number of stakeholders that need to be considered, including government, and a decision on which model is ultimately the best to move forward with has not yet been made. You'll see there that that decision is projected from mid to late 2021 and it needs to be made with the ongoing development of the Nova Project.

And -- and the last bullet there, it goes without saying, that before a decision is made, MPIC would continue to collaborate with its stakeholders and educate its customers on any potential changes that might be afoot.

The intervention of the Taxi Coalition in this year's General Rate Application brought some interesting issues to light. You'll -- you'll see there that at least for the taxi cabs the loss experience, Mr. Johnston would say is well-established over many years. It's what he would call "mature" and "credible".

We do recognize that more data might be useful, but collecting that data may also be difficult. And I think that was recognized during the course of the hearing.

So for example, data about the distance travelled, you might think that that could be done by taking readings of the taxi's odometers, but that does involve a certain self-reporting element to it and -- and that has its own problems, in our view.

But certainly, the Corporation is -- is not opposed to collecting more data to -- to better forecast the rates that are currently being charged to the taxi cab companies.

The effectiveness of the Driver Safety Rating, you'll recall that Mr. Johnston said that the -- the taxi drivers were just recently allowed to take advantage of the discounts under that scale, but it's too early to assess the impact of that on the taxi Vehicle for Hire class.

We did hear from the Taxi Coalition about perhaps having the Fleet Program made available to them. The Corporation, for the reasons set out there, don't think that that's a reasonable alternative for the taxis, particularly because it allows for extreme volatility and it would include perhaps lowering the threshold, which is currently at ten (10) for a fleet. And so by doing that, you are increasing the volatility when claims are made.

We also heard evidence about how MPI would require additional resources to administer that program for the taxi companies.

And then lastly, there's a note there, the number of corporate taxi registrants is unclear, but likely small in size. And so that's a factor that also needs to be considered if the Fleet Program is to be an alternative for those -- for that group.

The evidence that was put forward by the Taxi Coalition was advocating for a 56 percent rate increase of the -- of a competing class, the ride sharing companies.

We note there that that particular class, the Ubers and the Lyfts and the TappCars weren't represented at this hearing. And so it would be -- it would be unorthodox, in our view, for a rate increase to occur for a group that wasn't here to represent themselves and advocate, perhaps, against such an increase.

So that, I think, is an unprecedented step that was taken by the Taxi Coalition, so you have a class of -- of vehicle owners that were here, not advocating perhaps on their -- for themselves, but rather advocating against another class of vehicle. And -- and you know, that -- I don't think they apologized in any way for that, they were looking for ways to level the playing field.

But it was important, Mr. Johnston indicated, that the loss ratio that we saw had about 120 percent for those ride sharing companies was just two (2) years old. He had two (2) years of claims experience there and, in his view, that wasn't enough.

Two (2) years wasn't enough, the size of the fleet wasn't enough to give him any confidence that the -- the loss ratio wouldn't decline to the number that he wants it at over the next couple, three (3) years. And again we see there, there was many possible explanations for the high loss ratios in those two (2) years.

One (1) question that we thought was interesting is the Taxi Coalition was proposing a change of sorts to the -- to the formula that Mr. Johnston uses in -- in forecasting these rates.

And if you go to the next slide, Kristen, this was a useful slide, in our view, that was part of the Taxi Coalition's presentation because it helps explain what is otherwise a very complicated formula.

But you'll see there that the credibility number at 10 percent, which is the number that Mr. Johnston uses, the Taxi Coalition says how much weight to put on the actual data from the last two (2) years. That would -- that's what that number represents.

And Mr. Johnston, he proposed, based on the low credibility that he assigns to the ride sharing companies, that that number should be fixed at 10 percent.

So of course, the lower the percentage, the less credibility. And Mr. Johnston's explanations for that were, as I've just said, that you only had two (2) years of data and you had a very small fleet size. So he thought 10 percent was appropriate.

The Taxi Coalition was proposing that that -- that number be replaced by 40 percent. And so that, we say, is improper for two (2) reasons.

1. It's a very transparent attempt to get up to the maximum of a cap that would be allowed for a rate change. So the 40 percent number conveniently gets them to the rate increase that's permissible on the current capping rules.

But more importantly, the -- the Taxi Coalition didn't put that proposal to Mr. Johnston. So, you know, we had Mr. Bowman acknowledge that he's not an actuary, but he's using Mr. Johnston's formula and inserting his own numbers, but not putting the -- putting the number to Mr. Johnston for comment.

And -- and so that, you know, touches upon the rule in Brown and Dunn, a little bit unfair. If you're going to change the actuary's formula, in our view, at least let him explain why the 40 percent number may or may not be appropriate. But they didn't do that.

And so remember that and -- and remember the 40 percent, because it represents the number that they can insert into Mr. Johnston's formula without offending the capping rules that this Board has in place.

(BRIEF PAUSE)

MR. STEVE SCARFONE: There was, again, a lot of discussion about that 120 percent loss ratio. Mr. Johnston would say that it's -- it's temporary and you need to keep an eye on it, and he has been keeping an eye on it.

But it's too early to tell if an adjustment needs to be made that would involve increasing those rates and having them approved before this Board; that was his clear evidence.

And he also mentioned, which I didn't think -- which I don't think many people appreciated, that to the extent there is a deficiency, and there's no question there's a deficiency at 120 percent, what that means is the Corporation isn't collecting enough revenue from that particular class.

Well that deficiency isn't paid by me, you, and others. It's paid -- and I'm sure Mr. Williams and others might argue indirectly -- from the Rate Stabilization Reserve. It's not a extra dollar that's added on to everybody's bill.

So we aren't -- the other Basic customers aren't subsidizing that 120 percent or that deficiency as a result of that 100 percent -- 120 percent loss ratio. It's taken from the RSR and it -- it should be noted that it falls squarely within the purpose of the RSR for unforseen events and -- and unforseen forecasting deficiencies. That's the purpose of the Rate Stabilization Reserve.

And so, be careful not to have a knee-jerk reaction to a loss ratio that Mr. Johnston did not feel was problematic. And -- and, Kristen, if you go to October 29, 2020, at page 2004. Thank you.

And so, this is a question I put to Mr. Johnston on redirect.

"Firstly, Mr. Watchman brought to his attention that, you know, the Corporation said it would come back to this Board if -- if an adjustment was required?

Yes."

MR. STEVE SCARFONE: Scroll down, please, Kristen. And so, I asked him about that 120 percent loss ratio and what threshold would cause him enough concern to come back before this Board to adjust the rates, what number or what threshold on the loss ratio scale would get his attention.

And his response there is telling. He -- he indicates that, just down a little bit:

"If we got this completely wrong, that we'd be talking about maybe 4 or 500 percent loss ratio, right, to be -- because since taxi rates are basically four (4) to five (5) times right now what passenger Vehicle For Hire has seen.

But we're not seeing a 500 percent loss ratio or a 400 percent. We're seeing a loss ratio that's a little bit above a hundred percent. Do we want that? No. Are we actively addressing that through the rate -- rate making methodology? Yes."

So, that was his response to that and -- and whether he had the same concern that the Taxi Coalition did about another class of vehicles' loss ratio. And, again, a little unorthodox for one (1) class of vehicle to be pointing over to another class of vehicles saying, you should increase their rates, Board.

(BRIEF PAUSE)

MR. STEVE SCARFONE: On the motorcycle major class, a couple comments that the Corporation would like to make, 1) that, as we've heard repeatedly, they're a very unique class. They're not a very large class. They're seventeen thousand five hundred (17,500) customers. But they have different -- they have a uniqueness. I guess that's the best way to put it.

The PIPP percentage, that's the -- that's the one (1) thing that stands out. They're a PIPP heavy class. Most of their claims are injury claims. The changes in the new money yield, as we see on the right there, affects them differently than it does the rest of the private passenger customers.

We heard evidence this morning and earlier about the impact of separating the serious loss development factors on the motorcycles and what that would mean and how Mr. Johnston had to adjust that methodology to bring their rates down.

They have a low upgrade factor. So, compared to the private passenger class, they don't trade in their motorcycles as often as -- as the private passenger class does, which decreases the revenue for that particular class.

So, these are the factors that the Corporation is dealing with in trying to address the -- the -- I'm reluctant to call them complaints, but the observations made by the CMMG, that they're the only class that doesn't seem to be getting rate decreases, and those are some of the reasons why.

The next -- the next slide would -- would suggest that notwithstanding that, Manitoba does a very good job. So, compared to other jurisdictions in all those years and under all three (3) scenarios, Winnipeg was the lowest. And so, it's -- it's important to note that.

And the Corporation, as we've heard, is still making efforts to reduce the rates. And we heard about, you know, maybe finding different places on the 'J' curve to discount things more appropriately. That's a solution that the Corporation has advanced.

It doesn't help them at this particular point because of the market and the 'J' curve being relatively flat, but that's a solution that the Corporation has advanced and could be considered. The next slide, please, Kristen.

That title's a little harsh, but I would say this, that the -- the suggestion that the Basic claims portfolio be adjusted somehow to include growth assets is really not, in our view, an option.

Firstly, the ALM strategy has only been in effect for fourteen (14) months, so it's just underway and -- and, as we've seen, it's working rather effectively.

And we heard from Mr. Johnston that, if you start including equities, it's going to raise MPIC's capital requirements.

And so, that's a question that needs to be asked, is whether we want to include equities for a relatively small class of vehicles at the expense of a larger class of vehicles that are -- that are seeing the benefits of a Basic claims portfolio that's comprised entirely of fixed income assets.

It also would, of course, require a change to the risk appetite of MPIC which the -- the MPIC Board of Directors has -- has rejected and -- and has maintained that a low-risk tolerance is what they want.

And so, on the capital side, you'll see there, and Mr. Johnston alluded to this in his testimony, the SGI investment strategy does, in fact, have equities. And he said there's nothing wrong with that.

But what it does mean is they need a lot more capital to protect themselves against those equities that are in the -- in the portfolio, and so they need $600 million to reach a hundred percent MCT.

And then there's a -- there was an exchange that occurred, Kristen, if you can, at October 20th, 2020, at page 501, line 12.

And -- and the alternative to perhaps including equities in the Basic claims portfolio would be, well, let's create a special portfolio specifically for the motorcycle class; that was an option or a suggestion put.

And Mr. Johnston, you know, said, no, plus I'm not really sure what that would look like. And if scroll down a bit, he said, "I don't know" -- just one (1) -- up a little bit:

"I don't know if the suggestion here is to back motorcycle claims with a portfolio on the stock market, and then use perhaps the 7 percent rate of return to price motorcycle rates."

And scroll down. The question he would ask is:

"Who pays the bill when that goes wrong? Are motorcycles going to cover a 30 percent decline in the stock market when that happens and what's the process look like?"

So, you saw earlier when I was talking about the volatility that we've seen in the past year in the equity markets and that big swing that occurred that resulted in -- in a large write-down -- or writeoff for MPIC in its public equities por --

portfolio, if now in this -- in this world where we have a special investment portfolio for the motorcycles, then the question is: Who is going to pay when -- when that happens in the market and all of their liabilities are backed by those assets?

So, that's something to bear in mind. And then, lastly, Kristen, go to page 482 at line 12.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Is that the October 20th one? Scroll down a little bit, please.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Yeah, yeah. So, I'm just trying to read. So, there's the explanation that Mr. Johnston provided, and I thought he did so very succinctly.

If you -- if you -- at line 20 there:

"Motorcycles, because most of the claims are long-term, MPIC sits on those premium dollars for longer and they get invested. Motorcycles have always got the benefit of that investment return through a lower rate."

And then you see he's talking about the -- the drop in interest rates and the prevailing market. All that's happening now is that investment income piece is smaller because interest rates are so much lower. And it does have a bigger impact on the motorcycles for that reason.

So, that is the explanation, really, in a nutshell for -- for these long-tailed injury claims that continue to affect the rates of the motorcyclists.

And again, the Corporation is making efforts to improve that and has made suggestions in that regard, but we don't agree that there should be any changes to the investment strategy that's currently being implemented and is now underway and working well.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So I did want to conclude by just -- we -- we provided -- and if it's not circulated already, it will be -- a copy of our written submission.

And just to remind the Board that the --
this particular year, 2020, will obviously be remembered for -- for the impacts of the pandemic. Notwithstanding this, we say the Corporation was able to weather the storm for a number of reasons, one (1) of which was the investment strategy, whether that was fortuitously or by design, it worked well during the course of this pandemic for customers of Basic.

And -- and you see that reflected in the -- in the rate indication, and remembering that that's also on the heels of $110 million that was just returned to the customers.

So there's a number of reasons for this. The financial strength of the Company is without question a contributing factor. The Corporation has never been in a better financial position than it is now. I don't want to sound like Donald Trump, but that's -- that is a truism.

And so things are working. And it's tempting we say to react swiftly to some of these suggestions that are being made at this hearing raised by Interveners legitimately. But we would caution the Board not to have, as we've said, a knee-jerk reaction to some of these suggestions.

And so one (1) of them would be don't

have a knee-jerk reaction to forecasting based on pandemic claim counts. You heard Mr. Johnston indicate that he can't do that, and he -- the best forecast that you -- he has is before this Board.

Don't have a knee-jerk reaction to releasing excess capital outside the workings of the Capital Management Plan. You heard Mr. Johnston say, let the Capital Management Plan do its job.

And having these short bursts, with the exception of the Special Rebate Application -- but having short bursts of capital release in the form of a rebate is not desirable when compared to what Mr. Johnston described as the easier transition and release under the CMP.

And -- and again, we see it as its cap and next year maybe again another 5 percent, depending on how the -- the claims counts unfold.

Don't have a knee-jerk reaction and levy large rate in -- rate increases against an emerging class, the ride-sharing companies. And again, that's that 100 percent loss ratio.

Mr. Johnston said just -- we'll watch it. It's going to go down. We'll adjust. It's not at 4- or 500 percent, so there's no reason to have a knee-jerk reaction and assess a levy against that class, in our view.

Don't abandon a familiar driving rating model that has worked well for ten (10) years. MPIC recognizing that it has its faults, but it also has a lot of benefits that we've heard.

And so the Corporation wants to tweak those, if it can, and then make a decision ultimately in conjunction with Nova and then decide how it wants to proceed in that regard.

And lastly, don't knee-jerk react to including growth assets in an investment strategy that would mean increasing interest rate risk and the capital requirements of the Corporation.

Those are all things that the Corporation is asking this Board to allow MPI to just take a slow, steady approach to all of these factors and -- and see what's on the other end of this pandemic.

And so those are MPIC's submissions, subject to any questions the -- the Panel may have.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone. Mr. Gabor...?

THE CHAIRPERSON: Mr. Scarfone, number 1, I would never accuse you of sounding like Donald Trump.

MR. STEVE SCARFONE: Oh, good. Thank you.

THE CHAIRPERSON: Secondly, as a comment, considering that this Board was the one that recommended the Capital Management Plan, I -- I find the choice of words, that we shouldn't have a knee-jerk reaction, a surprising one.

But nevertheless, I -- I have a couple of questions. Has Manitoba Public Insurance declared Project Nova an Extension project?

MR. STEVE SCARFONE: No.

THE CHAIRPERSON: Okay. In your submission, you said that the Board could direct that funds be used from Extension for Extension projects. Project Nova's not an Extension project, though?

MR. STEVE SCARFONE: No. No. So to the extent that Project Nova has some of its costs allocated to Extension, then arguably, but it's a corporate -- it's a corporate transformational project. So it -- it will benefit the customers of Basic, Extension, Special Risk Extension, the trucking company, and the -- and the -- and those customers.

THE CHAIRPERSON: Okay. Kristen, can you go to page -- sorry, this is page 22, right at the bottom, quote:

"If in each fiscal year end the
Extension MCT ratio is more than 200
percent, MPI will [which sounds
mandatory] transfer capital from
Extension to Basic until the ratio
is 200 percent."

The proviso in your presentation is that the Board always has the opportunity to direct that funds be used for some projects.

MR. STEVE SCARFONE: In advance of fiscal year end.

THE CHAIRPERSON: In advance. But certainly it will know probably at least a quarter ahead what its current -- what its final position will be, won't it?

MR. STEVE SCARFONE: I think that's a fair --

THE CHAIRPERSON: That's -- that's part of good financial --

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: -- projections. And Mr. Johnston certainly -- and Mr. Giesbrecht are -- certainly are smart people.

Is there anything that precludes the Board from using Extension funds for anything, any project? Is there anything in corporate governance, anything in the CMP, anything in the regulation that would preclude them from using funds from Extension for any project that they deemed appropriate?

MR. STEVE SCARFONE: Other than the language in the Capital Management Plan?

THE CHAIRPERSON: Yeah. The Capital Management Plan, as you pointed out, doesn't say they can't use it. It's just that, at the year end, if it's over 200 percent --

MR. STEVE SCARFONE: It's --

THE CHAIRPERSON: -- the fund's already gone, but --

MR. STEVE SCARFONE: That's right. I'm not aware of anything that -- that would preclude the Corporation from making use of -- of excess capital on the Extension side.

THE CHAIRPERSON: Okay. So if Project Nova NPV is negative, if the project has gone --

MR. STEVE SCARFONE: South.

THE CHAIRPERSON: -- over budget --

MR. STEVE SCARFONE: Right.

THE CHAIRPERSON: -- the Board could direct that funds be used to pay the costs of Project Nova from -- from Extension.

MR. STEVE SCARFONE: Only, as Mr. Giesbrecht said, in accordance with the -- with the cost allocation methodology.

THE CHAIRPERSON: So your position is that, beyond that, it can't be used for Project Nova?

MR. STEVE SCARFONE: That's my understanding from the evidence that Mr. Giesbrecht gave, yes.

THE CHAIRPERSON: Yeah. Okay. Those are my questions. Thank you.

THE PANEL CHAIRPERSON: Thank you.

Ms. Hainsworth, do you have any questions?

MS. CAROL HAINSWORTH (by phone): No, I do not, Madam Chair.

THE PANEL CHAIRPERSON: Thank you.

Thank you very much, Mr. Scarfone. I believe that ends the day, and we will start tomorrow with the submissions from the Interveners, is that correct?

MS. KATHLEEN MCCANDLESS: Thursday, yeah.

THE PANEL CHAIRPERSON: I'm sorry, yes. Thursday. Sorry about that. So we'll see everybody on Thursday morning. Thank you.

--- Upon adjourning at 2:18 p.m.

Certified Correct,

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Donna Whitehouse, Ms.