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

October 20, 2020

Pages 344 to 612

APPEARANCES

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Byron Williams	)CAC (Manitoba)
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--- Upon commencing at 9:00 a.m.

THE PANEL CHAIRPERSON: Good morning, everyone. This morning we'll continue with the cross-examination by Mr. Williams of the MPI panel. Thank you.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Thank you and good morning, Madam Chair and members of the panel. And I did neglect yesterday, just from our client's pers -- they did want to thank former Board member Vanderwater. He was a great pleasure to appear before, and thoughtful. And we enjoyed running into him in the hallway, as well, so wish him well in his new endeavours.

Resumed:

MPI PANEL NO. 1 re RISK MANAGEMENT FRAMEWORK/COVID-19/REBATES PANEL

LUKE JOHNSTON, previously Affirmed

MARK GIESBRECHT, previously Affirmed

CONTINUED CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Johnston, you'll recall last week, we don't need -- last week. It seems like last week already. That -- it did draw on.

Mr. Johnston, you'll recall yesterday we were talking about CAC-2-1. We don't need to go there, I don't think, but we are going there. And we were talking about collision frequency in early September tracking at 10 to 15 percent below the five (5) year average.

You recall that conversation?

MR. LUKE JOHNSTON: Yes, I do.

DR. BYRON WILLIAMS: And, Mr. Johnston, where we are in Winnipeg now is a state of code orange. Is that correct?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And we heard last week, and you'll accept subject to check, that there were a record-breaking number of cases three (3) days in a row last week?

MR. LUKE JOHNSTON: I can't remember if they were record-breaking, but they were definitely high, and higher than -- than usual or -- or -- or prior to that.

DR. BYRON WILLIAMS: And the

positivity tests both for Winnipeg and for the province were concerning?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And you're -- you're aware from media reports that the chief medical health officer was warning that we have lost our way and -- and warning of the potential for more restrictions?

MR. LUKE JOHNSTON: I do recall something along those lines, yes. Yeah.

DR. BYRON WILLIAMS: And, indeed, the chief medical officer was warning that we are running out of targeted tools aside from a lock-down.

Do you recall that, sir?

MR. LUKE JOHNSTON: Agree.

DR. BYRON WILLIAMS: And, of course, you're aware that schools have been warned, as well, that they should be pre -- be preparing for the possible of -- of going virt -- virtual again?

MR. LUKE JOHNSTON: That would be reasonable, yes.

DR. BYRON WILLIAMS: And, Mr. Johnston, we're now in the third quarter of the MPI fiscal year?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And it would be fair to say that there are ongoing impacts of COVID-19 on the lifestyles, behaviours, and financial circumstances as Manitobans as we speak today?

MR. LUKE JOHNSTON: True. Yeah.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. GIESBRECHT, we're going to briefly turn to PUB-1-45(b), an answer that you did go over with My Learned Friend from the Public Utilities Board yesterday. So, I just have a couple more questions about that.

And if we can go to the second page of that response. Just in terms of the COVID-19 expenses, claims exp -- expenses displayed here on the bottom of 145 -- PUB-1-45(b), those are total corporate expenses with Basic expenses making up somewhere between 7 to 8 million of that total of 9.4 million in front of you, sir?

MR. MARK GIESBRECHT: Correct. These are the expected savings directly related to COVID and -- and, yes, basically make up the majority of that 9.4 million.

DR. BYRON WILLIAMS: Yeah. And thank

you, sir, for answering the question much better than I asked it. It's early in the morning, so.

And in terms of some of the COVID expenses that we might expect -- or sorry, some of the MPI expenses that we might expect to be reduced as a result of COVID, and we can just roll up the page, to the extent that there's a COVID-19 -- COVID-19 impact on claims incurred, we can also expect savings related to Manitoba health costs.

Would that be fair?

MR. MARK GIESBRECHT: Fair.

DR. BYRON WILLIAMS: As well, other claims incurred where there might be favourable expense savings would relate to towing and medical consultants and chiropractic consultants.

Would that be fair?

MR. MARK GIESBRECHT: Correct.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And to the extent that there are COVID-19 impacts on claims extense -- expenses up to August 31st, 2020, those would be reflected in the October 9th update of Manitoba Public Insurance, which is MPI Exhibit 27, sir?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: Okay. And, Mr. Johnston, if we look at the -- the scenarios canvassed in MPI Exhibit 27, namely, the third quarter COVID-19 scenario and the fourth quarter COVID-19 scenario, would those include estimates of COVID-19 relating -- related savings related to claims expenses, sir?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Sorry, I was just looking for the email on that question. So, our modelling team says expenses are reduced by approximately 7 1/2 percent per COVID affected month in the three (3) and six (6) month forecast.

And that's based on year-to-date 10 percent below the GR bu -- GRA budget adjusted for the -- some of the anticipated catchup spending I guess you'd call it that is expected to occur, but that -- that's the information I have.

DR. BYRON WILLIAMS: Thank you very much for that, Mr. Johnston. And we were going to get to them in a couple minutes.

But in terms of the -- in Exhibit 3 -- excuse me, Exhibit 27, the scenarios for, again, the third quarter COVID-19 impacts and for the fourth quarter COVID-19 impacts, you talked briefly about the forecast in -- with my learned friend, Mr. -- from -- from the Public Utilities Board, but can you elaborate in terms of -- in terms of claims incurred the expected savings in a manner analogous to what we just did with claims expenses?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Again, just I don't believe I have anything to point you to on the record. There are some undertakings being filed that will make that a little easier --

DR. BYRON WILLIAMS: That --

MR. LUKE JOHNSTON: -- to see. But it -- from the numbers I have, through December 31 we would be looking at an additional 20 million -- or 20.6 million savings from the original GRA forecast, and then through March 31, an additional 33.2 million savings based on the assumption that collisions would gradually return to the -- the budget.

DR. BYRON WILLIAMS: Thank you for that. And just in terms of the 33.2 related to the COVID-19 fourth quarter scenario, is that over and above the 20 million associated with the third quarter COVID-19 scenario?

MR. LUKE JOHNSTON: That's -- that's just the total difference from the original forecast, yes, so it's not an additional thirty (30). And -- and you could see, in terms of the phasing down, if three (3) months is 20 million, the next three (3) months wouldn't be another 20 million; it's -- it's a little bit less.

But, again, that's -- we're just assuming a uniform return to normal, yeah.

DR. BYRON WILLIAMS: And, Mr. Johnston, and recognizing that some of this may come through in the undertakings, but in terms of the claims incurred savings, would those contemplate savings in collision, property, and PIPP?

MR. LUKE JOHNSTON: Right now, we -- we don't have PIPP in that estimate. I've checked on property. I don't see it in here, so I'd have to confirm that one, but collision, definitely. PIPP is not included right now, and I'll have to confirm via email on property.

DR. BYRON WILLIAMS: And, Mr. Johnston, just in terms of property, in our conversation yesterday, you seemed to be suggesting that there was a perfect correlation or link in terms of property.

MR. LUKE JOHNSTON: Yeah, I would -- it would definitely make sense to do so. I just don't see it referenced in this email, so I'll double-check.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: So to the extent that it does not include property in the COVID-19 third-quarter scenario or COVID-19 fourth-quarter scenario, it would tend to underestimate the COVID-19 impact, sir?

MR. LUKE JOHNSTON: That's true. I wouldn't expect property damage to be a -- a very large number, but if it was missing, it -- these numbers would be slightly higher, yes.

DR. BYRON WILLIAMS: And the assumption of the COVID-19 third-quarter scenario and forter -- fourth-quarter scenario is that there would be no residual COVID-19 impact on PIPP.

Is that right, sir?

MR. LUKE JOHNSTON: That's true. We're -- we're struggling with PIPP a little bit. I discussed earlier that we are seeing more serious claims, and as you're well aware, a single serious claim can easily wipe out a large number of small injury claims in terms of dollar size. So we -- we are acting cautiously on the PIPP side.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And in acting cautiously and recognizing that there may be countervailing effects in terms of severity, you are not in any way suggesting that there would be no COVID-19 impacts related to PIPP, you're just saying that for the purposes of estimating, given the puts and takes, you were less comfortable including that, sir.

MR. LUKE JOHNSTON: Yeah, there's -- on collision, it's -- it's pretty clear to see that there's a frequency reduction and -- and that COVID had a lot to do with that.

For PIPP, it's not as obvious what the net impact is going to be from COVID. Given the significant increase in serious losses we've seen -- you've also, I'm sure, seen on the news a lot of issues with speeding and racing and all these types of behaviour that's occurring.

When we're in a 50-percent-under-budget scenario on collisions, it's obviously, you know -- there has to be some impact to injury.

As we're appro -- approaching 9, 10 percent under budget on frequency, it's not as clear whether we're going to see PIPP savings going forward. Really, I'm just saying that we're struggling to be confident about a one-to-one relationship going forward.

DR. BYRON WILLIAMS: Okay. But you are confident about a one-to-one relationship between collision and property.

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: Okay. Again, probably for you, Mr. Johnston, CAC-MPI-2-4(a) and (b), so that's page 2 of 2, which again, you did canvass a little bit with My Learned Friend from the PUB. Do you recall that, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And, Mr. Johnston, at the level of high theory, instead of what's showing up in the results for Manitoba Public Insurance this year, one would expect short-term impacts to the vehicle upgrade factor in the midst of a pandemic and a recession, whether through the deferral of purchase of new or used vehicles or making different vehicle choices in the near future.

Would that be fair?

MR. LUKE JOHNSTON: Definitely reasonable to expect some impact of that kind, yeah.

DR. BYRON WILLIAMS: But what MPI is telling us in its response to PUB -- or, sorry, CAC-2-4(b) is that while it has observed claim cost tracking significantly below budget in '20/'21, there's only been a minor impact to pre -- to premiums, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: In effect, to date, there's been an asymmetrical effect of COVID-19 in terms of claims incurred where those effects have been noticeable, versus those effects in terms of premiums where those effects have not been noticeable.

MR. LUKE JOHNSTON: Yeah. Of course, we -- we don't know for sure, but living in Winnipeg, you do tend to need access to your vehicle to get around, and at least to date, it appears that customers are continuing to keep that insurance on their vehicle.

DR. BYRON WILLIAMS: Now, I do want to follow up on one (1) related question that you were asked by My Learned Friend yesterday, and I think it was with regard to Driver Safety Rating premiums. You recall having a conversation with her?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: With My Learned Friend?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And, Mr. Johnston, you said words something to the effect of "depending on how long frequency stays lower than expected, you might expect to have an -- a -- an impact upon Driver Safety Rating premiums."

Do you recall generally making a statement to that effect, sir?

MR. LUKE JOHNSTON: Yeah, no, that's -- that's true. We did have that conversation. The -- as you're aware, Driver Safety Rating causes drivers to fall down the scale if they have an at-fault claim. If we have less at-fault claims, there will be more people moving up the scale, getting a -- a larger discount. So, it's definitely possible that we're going to get less premium because of DSR discounts in the -- in the next policy year.

DR. BYRON WILLIAMS: And by sugge -- speaking to frequency lower than expected, that could be COVID-19 frequency or lower-than-expected claim --

claims frequency or some combination, sir.

MR. LUKE JOHNSTON: That's right. When we -- when we do the DSR forecast, we -- it's adjusted for what we're expecting on the -- on the frequency side. So the -- the impacts going forward reflect the low -- lower frequency we had last -- last year.

DR. BYRON WILLIAMS: Okay.

MR. LUKE JOHNSTON: I -- did I -- did I cover your question?

DR. BYRON WILLIAMS: Yeah, thank you very much.

I'd like to go -- hopefully, I've got the right page here -- to Exhibit 24, page 13 of 75, and it should be the FCT, section one point -- point one point five point three, COVID-19 Pandemic Impact, the second page. Thank you.

And if we can just go to the -- you had it perfect, Ms. Schubert. So page 13 was perfect, and then if you could just scroll to the previous page for one (1) second to assure Mr. Johnston that I'm telling him it's the right section, and then you can roll back to the top of page 13. Thank you.

And the acronym FCT -- I'm doing really bad with acronyms this -- this week, Mr. Johnston --

you'll remind me?

MR. LUKE JOHNSTON: It's -- so we used to have DCAT, Dynamic Capital Adequacy Testing. That and -- actuarial report has been replaced with FCT, Financial Condition Testing. Very similar. FCT adds a -- a going-concern requirement to the -- to the actuary's opinion. Most other aspects are very similar to the DCAT.

DR. BYRON WILLIAMS: Okay. Thank you for that. And what you're discussing in this section in terms of the -- testing the financial condition of the Corporation in terms of the impacts of COVID-19 is the one (1) observation we've made already, or you've made already, is that claims clau -- costs show a significant drop, correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: On the downside, to -- to the extent that there was a significant decline in the equity markets at the start of the pandemic, you've observed that the market has since recovered most of those losses.

Is that right, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: On lines 8 through 10 of page 13, you see reference to the projected impacts of the pandemic from March 15th through to May 15th being included in the base scenario for the Financial Condition Test, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And if you don't know this, nothing much turns on it, but you'll recall originally when we talked about the General Rate Application how a 43 million roughly COVID-19 impact was built or baked into the original application.

Is that would have -- what would have been in the base scenario in terms of a COVID-19 impact, sir?

MR. LUKE JOHNSTON: Yes, we -- as you can imagine with the extent of the testing and the -- and the formerly DCAT and now the FCT, we start with a base scenario which we want -- want to be the same as the GRA scenario and there's a -- a lot of modelling that happens off of that scenario.

So it's -- it's something that -- not something that we can update easily. So it is based on the original GRA filing.

DR. BYRON WILLIAMS: And so it wouldn't reflect the COVID-19, for example, experience in terms of reduced claims incurred from the period of May 16th to August 31st of 2020, sir?

MR. LUKE JOHNSTON: That's right, it doesn't reflect the update.

DR. BYRON WILLIAMS: Just a -- in terms of the risk posed to the financial well-being of the Corporation as a result of COVID-19 in the 2021 year, it's the Corporation's view, and if we can go down to lines 13 to 16, that while there is much uncertainty in the forecast, the risks are either potentially favourable, i.e., less claims than expected, or adequately modelled in the Financial Condition Test report, i.e., the equity decline risk, sir?

MR. LUKE JOHNSTON: The -- yes. So the conclusion is that the -- the risks that continue to exist, so like a stock market crash, interest rate declines, have historically and continue to be modelled in the FCT.

So we're not missing anything in that regard. The -- the claims have been favourable and to the extent they're more favourable, they would make these results better in the FCT. That's basically what it's saying.

DR. BYRON WILLIAMS: Okay, thank you. If we could turn to MPI Exhibit 29, which was filed yesterday.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Johnston, this is a one-page exhibit that looks a lot like the first page of the -- the Exhibit 27 which is the October 9th financial update of the Corporation. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And the one (1) change is the sixth column in, which is titled Uncapped Capital Build Release Provision, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: Okay. And we'll come to that in just one (1) second.

But just when we look at the naive methodology, which is in row -- scenario 1 on the top left-hand corner, you see that, Mr. Johnston?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: Just to remind ourselves, that scenario assumes no COVID-19 impact in September of 2020 or moving forward, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: In essence, it would be as if the code orange in Winnipeg never happened?

MR. LUKE JOHNSTON: It would -- it would be our original pre-COVID forecast, yes. Yeah.

DR. BYRON WILLIAMS: Mr. Johnston, recognizing that there's some undertakings out there, in the information related to the third quarter COVID scenario, or the fourth quarter COVID scenario, will the frequency assumptions for collision for each month be presented in that information?

MR. LUKE JOHNSTON: We can do that. We haven't filed it yet. But we're obviously going to show incurred, that was the -- the matching exhibit.

But of course, there's underlying frequency assumptions that we could include those with that undertaking, that's not an issue. I'm not sure how to add that to an undertaking, or --

DR. BYRON WILLIAMS: I'm not sure we necess -- well, if we -- I'm not sure we necessarily need to add that to an undertaking. I'll take the Board's direction from our perspective, Mr. Johnston, your word is good enough for -- and I don't -- it's -- it's -- we were just showing your work, in essence.

So I don't think there's a need to --

MR. LUKE JOHNSTON: Yeah, so just for the record, if necessary, MPI will ensure that the frequency assumptions are in the -- the undertakings providing -- provided on the COVID claims incurred forecast.

DR. BYRON WILLIAMS: Thank you. So, turning to the Uncapped Capital Build Release Provision, and recognizing of course, sir, that there's a -- currently in the Capital Management Plan there's a 5 percent cap on -- first of all, in the current Capital Management Plan there's a selected 5 percent cap on any capital release provision, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And what this column, the Uncapped Release Provision, does is say in a world where that cap doesn't exist, what would it take Manitoba Public Insurance, all other things being equal, to get down to 100 percent MCT for Basic.

Is that what it does, sir?

MR. LUKE JOHNSTON: That's correct. It's the same amount in the Capital Management Plan, except just removing the -- the 5 percent cap.

DR. BYRON WILLIAMS: Okay. And what it tells us for the naive forecast is that there would be, if you -- a release of 5.07 percent as compared to the proposed 5 percent release, sir? Agreed?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And for the third

quarter update with the assumed 20 million in COVID-19 related savings within it, there would be a -- the mathematical consequence of that, if unconstrained by a 5 percent cap, would be a 6 -- a negative 6.08 percent release, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And similarly in the COVID fourth quarter scenario with an estimated $33 million in COVID related savings, there would be a negative cap release of 6.84 percent?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: If we could just move along this column, because -- or sorry, this table, beside the uncapped table, Mr. Johnston, you'll see a table titled MCT -- or three (3) rows related to MCT percentage after the breakeven rate indication in accordance with accepted actuarial practice. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And in essence, that's showing what would happen under the naive, as well as the naive with COVID third quarter and naive COVID with fourth quarter after the -- if we took out the -- or returned to consumers the -- the 3.76 percent rate indication.

MR. LUKE JOHNSTON: Yeah, it's just

showing the breakeven rate impact in isolation before the -- any transfers from Extension or capital build release provisions.

So that would have been, I guess, the old world, before the Capital Management Plan came into existence.

DR. BYRON WILLIAMS: Okay. And just to be clear, if we take that column and go one (1) to the -- to the right and we see the column showing transfers from Extension, that -- that's in the new world after the trans -- transfers in accordance with the Capital Management Plan, sir?

MR. LUKE JOHNSTON: That's right. So, we only show '21/'22 and '22/'23 there, but that is why all those numbers increase from the previous column, it's the effect of the Extension transfers or the forecasted effect.

DR. BYRON WILLIAMS: And when you're referring to the numbers increasing from the previous column, if, for example, we took the naive with COVID up to quarter four (4) 2020, and went all the way across -- so that's line 3 -- and went all the way across to the MCT after APP under '22/'23, it would be at 118.2 percent. You see that, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And if we went after the transfer from Extension, it would be 132.2 percent. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: Okay. A silly question. No, actually that -- I've got that now, sir. Thank you for that.

MR. LUKE JOHNSTON: Yeah. One -- maybe just one (1) point to make here is that you'll notice here that all these items are forecasting projected benefits from transfers and in this -- in this year, COVID savings.

Our -- our actual basic MCT at quarter one was -- was only 99 percent. So when you see a forecast of a hundred and fifteen (115) or 122 percent, we are proactively projecting a higher MCT and asking for releases off of that higher number. Even when today -- as of our last quarter, we -- we hadn't actually -- we weren't actually at 100 percent even yet.

So the -- I just want everyone to recognize that this is a much more proactive approach from MPI, especially in terms of releasing Extension rebates through -- through the capital release provision, as opposed to waiting until we're a certain amount over 100 percent and then -- and then issuing a rebate. Just -- I just thought it'd be good for clarity on that.

DR. BYRON WILLIAMS: And Mr. Johnston, in fact, that's the conversation we had yesterday about why, when Manitoba Public Insurance came in, in June of 2020, you labeled that increase related to the Capital Management Plan provisional. Agreed?

MR. LUKE JOHNSTON: Agreed, yeah. And just to be clear, like, MPI is very supportive of the approach that we -- we -- you know, we proposed it.

But I just want everyone to make sure that we don't -- we don't have 122 percent MCT in hand, for example, in say the -- take the line 2. It is a projection and we're adjusting the release based on that projection proactively rather than -- than waiting for the -- the funds to actually be there.

We, again -- we -- we proposed this approach and we think it's the best way to -- to get that, I guess, excess funds into the hands of ratepayers, rather than putting, you know -- putting it in the RSR over 100 percent. But it is still forecast.

DR. BYRON WILLIAMS: And, of course, sir, currently the release is -- is triggered one --

one line up, based upon the 115.3 percent. Correct? Associated with the naive scenario.

MR. LUKE JOHNSTON: Yes. And -- yeah, but, I guess.

The -- it also is triggered from the Extension transfer over. That is really the -- the driver. So the breakeven rate indication, plus the Extension transfers is what drives the capital release decision.

DR. BYRON WILLIAMS: Thank you. Hitting the home stretch, Madam Chair. Fifteen (15), twenty (20) minutes, I hope.

If we can go to -- still -- go to Exhibit 27. Now -- and in -- and to page 27.

And, Mr. Johnston, you'll recognize this page from Exhibit 27, which is the October 9th, 2020 update. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And what this is doing is comparing what MPI -- Manitoba Public Insurance anticipated for the 2020/21 year at the time it made the GRA filing versus what its expectation is as of October 9th, 2020 based upon the naive scenario.

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: Okay. And if we

go to line 13, we'll see, similar to what we discussed previously, that your expectation in terms of earned revenues has changed barely at all -- hardly at all.

MR. LUKE JOHNSTON: Yeah. We would -- we're not usually that close in a regular year, so.

DR. BYRON WILLIAMS: Congrats.

MR. LUKE JOHNSTON: Forty-three dollars ($43) off.

DR. BYRON WILLIAMS: Feel pretty good about that one, do you?

MR. LUKE JOHNSTON: I'm not going to credit any of my skills.

DR. BYRON WILLIAMS: Okay.

MR. LUKE JOHNSTON: Yeah.

DR. BYRON WILLIAMS: Nor was I, but thank you. In terms of net claims incurred, sir, you see a variance -- a favourable variance of about $25 million on line 14.

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: Then we get down to line 16 and we see an -- an unhappy variance in terms of the interest rate impact of 122.6 million, sir?

MR. LUKE JOHNSTON: Yes. That -- that -- without the ALM, that would be a very unhappy impact. But when you go farther down, you'll see the -- the offset. Yeah.

DR. BYRON WILLIAMS: And just if we go down -- to follow up on your point -- to line 29, we'll see the -- from the investment income perspective, a positive impact of --

MR. LUKE JOHNSTON: If you can scroll down a little bit.

DR. BYRON WILLIAMS: Yeah. Line 29, please. One hundred and twenty -- 124 million, sir.

MR. LUKE JOHNSTON: Yes. And, again, we're very -- very pleased with that. I don't expect that type of accuracy on $123 million impact. But good news story. Yeah.

DR. BYRON WILLIAMS: And in terms of line 31, when we compare, under the naive scenario, the expected net income for the Basic program in the '20/'21 year versus what the October -- October 9th update shows, we see Manitoba Public Insurance about 26.8 million to the good, as compared to its previous forecast. Recognizing these are forecasts, sir.

MR. LUKE JOHNSTON: Yeah. Yes, and you'll -- you'll notice that the -- there's other kind of noise going on with interest rates and -- and model -- and updates. But line 14, 25.2 million favourable claims incurred is pretty much the entire reason for the 26 million favourable on line 31.

DR. BYRON WILLIAMS: Thank you for that. If we go to Exhibit 27, page 29, and right down to the bottom, line 32. Mr. Johnston, this is Manitoba Public Insurance now. We're moving ahead to the test year, being the '21/'22 test year.

And Manitoba Public Insurance based upon a negative 8.8 percent Basic rates change is, essentially, forecasting zero (0) in terms of net income.

MR. LUKE JOHNSTON: Would you mind just scrolling to the top of the -- just the '21/'22.

Yes, essentially, zero (0) net income.

DR. BYRON WILLIAMS: Sorry, I didn't--

MR. LUKE JOHNSTON: Perhaps you could even shrink it a little bit, if -- if that's not too hard for people to see. Perfect. Thank you.

DR. BYRON WILLIAMS: Okay. Mr. Johnston, I want to turn to page 34 of the pro forma -- of Exhibit 27, excuse me. And maybe if we can shrink it again for Mr. Johnston's benefit. Could you go actually to the very top, Ms. Schubert?

What we're showing on MPI Exhibit 27, page 34, is a multi-year statement of operations, assuming that the scenario -- COVID-19 third quarter scenario is borne out, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And for the 2021 year, if we scroll down that to line 32 of net income, we would see an expected or a forecast net income of $127.5 million, Mr. Johnston, under the Q3 scenario?

MR. LUKE JOHNSTON: '20/'21 projected, yes, 127 million, yeah.

DR. BYRON WILLIAMS: So about 22 million better, subject to check, than the naive forecast, sir?

MR. LUKE JOHNSTON: I'll accept that, yeah.

DR. BYRON WILLIAMS: And if we go to page 36 of this same document, MPI Exhibit 27, again, sir, this is showing the scenario, being the COVID-19 third quarter scenario, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And under the 2020/'21 year, the current year, I'll direct your attention to line 19 which suggests that, in terms of the minimum capital test, MP -- Manitoba Public Insurance would have $487.6 million available at the end of March 2021, agreed?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: As compared to line 20, the minimum capital required under the 100 percent minimum capital test being roughly 399 million, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And subject to check, I'll suggest to you that that would be an $88.5 million difference?

MR. LUKE JOHNSTON: I'll accept that.

DR. BYRON WILLIAMS: And if we could go to page 39 of MPI Exhibit 27, and we'll go to the top of the page, sir.

This is the multi-year statement of operations for the fourth quarter COVID-19 scenario, sir?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And if we take that '20/'21 year and go right to the bottom line in terms of net income, we see a forecast net income under this -- or projected net income under this scenario of 147 million, sir?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And subject to check -- and, Mr. Johnston, I'm going to change the comparison here so a little bit -- if we were going to compare that to the forecast net income at the time of the original filing of the application -- and I'll ask you to accept, subject to check, it's that 78.6 million in terms of net income, this would suggest that, under the fourth -- fourth quarter COVID-19 scenario, this would be $68 million higher than the projection at the time the GRA filed. And if you want to go back to page 27, we can do that, sir.

MR. LUKE JOHNSTON: I'm -- I'm okay accepting that subject to check, but again, no -- no reason to think those numbers are incorrect.

DR. BYRON WILLIAMS: And finally, if we could go to page 41 of this same document -- and again, this is a multi-year statement of changes in equity related to the COVID-19 fourth quarter scenario, I'll suggest to you, Mr. Johnston?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And in terms of capital available for the '20/'21 year, as of March 2021, MPI is projecting 508.6 million, sir, agreed?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And the minimum capital required is projected -- or is -- is expected to be 397.9 million, sir?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And subject to check, a difference of about $110.7 million?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And just to be clear, that's after the -- as you spoke of a few minutes ago, after the projected Exten -- transfer from Extension of $68.7 million, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And if we could go back to page 1 of this exhibit, and, Mr. Johnston, I'll just take you to line 3, naive with COVID up to fourth quarter. And under the MCT after AAP, so about six (6) columns in, you'll see a figure one hundred and twenty-seven point eight (127.8).

You see that figure, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And, sir, just by virtue of the 5 percent cap on the Capital Management Plan, that cap doesn't change even if the -- if -- if, for example, under-budget COVID-19 performance drove the year-end MCT ratio to 128 percent?

MR. LUKE JOHNSTON: Correct. The -- the cap is applied in -- in all of these scenarios, yeah, on this chart.

DR. BYRON WILLIAMS: Okay. And, Mr. Johnston, you'll no doubt be continuing to monitor COVID-19 impacts through -- hopefully not forever, but certainly through the -- the next few months and potentially till the end of the 2021 year or beyond?

MR. LUKE JOHNSTON: Yes, definitely. And the -- the figures you see here, and -- and as we've already discussed and you're well aware, we issued the $110 million rebate.

In I believe it's Exhibit 29, but I could be wrong, but in the -- in the naive forecast, we're currently indicating a capital build release of just over negative 5 percent. So we are effectively asking for another rebate of approximately 5 percent.

I believe the question you're going -- you know, the -- the line of questioning is -- is whether that's enough. But we -- we, again, would continue to support using that cap, you know, recognizing that there's still a substantial risk.

There's -- there's favourable possibilities, but there's also negative possibilities as well in terms of economic conditions and -- and other matters. But the -- that's the reason for having that cap, just to make sure that we don't overreact in either direction.

DR. BYRON WILLIAMS: We'll come to the reason for having the cap in our next cross-examination under the Capital Management Plan, sir, but what I did want to ask you about was in terms of monitoring.

And you'll recall from MPI -- or, sorry, Public Utilities Board Exhibit 17, there were monthly reports provided by Manitoba Public Insurance to the Public Utilities Board in terms of, from the accounting world view, that budget variance between claims incurred, budget, and actuals.

You'll -- you'll recall that, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And recalling the conversation that you had yesterday both with My Learned Friend and myself, in terms of -- if -- if Manitoba Public Insurance was asked to do further reporting to -- to share the COVID-19 impacts upon its operations, specifically claims incurred, over the next three (3) or six (6) months, would you still recommend that same type of accounting world reporting, sir?

Or -- or to you or Mr. Giesbrecht -- or would there be a better way to communicate or disaggregate the COVID-19 experience as compared to what the -- with no offence to the accountants in the room or watching, from -- from the accountant's world view.

Would there be a better way to do that, Mr. Johnston?

MR. LUKE JOHNSTON: I'll let Mr. Giesbrecht jump in. But just initial thoughts, the -- as you know the -- the MCT level is a driver of a build and release provision. So the financial results are definitely relevant in a calculation of the -- the build and release provision.

The actuarial results become more relevant; it becomes a pricing consideration. And what I mean by that is, if in the test period, the rating period, if we're considering any impacts in -- in that period, we would have to use a rate making methodology to assess what impacts, if any, there would be for rating purposes.

So this reporting you're seeing on the -- from an accounting basis is definitely relevant to net income in the calculation of MCT and the applicability of a release, so that -- again, that could go either way.

We could have ongoing claims, exper -- favourable experience, but we could have -- you know, there could be a stock market crash and maybe the MCT falls, for example.

But that -- hopefully, that explains the relevancy of the two (2) views.

DR. BYRON WILLIAMS: Mr. Giesbrecht, do you have any advice if you were asked to report with the objective of keeping the Board or others informed of the impacts of COVID-19 on Manitoba Public Insurance claims incurred going forward?

Any preference or any recommendations?

MR. MARK GIESBRECHT: I think, as we discussed yesterday, you know, looking at the actuarial view or the financial view, they -- they both really say the same story. There are some differences, of course, however the -- the end result, what you derive from it, what you take from it really is the same message. And so I think we chose the method we did because it was the most readily available and easy to supply.

You know, if we were talking about making an improvement to it, I think the one (1) thing that would probably be important is to look at breaking out with PIPP, and it was discussed yesterday, breaking out the -- the payments for prior years which really have no material impact from COVID.

But beyond that, I think it's -- it's a fair representations of -- of the impacts on the claims.

DR. BYRON WILLIAMS: Okay. Thank you. And I thank the MPI panel for their cooperation.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank, Mr. Williams. Ms. Meek...?

MS. CHARLOTTE MEEK: Thank you, Madam Chair. I just have a handful of questions for the panel.

CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Ms. McCandless put to you -- you yesterday to MPI Exhibit 27. If we could go there quickly, page 26, please. So I just wanted to get a couple more details specifically relating to the motorcycle class, if possible, here.

So you confirmed yesterday that the majority of motorcyclists would be getting a rate increase this year and I just wanted to confirm that the total increasing -- if we scroll down, you can see the total increasing is seventeen thousand one hundred and seventy-six (17,176).

Is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: And so, subject to check, that's approximately 97 percent of motorcyclists experience a rate increase?

MR. LUKE JOHNSTON: Yeah, that -- that is correct. It's -- it's just one (1) column over, 97.07, yeah.

MS. CHARLOTTE MEEK: Thank you.

MR. LUKE JOHNSTON: Yeah.

MS. CHARLOTTE MEEK: And would you also confirm that, subject to check, that approximately 56 percent of motorcyclists will see their premiums increase between 5 and 10 percent?

MR. LUKE JOHNSTON: Yes, I'll accept that. That looks correct.

MS. CHARLOTTE MEEK: Thank you. And you confirmed with my learned friend from CAC yesterday that the assumption that MPI -- by MPI, that normal collisions frequency resume post-May 15th has not borne out. Is that correct?

MR. LUKE JOHNSTON: Sorry, was the question has normal collision frequency returned?

MS. CHARLOTTE MEEK: Yes.

MR. LUKE JOHNSTON: Okay. On a -- on

a overall fleet basis, we continue to see lower than -- than budgeted collision frequency, yes.

MS. CHARLOTTE MEEK: Thank you. And you noted yesterday that this was unchartered territory and that MPI may have to act or may want to act when presented with a similar type situation or a similar type emergency.

You said something along those lines?

MR. LUKE JOHNSTON: It's -- it's -- yes, it's definitely unchartered territory, and it would inappro for me -- inappropriate for me to guess what's to come. Who knows, right? Like, it could --

MS. CHARLOTTE MEEK: Right.

MR. LUKE JOHNSTON: Yeah, it could go red. It could -- it could go green. I don't know.

MS. CHARLOTTE MEEK: Sure. So there would be a possibility in the future that another rebate, that -- that's plausible?

MR. LUKE JOHNSTON: I don't know. But I -- my earlier comments were we never anticipated to do the first rebate. And there was an emergency situation, and we did, so it's pretty hard for me to say that we would never consider that again, but, yeah.

MS. CHARLOTTE MEEK: So where MPI were

to bring another application for a special rebate, would they seek to apply the rebate to the same vehicle classes as were ordered in the spring?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: MPI continues to stand by what was requested in the special rebate application, and I'll -- I'll explain.

When there is excess retained earnings, so, for example, in -- in Extension we transfer excess retained earnings over, or if the RSR grows through investment income or favourable experience, absolutely all classes should get that; no question.

Everyone's priced to break even. Some groups will have good years, some will have bad, but it should even out over time.

When you have a COVID scenario like we had in early spring, in my view that becomes more of a pricing consideration. Now we're saying we're very certain that this particular group of vehicles, we mispriced it. We -- we put the, you know, collision costs too high.

We have information now that shows that's total incorrect. The premiums should have been lower. Give them -- give them a rebate. That was the logic that -- that we used in that application.

I understand the logic of, you know, this is excess, it should be returned to everyone. But if we were -- say we had perfect information and we knew COVID was going to extend into the next policy year, the correct way to account for that from a rating perspective would be to price those classes appropriately based on the expected COVID impact.

Of course, we can't do that with any certainty, but that would be the recommended approach by MPI.

MS. CHARLOTTE MEEK: Would you acknowledge, Mr. Johnston, that the motorcycle class is disproportionately impacted by declining long-term interest rates more than -- more so than other vehicle classes?

MR. LUKE JOHNSTON: Definitely.

MS. CHARLOTTE MEEK: Okay. And MPI has noted that investments in equities have almost recovered since the impacts of COVID-19 pandemic to date?

MR. LUKE JOHNSTON: Yes, they have.

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

THE PANEL CHAIRPERSON: Thank you, Ms. Meek.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Mr. Gabor...?

THE CHAIRPERSON: Sorry. Can we go back to Exhibit 19, Kristen? Okay. I just want to -- I want to ask you questions about timing of these projections, and I'm just going to pick a number. We'll pick a date.

So let's look at line -- let's look at the column, "MCT percentage after AAP breakeven rate indication," which is the middle section. Let's go to the second line.

Now when you have naive with COVID up to Q3 2020, I assume that means up to September 30th, 2020? Is that -- that is October 1st would be the beginning of Q3?

MR. LUKE JOHNSTON: It would go to the end of Q3, so, yes.

THE CHAIRPERSON: So -- okay, that's -- that was my --

MR. LUKE JOHNSTON: Yeah. And the other one would go beyond Q4.

THE CHAIRPERSON: So it's the -- so it's the end of Q3 and the end of Q4?

MR. LUKE JOHNSTON: That's correct, yeah.

THE CHAIRPERSON: Okay. The projection for Q3 of the 115.3 for 2122, what would the date that projection would be made? If I'm looking at this, what date did you make the projection of 115.3?

MR. LUKE JOHNSTON: So we use August -- August 31st data in our update, so --

THE CHAIRPERSON: Okay.

MR. LUKE JOHNSTON: -- everything we -- we knew at that time would be used.

THE CHAIRPERSON: Okay. So that's about August 31st. At what point do you know if that number's accurate? When -- when after that date do you go back and say 115.3 was the right number or if it's a different number?

MR. LUKE JOHNSTON: The -- as you know, none of the forecasts are going to turn out perfect, as -- as you're well aware. The -- the issue we're having this year is just that, as I mentioned earlier, all the experience we're having this year is essentially useless for forecasting beyond COVID.

THE CHAIRPERSON: Right.

MR. LUKE JOHNSTON: So we've stuck to our previous forecast on the basis that that's the best we got. We can't do much with this data. So the line 2 and line 3 are an attempt by MPI to show -- you know, we're trying to be reasonable. Like, we don't think it's just going stop tomorrow, obviously --

THE CHAIRPERSON: M-hm.

MR. LUKE JOHNSTON: -- but just give the Board an idea of what it might look like if this ran off over three (3) or six (6) months and everything else stayed the same after 20 -- 2021.

But outside of that, all other forecasting uncertainty that we normally have continues to exist, and as you -- as you would note in the FCT, that's a pretty wide -- wide range of possibilities.

THE CHAIRPERSON: Yeah. And -- and I understand the uncertainty because of COVID. If this was not your COVID year but your standard year, at what point do you go back and say the projection was accurate? Are you a quarter off or -- you know, I mean, we're -- we're going on the basis of the numbers are accurate. The problem I run into is that we never know if your numbers were accurate because we never see after the fact.

MR. LUKE JOHNSTON: I see. So, really, with the -- with the MCT targets in place, we're accepting that risk beyond a certain point. We know we can't update this every day right until the day before, right? And we -- we've made big improvements, particularly with the interest rate updates. That -- that helped significantly on risk reduction. And those -- that decision process is recognized when we do things like the FCT.

Like, if you -- if bad news happens, well, we're not going to change rates tomorrow. We got to wait till the next rate cycle, probably, you know, ask for an increase, and it's got to earn through every -- so we definitely accept, I guess we could say, forecasting risk beyond a point of no return. But what we're doing here with some of these updates is to try to reduce that forecasting risk as much as we can.

THE CHAIRPERSON: No, I appreciate, but do you check a quarter later of your numbers and say we were -- we were right on or we were slightly off? Would --

MR. LUKE JOHNSTON: Yeah, like --

THE CHAIRPERSON: I -- I'm just

wondering if you ever check backwards at some point to say our -- our projection was accurate.

MR. LUKE JOHNSTON: Definitely. And so every year when we update the forecasting, we'll -- we'll, you know, bring here and show you why it was off and explain those differences. And we hold ourselves accountable to making, you know, accurate forecasts over time. And -- and I know this -- the Interveners and the PUB do -- do the same.

So we have had times in the past where it seemed like the forecast was always going one (1) direction, you know -- favourable, favourable, favourable, right? And, you know, we spent a lot of time going through why that was the case. That will happen sometimes, even just through luck, but we are constantly going to try to make forecasts more accurate.

THE CHAIRPERSON: Okay.

Kristen, if you could help me, I'm looking for the Exhibit 27 pro -- pro forma, and I didn't -- I didn't mark down the -- the -- yeah, if you could keep going down, please. Yeah, keep going down. No, keep going. I want to get to the line where it talks about investment income. Right there. Sorry.

DR. BYRON WILLIAMS: Would page -- Mr. Chair, would page 27...?

THE CHAIRPERSON: I'm -- I'm glad you wrote it down, because I -- I --

DR. BYRON WILLIAMS: And I think if you go -- scroll down on that page --

THE CHAIRPERSON: Yeah, right --

DR. BYRON WILLIAMS: -- to line 30? I apologize for interrupting.

THE CHAIRPERSON: Sorry, I'm just -- 29, that was the -- the line. I was just -- sorry. Yeah.

So between the first column and the second column, there is this enormous leap from 84 million to 205 million, and then a decline to 121 million, and I'm just trying to understand what the assumptions were in relation to the increase on the interest rate impact.

MR. LUKE JOHNSTON: So our -- our forecast now is always to use a naive.

THE CHAIRPERSON: Right.

MR. LUKE JOHNSTON: And in this case, as you know, interest rates fell pretty substantially, and the impact was 124 million increase in the market value of those bonds. We showed earlier that, you know, that there's an offsetting 123 million impact on the claims, and that is, of course, by -- by design.

But, yeah, more than ever, it just shows why it's important to do that matching, because we got really burned on that in -- in some previous years.

THE CHAIRPERSON: Yeah. Thank -- thank you, Mr. Johnston. Those are my questions.

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

MS. CAROL HAINSWORTH (by phone): No, I have no questions.

THE PANEL CHAIRPERSON: Thank you.

Mr. Scarfone, do you have any re-direct?

RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thank you, Madam Chair. Just a couple questions on re-direct for Mr. Johnston.

Kristen, could you pull up Exhibit 29 again, please? Thank you.

So this particular exhibit, Mr. Johnston, was the one that was amended yesterday to include the uncapped representation of the -- of the build and release provision?

MR. LUKE JOHNSTON: Yes. We added an uncapped version of the release provision.

MR. STEVE SCARFONE: And if I understand your response to My Learned Friend, the purpose of the release is to bring the Rate Stabilization Reserve back to its 100 percent MCT target. Is that correct?

MR. LUKE JOHNSTON: That's correct. In -- in the pro formas, you actually notice that we're losing about $50 million a year going forward because we're intentionally reducing rates to -- to lose money and get back to 100 percent MCT as the effect.

MR. STEVE SCARFONE: And so those scenarios that are identified in lines 2 and 3, that is, the naive with the COVIDs up to the various time points, to the extent that they show a number greater than 5 percent, that would necessarily mean more funds left in the Rate Stabilization Reserve, that is, more so than would be the case if it was at 100 percent MCT?

MR. LUKE JOHNSTON: To the extent that the capital release provision is greater than 5 percent, we would leave additional funds in there.

They would not meet the return in -- in three (3) years target. But it's very likely, as we approach 100 percent MCT, that would just mean slightly larger releases in the subsequent years. Yeah, if that was the question -- sorry.

MR. STEVE SCARFONE: And if -- if I recall your testimony from past years, if -- if we look at line item 2, the naive with the COVID up to Q3 2020, it appears as though there would be -- there would have been -- sorry, had all the capital been released to bring it down to 100 percent MCT, the excess is one (1) percentage point greater. Is that fair?

MR. LUKE JOHNSTON: That's correct, with all the assumptions that are attached to that scenario, of course.

MR. STEVE SCARFONE: And that would amount to what, roughly, in terms of dollars?

MR. LUKE JOHNSTON: It's about 10 to $11 million.

MR. STEVE SCARFONE: And you spoke earlier about the equity decline that occurred during the pandemic in March, correct?

MR. LUKE JOHNSTON: That's correct.

MR. STEVE SCARFONE: And what would

the effect of another equity decline be on the funds in the Rate Stabilization Reserve?

MR. LUKE JOHNSTON: Well, there's obviously a wide range of possibilities to that scenario, but it -- it could easily knock the -- the entire excess to -- shown in this forecast. So we could easily drop 10, 20 percent MCT with a major equity event. That wouldn't be unimaginable.

You could argue that the risk of such an event is potentially higher today with all the stress on businesses and such. But for now we're -- we're not making any predictions on that. We continue to use base case forecasting on equity returns.

So that is consistent with our treatment of claims, or else using base case in the test year.

MR. LUKE JOHNSTON: And -- and the cap scenario that -- that the corporation finds itself in right now, is it fair to say that the whole idea of that cap was intent -- in anticipation of a -- of a release that might amount to more than 5 percent?

MR. LUKE JOHNSTON: Yes, we -- in the capital management -- sorry.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I know coughing is generally frowned upon these days, so I'll try to avoid that as much as possible.

The -- there are 5 percent caps, both per releases and rebuilds. As -- as you know, MPI has -- has used that as -- as an informal rate shock mechanism to limit both the up and downward swings in rates.

So that -- that is the intent to, again, not to -- to overreact to that scenario. In most circumstances, if you're at the max release, you're probably having another release the next year because you're in pretty good shape. But there's obviously no guarantee of that, but that's why those limits are in place.

MR. STEVE SCARFONE: And just switching gears, I'll move away from the -- the cap questions.

Yesterday in particular you heard Ms. McCandless describe some of the monthly updates that were provided to the corporation representing or showing material reductions, I believe, is how she described them.

Would you agree that the reductions shown in those monthly reports are material in terms of your forecasting, Mr. Johnston?

MR. LUKE JOHNSTON: I agree -- I agree they're material. The issue that were -- that we raised was that those forecasts, particularly collision, have been moving closer to budget over time.

And as we get closer and closer, the -- the COVID impact obviously gets blurred, and again, recognize that situation could change rapidly.

But in the initial stages, where we're 50 percent plus under budget, definitely hugely material, trigger rebate action.

Today we're now looking three (3) or four (4) months straight of -- 9 to 10 percent under budget, and that -- that's still -- that's still large for collision that would be very unlikely to happen by chance.

But -- so material, COVID specific, getting more -- is getting more difficult to ascertain.

MR. STEVE SCARFONE: Thank you.

And lastly, just generally speaking, Mr. Johnston, your industry, the actuarial world, how does it normally treat outliers in its forecasting, for example, the 2008 stock market crash, going forward?

MR. LUKE JOHNSTON: So we're -- we're attempting to make best estimates in actuarial forecasts and, of course, you know, there's -- you want to recognize events in the history, but at the same time it obviously wouldn't be appropriate to use, you know, the three (3) year average or the stock market returns when one of them includes a minus 40 percent stock market crash.

So in our rating we're -- we want to use consistent, kind of long-run best estimates, projections. And the RSR can handle the big surprise impacts, the stock market crashes and the, you know, massive hail storms or -- or whatever that may be.

As I've already stated, there's -- there's no doubt in my mind that the COVID year is -- is going to be an outlier and it's going to be hard to ever use that data for anything, even when it comes to thinks like collision severity, for example, or the number of serious losses that happened this year.

Behaviour is very different, so will we totally ignore it? Maybe not. We'll just -- there's probably information to be gained from -- from some of the behaviour, but for the most part for long-term forecasts we'll likely exclude it.

MR. STEVE SCARFONE: And sorry, I said that was my last one.

And so the forecasts, sir, that you have before this Board and this rate application is the corporation's best estimate?

MR. LUKE JOHNSTON: For the '21/'22 test year, that is our best estimate for accepted actuarial practice rating.

What we are seeing on the screen in Exhibit 29 is -- we're showing the Board here that under a naive forecast with updated claims information through August, that we're -- we still have a 5 percent release.

If we get some more favourable experience it would still be capped at the 5 percent release and -- and we're -- we're showing that, you know, the uncapped can be or would be a little bit more, obviously, in that scenario.

But regardless of what that outcome is, we would still recommend the 5 percent release, and then that takes away that uncertainty from that -- from that number.

So, for example, if we were in a lower release provision and scenario 1 was 2 percent and scenario 3 was 3 percent, right, they're potentially more debate about which scenario to use. We're suggesting that the Board use the minus 5 percent and that should be appropriate for all those three (3) scenarios.

MR. STEVE SCARFONE: Thank you.

So I think that was a yes, that this is the best estimate to -- that the corporation has at this stage?

MR. LUKE JOHNSTON: Yes. And the reason for the clarification again, for the -- there's different things going on here for the test year, accepted actuarial practice, absolutely that's our best estimate.

For the capital release provision, we're admitting that there's a lot of uncertainty here. But our best estimate in terms of our Capital Management Plan is a negative 5 percent capital release.

It would be unreasonable for us to say there's no possibility that there's going to be more COVID savings in the year, but our best estimate right now is that those COVID savings will not extend into the rating year, and that's based on information we have today.

MR. STEVE SCARFONE: Thank you.

Those are my questions, Madam Chair, on re-direct.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone.

It's 10:17, we'll take a break until 10:30 and then come back with the same panel on topics number 5 on the schedule.

MS. KATHLEEN MCCANDLESS: Madam Chair, actually I believe we have investments prior to that, and I apologize. There was an omission on the procedural outline, so --

THE PANEL CHAIRPERSON: Okay.

MS. KATHLEEN MCCANDLESS: -- Mr. Johnston and Mr. Bunston will be back after the break.

THE PANEL CHAIRPERSON: Okay, thank you very much.

Thank you, Mr. Giesbrecht.

--- Upon recessing at 10:19 a.m.

--- Upon resuming at 10:39 a.m.

THE PANEL CHAIRPERSON: Okay. Thank you. Welcome back.

Mr. Scarfone, would you please introduce your next panel?

MR. STEVE SCARFONE: Sorry, Madam Chair, is that -- I didn't hear what you --

THE PANEL CHAIRPERSON: Would you please introduce your next panel --

MR. STEVE SCARFONE: Oh yes, of course.

THE PANEL CHAIRPERSON: -- and proceed.

MR. STEVE SCARFONE: Yes.

THE PANEL CHAIRPERSON: Thank you.

MR. STEVE SCARFONE: This is Mr. Johnston. And we have Mr. Bunston, Glenn Bunston. He is our manager of investments. And he's here this morning to inform the Board about an update to the investments that the Corporation holds, including the investment strategy that was implemented a couple -- couple years ago.

And so, he -- he needs to be sworn.

MPI PANEL NO. 2 - INVESTMENTS

GLENN BUNSTON, SWORN

LUKE JOHNSTON, previously Affirmed

EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Mr. Bunston, just

before you begin, as indicated, you, sir, are the manager of investments for Manitoba Public Insurance?

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

MR. STEVE SCARFONE: And, sir, you've testified before this Board in the past. Is that correct?

MR. GLENN BUNSTON: I have, yes.

MR. STEVE SCARFONE: And how long, sir, have you been in your role as manager of investments?

MR. GLENN BUNSTON: Since 2006.

MR. STEVE SCARFONE: Thank you. And, sir, you've prepared for presentation here today a slide deck to assist with your Examination-in-chief?

MR. GLENN BUNSTON: Yes. I've prepared a presentation to begin my testimony.

MR. STEVE SCARFONE: And will you be adopting the content of that presentation as part of your direct examination?

MR. GLENN BUNSTON: Yes, I will.

MR. STEVE SCARFONE: Okay. Thank you then. If you're ready to proceed, go ahead.

MR. GLENN BUNSTON: Okay. Thank you. Well, I'm very pleased to be here today to present on behalf of Manitoba Public Insurance regarding our investment strategy. I have a brief presentation, as Mr. Scarfone mentioned. If we could turn to the next slide?

So I'll talk today about COVID-19 and the impacts on our investment portfolio. I'll talk about our investment objectives, the asset allocation of our portfolio, the implementation of our new investment strategy. I'll talk about interest rate forecasting, and, finally, shadow portfolios.

So, obviously, everybody is aware that COVID-19 has had a major impact on financial markets around the world and, in the next few slides, I'll provide details on the impact to MPI's investment portfolio.

So here, on this slide, we see the performance of three (3) of our investment portfolios. We can see that all of them either matched or out-performed their benchmarks.

So the Basic claims portfolio, over the -- the twelve (12) months ended at March 31st of 2020, had a return of 4.4 percent, matching the benchmark. While the Rate Stabilization Reserve portfolio had a return -- it was essentially unchanged and out-performed its benchmark by 0.5 percent. While the

Employee Future Benefits portfolio had a return of 0.3 percent, out-performing its benchmark by 0.7 percent.

Equity markets declined sharply in March of 2020 due to mandated business closures, travel restrictions, and general uncertainty related to COVID-19.

The market value of MPI's total equity portfolio peaked on February 20th and bottomed out on March 23rd, falling approximately 30 percent during this period.

At March 31st, MPI's equity portfolio was down 18 percent since the peak on February 20th, and down 14 1/2 percent since December 31st. The net result was a write-down of $54.4 million to the equity portfolio at March 31st.

Since the low on March 23rd, equity markets have staged as impressive recovery. From March 23rd to August 31st, the equity portfolio increased by 34 1/2 percent, resulting in a 5 1/2 percent decline since the peak and a 1.7 percent decline since December 31st.

During our fiscal year from March 31st to August 31st, the portfolio has -- has increased by 16.6 percent.

MPI's real estate and infrastructure

investments were less impacted by COVID-19 than listed equities as they are less economically sensitive assets, and because, at March 31st, the pandemic was still in its infancy, making it difficult to accurately forecast the impact on these asset classes. These are private assets that are valued infrequently, either annually, quarterly, or monthly.

Where appropriate, forecasted cash flows were revised, but discount rates were not changed. These assets generally have long-term contracted or regulated revenue streams that are not impacted by short-term changes in demand or usage.

Over the three (3) months ended at March 31st, MPI's infrastructure portfolio increased by 1.2 percent, while the pooled real estate fund increased by 1.6 percent.

From March 31st to August 31st, infrastructure increased a further 2.7 percent, while real estate decreased by 1.8 percent.

On the next slide, you can see a graph that shows corporate and provincial bond spreads widen substantially from December 31st to March 31st. And then, narrowed considerably after that until -- until the end of August.

The graph shows the yield of corporate

bonds rated single 'A' and BBB, as well as Province of Manitoba bonds relative to the yield of the Government of Canada ten (10) year bond.

And in late August, spreads were approximately ten (10) to twenty (20) basis points higher than they were before the pandemic began in March.

From March 31st to -- to August 31st, the absolute yield on Corporate bonds decreased by a hundred and twenty (120) to a hundred and sixty (160) basis points, while provincial bonds yields decreased by fifty-six (56) basis points, and the yield on the Government of Canada ten (10) year bond fell by eight (8) basis points.

The yield on MPI's Corporate bond portfolio during -- from December 31st to March 31st increased by thirty-two (32) basis points, causing the market value of its Corporate bonds across all portfolios to fall by $34 1/2 million, resulting in a return of negative 4.7 percent.

Over the same period, the yield on MPI's provincial bond portfolio fell by nineteen (19) basis points, increasing the market value by $6.3 million and resulting in a return of 1.4 percent.

Interest rates fell sharply after March

31st, resulting in gains of $153 million.

Now, regarding the private debt portfolio -- on the next slide -- from December 31st to March 31st, the yield on the -- the mid-duration private debt fund increased by twenty-one (21) basis points, while the long-duration private debt fund increased by twelve (12) basis points, causing the total market value to fall by $4.2 million and producing a return of negative 3 percent.

Again, after March 31st, yields fell by about seventy (70) to eighty (80) basis points, creating gains of $21 million in the private debt portfolio.

In terms of the impacts to our forecast, the equity market decline in March of 2020 does not change the forecasted return for our equity portfolio as the forecast is based upon the long-term historical average return for the asset class. But the starting values within the financial model were updated to reflect the reduced market values at March 31st.

Real estate and -- and infrastructure returns are somewhat affected by COVID-19 as they're based on forecasted inflation, plus a fixed spread of four (4) and 5 percent, respectively.

The forecast of bond yields is based on two (2) components; firstly, the Government of Canada ten (10) year bond yield, and spreads.

The forecast of the Government of Canada ten (10) year bond is based on the actual yield at March 31st, which was 0.7 percent. And the forecasted spreads for marketable bonds are based on actual spreads at March 31st, which were one hundred and ninety (190) basis points.

Income generated by the fixed income portfolio is based upon the actual weighted average coupon rate of the portfolio at March 31st. And is only impacted by changes in market yields to the extent that there is turnover within the bond portfolio.

Next, I'll talk about the objectives for our portfolio. The first is to reduce the volatility of premiums or rates charged to customers.

The second is to directly match our investments to our liabilities.

The third is to ensure that capital is available to pay claims when necessary.

And, finally, to take appropriate levels of risk for each portfolio, driven by the purpose of each portfolio as set out in our investment policy statement and determined by MPI's Board of Directors.

Now I'll talk about asset allocation. The next slide here shows the -- the asset allocation for our Basic claims portfolio, which has invested 100 percent in fixed income assets. So 60 percent in provincial bonds, 20 percent in corporate bonds, and 20 percent in non-marketable or, what we call, MUSH bonds.

For the Rate Stabilization Reserve portfolio, 50 percent is invested in bonds, 35 percent in equities, and 15 percent in alternative asset classes.

For the Employee Future Benefits portfolio, 40 percent is invested in fixed income, 35 percent in equities, and 25 percent in alternatives.

This table shows the consolidated Corporate investment portfolio in the first column, separated by asset class. And the total portfolio is now valued at almost $3.6 billion. The highlighted column show the actual asset allocation at September 30th. The asset classes highlighted in red are outside of the minimum and maximum weight specified in the investment policy statement.

The RSR and SRE portfolios were

overweight in cash and floating rate notes, and the SRE, RSR, and Extension portfolios were underweight in private debt at September 30th.

Floating rate notes will be sold to fund private debt drawdowns, so this overweight is -- is temporary and will be corrected when the private debt manager identifies suitable investment opportunities and draws the capital that we've committed to their private debt funds.

Finally, infrastructure was overweight in the Employee Future Benefits portfolio by 3.3 percent, which equates to approximately $16 1/2 million.

Next, I'll talk about the implementation of our new investment strategy which was developed in our last Asset-Liability Management Study.

So all asset classes are fully funded except for private debt as we're awaiting on capital calls from the investment manager. Overall, private debt is 68 percent invested, with $155 million invested and $73 million remaining to be invested.

At September 30th, real estate was $3 million over its target weight, while infrastructure was $16 million over its target weight. To address this, we plan to sell a remaining co-investment in infrastructure, when possible.

The net impact of interest rate changes from March 31st to August 31st was $12.7 million, which was only $8.3 million worse than the budgeted amount. This represents 0.3 percent of the value of the portfolio.

During this period, interest rates fell by approximately 80 basis points, causing the market value of the bond portfolio to increase by $127 million while the net present value of the Basic claims increased by $140 million, creating the net impact of 13 million.

Next I'll talk about interest rate forecasting. Using an accurate forecast of interest rates is critical as interest rates are one (1) of the key inputs into our financial model which is used to determine our revenues and expenses, to forecast our revenues and expenses, and to determine the rate indication for our Application.

Using an accurate forecast ensures that customers are charged the correct premium. Updating our forecast with interest rates as of August 31st reduces the time between making the forecast and beginning to charge new rates to customers. And also using accepted actuarial practice reduces the impact of interest rates on premiums charged to customers.

In terms of forecasting interest rates, our goal is to reduce pricing risk by using the most accurate forecast.

A naive forecast simply uses today's actual interest rate as the forecast of future interest rates. The naive forecast -- the naive interest rate provides an unbiased forecast and recognizes that interest rates could go up, they could fall, or they could remain unchanged.

A naive forecast is a better predictor of future interest rates than the previously-applied 50/50 and SIRF methodologies.

Over the short term, the Bank of Canada rate is not reliab -- reliably predictive of the direction and magnitude of movements in the Government of Canada ten (10) year bond rate. And the Government of Canada ten (10) year bond yield fell by about eight (8) basis points from March 31st to August 31st and has remained relatively unchanged since then at sixty-two (62) basis points.

Finally, I'll talk about shadow portfolios. Four (4) shadow portfolios were developed with assistance from Mercer and input from the PUB and its advisors in accordance with PUB Orders 11.17 and 11.19 in May of 2019.

Two (2) shadow portfolios were developed for Basic claims and two (2) for the Employee Future Benefits portfolio. These portfolios contain allocations to MPI's existing asset classes, plus real return bonds and private equity, and also include the use of leverage.

An assumption regarding the impact of the J-Curve on private asset classes was added this year. The J-Curve simply recognizes the fact that an investment in a private asset class such as private debt or private equity will take some time to build, and there will be an initial period where costs are incurred but no income or capital gains are earned, and this results in negative returns during the investment period.

So, in conclusion, unique investment strategies are better aligned to the purpose and characteristics of the associated liabilities. The volatility of the Basic claims portfolio has been reduced.

The expected reduction in investment risk will have a positive impact on MPI's required capital, and the new investment strategy is almost fully -- fully implemented with the exception of private debt. This concludes my presentation.

THE PANEL CHAIRPERSON: Thank you, Mr. Bunston.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thank you, Mr. Bunston. Mr. Bunston, I do have a couple of follow-up questions, if I might, to some of these slides in your presentation. And I'll wait for Ms. Schubert to return to her station and ask her to please bring us to slide 5 of that deck -- sorry, slide 4.

And that there, sir, are the returns of three (3) of the portfolios that the Corporation has under its segregated strategy, correct?

MR. GLENN BUNSTON: That's right, yes.

MR. STEVE SCARFONE: Missing from that would be two (2) of them, which are -- which -- what's missing from there?

MR. GLENN BUNSTON: Extension and Special Risk Extension.

MR. STEVE SCARFONE: Right. And so I think I heard you say, sir, that the middle portfolio, the Rate Stabilization Reserve portfolio, contains 35 percent equities?

MR. GLENN BUNSTON: Yes.

MR. STEVE SCARFONE: And the Employee Future Benefits, what percentage of equities, if any, does that portfolio contain?

MR. GLENN BUNSTON: Sorry, the Employee Future Benefits portfolio has 35 percent in equities, while RSR is -- they're both 35 percent equities.

MR. STEVE SCARFONE: They both have 35 percent?

MR. GLENN BUNSTON: Yeah.

MR. STEVE SCARFONE: And the Basic Claims portfolio, what percentage of equities does that portfolio have?

MR. GLENN BUNSTON: Zero.

MR. STEVE SCARFONE: And would that account, sir, for the difference -- the difference as we see in -- in the returns for those three (3) portfolios --

MR. GLENN BUNSTON: Yes.

MR. STEVE SCARFONE: -- the composition?

MR. GLENN BUNSTON: Yes. This period of time was -- returns for fixed income were -- were strong, and that's reflected in these returns here.

MR. STEVE SCARFONE: And I heard you say that interest rates fell which caused a corresponding increase in the value of the bond portfolios. Is that correct?

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

MR. STEVE SCARFONE: So just for -- to help me understand and -- and perhaps others in the room, how do falling interest rates help the bond portfolios? Why do -- why do we see an increase in value in the bond portfolios when interest rates fall?

MR. GLENN BUNSTON: So bond prices move inversely to interest rates. Bonds are essentially the -- the net present value of future cashflow. So the -- the lower the discount rate, the -- the higher the net present value of -- of that future stream of cashflows.

So when interest rates fall, bond prices increase, so your result produ -- produces capital gains on the fixed income assets.

MR. STEVE SCARFONE: Very good. Just -- and just to understand, there's -- there seems to be a very strong relationship between interest rates and -- and all sorts of different investment assets.

So, for example, we also heard you say

that, from the time the Rate Application was filed until the update that was provided to the end of August, the ten (10) year Government of Canada bond rate fell, correct?

MR. GLENN BUNSTON: Yes. It did fell (sic) dramatically. So at December 31st, I believe it was at 1.7 percent, and March 31st it was 70 basis points. So the yield on the Government of Canada ten (10) year bond fell by a hundred (100) basis points from December 31st to March 31st and continued to fall after March 31st.

MR. STEVE SCARFONE: And when -- when that rate falls, it would have the similar effect on the bond portfolios, increasing their value?

MR. GLENN BUNSTON: Yes. So bond -- bond prices are based on -- on yields. Yields are based on the -- the underlying benchmark, which would be the Government of Canada bond of a similar term, plus a spread that's based on characteristics that are unique to the -- to the issuer and to the bond.

MR. STEVE SCARFONE: And -- and maybe this question is -- is for Mr. Johnston 'cause he's here as well to answer questions on investments, sir.

So when that Government of Canada bond rate falls, we always see a corresponding increase in the rate indication that the Corporation requires, correct?

MR. LUKE JOHNSTON: That's right. In the -- for the -- for the liabilities, we match assets to claim liabilities, and so that portion is hedged. But for the rate indication, that is new money, so to speak. We don't have liabilities yet. It's being priced for the future, so that pricing reflects the -- the current or prevailing interest rates, so very similar to net present value calculation, as Mr. Bunston just mentioned.

If you are calculating a present value at a much lower interest rate, you're going to need more money to date to make that payment or commitment, so a pension plan would be a very similar example. If -- if projected investment returns fall, you're probably asking pension plan participants for higher contributions today.

MR. STEVE SCARFONE: Thank you for that. And to page 5 of Mr. Bunston's presentation, please, Kristen.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So, sir, on the

second bolded portion of that slide you make reference to the write-downs that occurred in the equity portfolio?

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

MR. STEVE SCARFONE: And that is -- that write-down is the same thing that was characterized in the application as an impairment.

Is that correct?

MR. GLENN BUNSTON: That's correct, yeah.

MR. STEVE SCARFONE: And back in March, sir, the -- the slide there would show that during the early onset of the pandemic the equity markets suffered a significant loss.

Is that fair?

MR. GLENN BUNSTON: Yes, that's definitely fair.

MR. STEVE SCARFONE: And then we see the numbers before us. But since that time, there has been a rebound in the equity portfolio, in fact, an increase of 34.5 percent?

MR. GLENN BUNSTON: Correct.

MR. STEVE SCARFONE: And, sir, you've been with the Corporation since 2006?

MR. GLENN BUNSTON: Since 2003. I became manager in 2006.

MR. STEVE SCARFONE: Oh, sorry. And during that time, have you seen that kind of volatility in the equity market?

MR. GLENN BUNSTON: Well, during the global financial crisis in two thou -- or 2008, yes, there was volatility like this.

MR. STEVE SCARFONE: And is that the only other occurrence that -- that comes to mind?

MR. GLENN BUNSTON: During my tenure at MPI, yes.

MR. STEVE SCARFONE: And I understand that, because of its composition, the Basic claims portfolio would be largely shielded from that volatility?

MR. GLENN BUNSTON: That's correct. There's only fixed income in that portfolio so yes.

(BRIEF PAUSE)

MR. STEVE SCARFONE: And you also mentioned that that equity decline that we see before us has no impact on the forecasted returns of the equity portfolio. Is that right?

MR. GLENN BUNSTON: That's correct.

MR. STEVE SCARFONE: And the reason for that is because of the long-term nature of the -- of the forecast?

MR. GLENN BUNSTON: That's right. We use data going back to the 1950s, and we use the long-term average of the equity market returns.

MR. STEVE SCARFONE: Okay. And so these -- this volatility that we see on the screen before us and the -- and the volatility that you mentioned earlier, the -- the stock mark -- the stock market crash of 2008, are those events included in the long-term forecast for the equity market?

MR. GLENN BUNSTON: They are, yes.

MR. STEVE SCARFONE: And so how is it that this particular event, that is the -- the equity decline due to the pandemic, is not part of the long-term forecasting?

MR. GLENN BUNSTON: It is part of the forecast, but we use twenty (20) year rolling averages and we use the fifth percentile, so all returns over that period are included, and we -- we look at the -- the fifth percentile.

MR. STEVE SCARFONE: So notwithstanding that, it would have no impact on the forecasting?

MR. GLENN BUNSTON: Well, it could have an impact, I guess, if it -- if it -- if the fifth percentile was affected by these returns, so they are considered. But we haven't -- we haven't materially -- we haven't changed our methodology. And our methodology is, again, based on long-term averages.

MR. STEVE SCARFONE: Okay. Thank you for that. And then lastly, there's some private debt investment under the ALM that hasn't yet been realized?

MR. GLENN BUNSTON: There's private debt that has not been invested yet. So we've committed $228 million to private debt, and we've invested $155 million of that.

So the pacing is really determined by the investment manager. As they find suitable investments, they -- they call for that capital and we send them the -- the capital.

MR. STEVE SCARFONE: And again, there's no private debt in the Basic claims portfolio, correct?

MR. GLENN BUNSTON: That's right.

MR. STEVE SCARFONE: And so, how long,

sir, has the Basic claims portfolio been fully operational since the ALM strategy was implemented?

MR. GLENN BUNSTON: So the -- the corporate bond manager -- and the corporate bond portfolio was -- was fully invested in -- in August of 2019. So the -- the Basic claims portfolio --

MR. STEVE SCARFONE: Fourteen (14) months?

MR. GLENN BUNSTON: -- was really fully implemented at that point.

MR. STEVE SCARFONE: So, about fourteen (14) months?

MR. GLENN BUNSTON: Correct.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Those are my questions, Madam Chair.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone. Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you, Madam Chair.

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Good

morning, Mr. Bunston. Good morning again, Mr. Johnston. Kristen, could we first go to figure INV-2, which is from part 7 of the application; it's page 10 of 76? Thank you.

Mr. Bunston, this schedule provides the composition of the Basic investment portfolio, yes?

MR. GLENN BUNSTON: That's correct, yeah.

MS. KATHLEEN MCCANDLESS: The balance includes the claims portfolio RSRN and portion of the employee future benefit pension portfolios?

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

MS. KATHLEEN MCCANDLESS: And then if we could jump to the corporate portfolio, which is found at MPI Exhibit Number 19. That's the annual report from 2019. And I think it's page 40 of the PDF. Thank you.

And I understand that these are the corporate holdings as at March 31, 2020.

Is that right?

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

MS. KATHLEEN MCCANDLESS: Perhaps we could just magnify it a little bit, please, Kristen.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And if we look to the "Investments" line which is in the -- the blue shaded area third up from the bottom, and then the far right-hand of the -- of the table, we see "Total carrying value."

And so I take it that corporately there is 3.07 billion in investments. Is that right?

MR. GLENN BUNSTON: At March 31st of 2020? Yes.

MS. KATHLEEN MCCANDLESS: Yes. And 237 million in cash?

MR. GLENN BUNSTON: Correct, yeah.

MS. KATHLEEN MCCANDLESS: And 48.8 million in investment property? So, that's just below the investments there.

MR. GLENN BUNSTON: That's right, yeah.

MS. KATHLEEN MCCANDLESS: So for total investments of 3.4 billion roughly, yes?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And then jumping back to figure INV-2. If we look to '19/'20 actuals, so about the middle column roughly, at line 11 we see total assets for Basic at 2.9 billion roughly, yes?

MR. GLENN BUNSTON: Correct, yes.

MS. KATHLEEN MCCANDLESS: And so that's roughly 85 percent of the total corporate investment portfolio, subject to check?

MR. GLENN BUNSTON: That sounds about right, yes.

MS. KATHLEEN MCCANDLESS: And this investment includes Basic's share of cash, yes?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Does it also include Basic's share of the investment property that we saw was valued at 48.8 million in the annual report?

MR. GLENN BUNSTON: Yes, it does.

MS. KATHLEEN MCCANDLESS: It does. Then if we could please go to figure INV-41 from the investment section of the filing. Thank you.

And I understand that this figure represents the composition of the Basic claims investment portfolio?

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

MS. KATHLEEN MCCANDLESS: And we heard you state earlier that the Basic claims portfolio is designed to mitigate interest rate risk?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And so it's a hundred percent fixed income with no growth assets?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And we see here that the portfolio holds no Government of Canada bonds but only provincial, corporate, and MUSH bonds, yes?

MR. GLENN BUNSTON: Well, there may be some Government of Canada -- a small amount of Government of -- Government of Canada bonds in the provincial portfolio, but it's mostly provincial bonds there.

MS. KATHLEEN MCCANDLESS: And the decision to hold mostly provincial bonds and a small proportion of Government of Canada bonds is because provincial bonds provide a higher yield.

Is that right?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And the corporate bonds were purchased because of the higher yield, as well?

MR. GLENN BUNSTON: Correct. And for their diversification benefits, as well.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And, Kristen, could we please go to PUB MPI 1-34, Figure 1?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And this is the credit composition for the portfolio?

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

MS. KATHLEEN MCCANDLESS: And MPI holds corporate bonds of over $541 million as at March 31, 2020, and that's at line 9 --

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: -- at Figure 1?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And MPI is at its target for investme -- for investment for corporate bonds?

MR. GLENN BUNSTON: We are, approximately, yes.

MS. KATHLEEN MCCANDLESS: In reviewing the credit composition of the corporate bonds and the allocations as among the Basic claim and other portfolios, can you explain why MPI has more heavily weighted the corporate bonds with a BBB rating in

Basic versus other portfolios?

MR. GLENN BUNSTON: So the Basic claims portfolio is invested in a segregated account, while the other portfolios are in -- invested in pooled funds. And so we have really no control over those pooled funds and -- and how they're invested, while the Basic claims portfolio is assets that are managed only for MPI.

We have an investment policy statement in place for the Basic claims portfolio which allows the -- the manager to invest. It has a cap on the exposure to BBB-rated bonds, which is set at the index weight plus 15 percent. So as long as the manager stays below that weight, the manager has discretion to determine how much to invest in BBB-rated bonds. So it's really the manager's -- the in -- the invest -- the external investment manager's decision as to how much to invest in BBB-rated bonds.

MS. KATHLEEN MCCANDLESS: Thank you. And 22 percent of the Basic portfolio is in MUSH bonds? And if you need the reference, that's at INV-41.

MR. GLENN BUNSTON: Yeah, that sounds about right.

MS. KATHLEEN MCCANDLESS: And these

bonds are not actively traded, and as we heard earlier, intre -- changes in interest rates do not affect the valuation of the bond for income purposes.

MR. GLENN BUNSTON: That's right. We report them at -- at their book value, so there is -- changes in interest rates have no impact on the book value.

MS. KATHLEEN MCCANDLESS: Thank you. And if we're looking to 134(b), just at the bottom of Figure 1, please scroll down a little bit, MPI advised that:

> "There were no impairments in the corporate bond holdings that are held in the segregated account with the corporate bond manager"?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So in other words, no bond issues defaulted?

MR. GLENN BUNSTON: None defaulted, no.

MS. KATHLEEN MCCANDLESS: There were impairment charges for the corporate bonds held in pooled funds, though?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And can you

explain why?

MR. GLENN BUNSTON: That's really -- the difference is due to the accounting treatment of the cor -- corporate bonds. In Basic claims, they are classified as fair value through profit and loss, which means that changes in market value are recognized in -- in net income every month, so there are -- there are no -- whereas in the other portfolios, the -- the pooled funds are classified as available for sale, and therefore gains and losses, they are recognized in other comprehensive income.

And so -- so then there would -- what -- there is -- there were losses that were recognized into net income when we did the -- the writedown of assets of our investments at March 31st.

MS. KATHLEEN MCCANDLESS: Okay, right. So just to -- to clarify then, the Corporation, instead of having the changes -- pardon me -- ref -- recorded in other comprehensive int -- income, the Corporation chose to write off the market value changes against net income in nineteen -- 2019/'20 as part of an impairment charge?

MR. GLENN BUNSTON: Well, we followed our -- our accounting policy, which requires that at year end that we review all investments that are classified as available for sale. And if it's deemed that -- if the market value is below the book value, and it's -- then those are written down. It's a -- there's no discretion; it's a black-and-white policy.

MS. KATHLEEN MCCANDLESS: But none of those issues were impaired in terms of they -- they hadn't defaulted.

MR. GLENN BUNSTON: None of them defaulted. It's a matter of the market value being below the book value. So there was -- there were no defaults.

MS. KATHLEEN MCCANDLESS: Thank you.

If we go to PUB-MPI-1-33. Pardon me. First, we should go to the Annual Report at Exhibit 19, and I believe it's page 31 of the PDF.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And looking at the thirteen (13) months ended March 31, '20, so that's the blue-shaded column, we see investment income, the third line up from the bottom, of $107.2 million.

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And that's

at the corporate level, yes?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And the corporate investment income included a realized gain on pooled real estate funds of 92.1 million. I think if we go to page 41 of the PDF, that may have the information for you.

So we see again in the blue-shaded column, fourth line up from the bottom, a realized gain on pooled real estate fund of 92.1 million, yes?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And immediately below that, we see an impairment writeoff of sixty-seven point -- point eight million (67.8 million), roughly, yes?

MR. GLENN BUNSTON: Correct, yeah.

MS. KATHLEEN MCCANDLESS: And then if we could go now to PUB-MPI-1-33, and at line 32, under the column 2019/'20 actual. And so this is a summary of Basic line of business investment income.

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

MS. KATHLEEN MCCANDLESS: And so the actual for 2019/'20 was $59.6 million for Basic?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And then if

you could please go to MPI Exhibit 18, and that's the Basic Annual Report for '19/'20.

If we look to investment income under Statement of Operations, here, thir -- third line up from the bottom in the grey-shaded column, we see investment income of 107.2 million, yes?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So can you reconcile that with what is showing for '19/'20 in the previous table?

(BRIEF PAUSE)

MR. STEVE SCARFONE: Ms. McCandless, I don't know that Mr. Bunston's able to do that here on the fly. If we could take that away as an undertaking?

MS. KATHLEEN MCCANDLESS: Thank you. So just to restate, then, the undertaking would be to provide a reconciliation for the difference in the reported investment income for Basic as set out in MPI Exhibit 18 compared to PUB-MPI-1-33, I believe it's Figure 1, but would -- I'd have to jump back to confirm.

MR. STEVE SCARFONE: Yeah, just --

let's just jump back.

MS. KATHLEEN MCCANDLESS: It's Figure 1, line 32.

MR. STEVE SCARFONE: Yeah. Figure 1. Yes. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 7: MPI to provide a reconciliation for the difference in the reported investment income for Basic as set out in MPI Exhibit 18 compared to PUB-MPI-1-33, Figure 1.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now, if we could go to PUB-MPI-2-21.

And, Mr. Bunston, this figure depicts the change in previously written down investments between March 31, 2020 and June 30, 2020, yes?

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

MS. KATHLEEN MCCANDLESS: And this is for Basis or total?

MR. GLENN BUNSTON: For both. We have Basic on the top and then total at the bottom.

MS. KATHLEEN MCCANDLESS: Okay, thank

you. So if we look to Basic specifically, at line 12, there's a writedown, in the column marked writedown at Mar -- 31 March '20. You see that there?

MR. GLENN BUNSTON: I do.

MS. KATHLEEN MCCANDLESS: Okay, and that's a writedown of $42.3 million?

MR. GLENN BUNSTON: A writedown of 42.7 million.

MS. KATHLEEN MCCANDLESS: Pardon me. Point seven (.7). And then that is part of the total writedown of $67.8 million, yes?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And so you had acknowledged earlier that MPI's share of the portfolio is roughly 85 percent?

MR. GLENN BUNSTON: Basic claims' share of the total portfolio is approximately 85 percent, yes.

MS. KATHLEEN MCCANDLESS: It appears that its share of the investment income, it appears to only be 55 percent, so if we look to PUB-MPI-1-33, Figure 1 and going back to line 32.

You see 59.6 million dollars there for the total basic line of business investment income, yes?

MR. GLENN BUNSTON: Yes, I do.
MS. KATHLEEN MCCANDLESS: And then --

(BRIEF PAUSE)

MR. STEVE SCARFONE: Apologies, Ms. McCandless, I think they're anticipating your question before you ask it.
MS. KATHLEEN MCCANDLESS: Right.
Mr. Johnston, was there something you wanted to --
MR. LUKE JOHNSTON: No, I just -- the previous undertaking we -- we think that one is shown on a 12-month basis and -- and another one is on a 13-month basis.
So I just wanted to make sure Mr. Bunston -- we're doing any comparisons like that again just before we got into accepting the undertaking --
MS. KATHLEEN MCCANDLESS: Perhaps I'll defer some follow-up questions then to receipt of the undertaking on that issue.
MR. LUKE JOHNSTON: Yeah, like the -- the reconciliation is still appropriate, but -- yeah. We weren't sure why that was the case, obviously, but now we know, yes.

MS. KATHLEEN MCCANDLESS: Now if we look to the forecast investment income for 2020/'21, so in the same Figure 1 at line 32, we see it was forecast to be 84.4 million dollars.

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: To grow to eighty-four (84) -- 89.4 million in 2021/'22?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And 91.5 million in 2022/'23, yes?

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

MS. KATHLEEN MCCANDLESS: And that investment income will be primarily from interest on the fixed income portfolio?

MR. GLENN BUNSTON: Primarily, yes.

MS. KATHLEEN MCCANDLESS: And MPI used a naive interest rate forecast to develop its forecasted investment income?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Based on the original application, as with March 31st, 2020, the interest rate used for rate making purposes for a discount in cash flows was forecast to be 2.58 percent?

I believe Mr. Johnston spoke to that

yesterday, in any event.

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

MS. KATHLEEN MCCANDLESS: And then MPI provided an update at June 30 in response to PUB MPI 1-15.

And we see on page 2 that the new money yield was adjusted to 2.43 percent as at June 30, 2020?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So a 15 basis point decrease from the application?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then if we scroll to page 4 of this response, this is the pro forma updated based on the June 30, 2020 naive interest rate forecast, yes?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And if we look to line 30, under 2021, FB, we see that investment income for 2020/'21 was forecast to be $112.9 million?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And that was after $27.9 million increased due to interest rate changes, correct?

MR. GLENN BUNSTON: Correct, yes.

MS. KATHLEEN MCCANDLESS: And then if we look to PUB-MPI-2-11, and Figure 2, which is on the third page, I believe. Thank you.

So adjusting for changes in spreads on corporate and provincial bonds, the new money yield at June 30 reduced from 2.43 to 1.93 percent, yes?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And if we move then to page 5 of this document, so this is the June 2020 -- June 30, 2020 naive interest rate, pro forma 1.

So based on this adjustment to the determination of the new money yield, investment income for 2020/'21 increased to 172.3 million.

So if we just scroll down to I believe it's line 30. The second column from the left we see the net investment income has now increased to $172.3 million, yes?

MR. GLENN BUNSTON: That's right, yes.

MS. KATHLEEN MCCANDLESS: And so that's a $59.4 million increase relative to the previous pro forma that we looked at, and we can take you back there if you need the reference, but it was

$112.9 million.

MR. GLENN BUNSTON: Sounds correct.

MS. KATHLEEN MCCANDLESS: And we see at line 29 from PUB-MPI-2-11, Figure 1, that the interest rate impact was $87.1 million, yes?

MR. GLENN BUNSTON: Sorry, what was the reference?

MS. KATHLEEN MCCANDLESS: Line 29, we see an interest rate impact of $87.1 million?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: So just to recap what we've gone through, and I appreciate it's -- we've been jumping around a fair bit, but it appears that the impact due to interest rates increased from $27.9 million to 87.1 million that you see before you, and that was due to the reduction of the new money yield to 1.93 percent from the 2.43 percent?

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

MS. KATHLEEN MCCANDLESS: And then from the initial 2.58 percent as well in the GRA as filed?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And then based on the update that was filed with the Board on October 9th, which is MPI exhibit 27, the new money yield is 1.94 percent?

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

MS. KATHLEEN MCCANDLESS: And so that's a change from the response that we just looked at to PUB-MPI-2-11, if we scroll up, that indicated the new money yield was 1.93 percent?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Now, Kristen, if we could please go to Exhibit Number 27 and pro forma 1, and this is the October 9th update, that's at page 29.

So, Mr. Bunston, this is pro forma 1 updated to August 31, 2020, yes?

MR. GLENN BUNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: And if we scroll down now to line 29, based on this update, second column from the left, we see that MPI is now forecasting investment income for 2021 at $205.7 million, yes?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And immediately above that at line 29, we see that $124.5 million of that is the interest rate impact due to interest rate changes?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And so that's a significant change from the 87.1 million that we saw in the second update that was provided?

MR. GLENN BUNSTON: It's a significant change, yes.

MS. KATHLEEN MCCANDLESS: And can you explain why the impact on interest rates or the impact as a result of changes in interest rates is so significant?

MR. GLENN BUNSTON: This would be based on the Government of Canada ten year bond yield at August 31st and bond spreads at that point in time.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So, Ms. McCandless, we'd like to take this one away, as -- as well, by way of undertaking, to do a reconciliation, because there -- there's probably a couple factors that need to be looked at, including the new money yield which doesn't appear to have changed significantly.

But there's also the naive forecast that may impact upon the change that we see there in investment income.

MS. KATHLEEN MCCANDLESS: Thank you. So, just to restate it, the undertaking would be to provide an explanation for the interest rate impact on investment income from June 30th to the October 9th update, taking into account that the new money yield in that period increased from 1.93 percent to 1.94 percent, yes?

MR. STEVE SCARFONE: Yes.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. STEVE SCARFONE: And any other factors that may have a bearing upon that.

--- UNDERTAKING NO. 8: MPI to provide an explanation for the interest rate impact on investment income from June 30th to the October 9th update, taking into account that the new money yield in that period increased from 1.93 percent to 1.94 percent and any other factors that may have a bearing upon that.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Now, Kristen, could we please go to investments -- the investment section of the filing, part 6, page 6 of 76?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And just briefly to review the points related to the asset liability management-based portfolio. So, as we're well aware, MPI transitioned to five (5) separate portfolios based on recommendations from Mercer and its study completed in 2017?

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

MS. KATHLEEN MCCANDLESS: And if we scroll over to the next page, at points 2 and 3, MPI first states that:

"De-risking the Basic claims portfolio by matching only fixed income assets to the liabilities and eliminating exposure to growth

assets, interest rate risk
associated with the Basic line of
business is expected to be
significantly reduced due to the
separation of investment assets into
unique portfolios and increasing the
yield of the Basic claims portfolio
by increasing exposure to corporate
bonds and changing the allocation
from government bonds to provincial
bonds."

Yes?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So, if we could go to figure INV-39, and that's page 72.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Just with reference to this table, Mr. Bunston, can you explain how the duration matching undertaken by the Corporation protects against a change in interest rates in 2021?

MR. GLENN BUNSTON: Sure. So, duration measures the 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 liability.

We attempt to do that within -- as closely as possible. And so, we see here that we've been matched within .2 of a year in every year or less.

And so, the result of this is that changes in interest rates impact -- cause changes in values of the assets and liabilities of similar amounts, so they offset each other.

MS. KATHLEEN MCCANDLESS: Thank you. So, in your view then, this portfolio -- portfolio allocation has achieved the de-risking of the impact of changes in interest rates?

MR. GLENN BUNSTON: Yes, relative to the portfolio prior to March of 2019, when we had a co-mingled single portfolio. Yes, interest rate impacts have been reduced.

MS. KATHLEEN MCCANDLESS: Thank you. And then if we could go to page 69. And around line 16 here the Corporation has stated that:

"In 2018 the duration of the claims liabilities was matched to the duration of the marketable bond

portfolio, i.e., excluding MUSH
bonds, instead of being matched to
the duration of the total fixed
income portfolio. i.e., including
MUSH bonds.

This change is due to the change in
the calculation methodology for the
claims discount rate which is now
based upon the dollar weighted yield
of the fixed income portfolio rather
than the duration weighted yield of
the fixed income portfolio."

The net result is that the duration of the marketable bond was decreased by approximately two (2) years, yes?

MR. GLENN BUNSTON: That's right, yeah.

MS. KATHLEEN MCCANDLESS: So, MUSH bonds are excluded from the determination of the duration matching then?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: The discount rate for the claims liability takes into account the yields on MUSH bonds?

MR. GLENN BUNSTON: Yields are

included in the discount rate, yes.

MS. KATHLEEN MCCANDLESS: Okay. So, essentially, the MUSH bonds provide claims exposure but no hedging benefit. Is that right?

MR. GLENN BUNSTON: MUSH bonds don't change. The market value doesn't change, but they are included when we calculate the discount rate, yeah.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now, Kristen, could we please go to figure INV-37? And this table reflects the interest rate impacts on net income for Basic?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And if we look to line 18 under the 2020/'21 forecast, we see that with the change in interest rates forecast for fiscal 2020/'21, MPI's exposure is a $35 million negative impact to net income.

Is that right?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Can you explain why MPI is exposed to such an impact because of interest rate changes?

(BRIEF PAUSE)

MR. STEVE SCARFONE: Ms. McCandless, we will take that away if -- if it's agreeable by way of undertaking.

MS. KATHLEEN MCCANDLESS: Thank you. Yes. So, the undertaking is to explain the net impact of interest -- of changes in interest rates in the amount of $34.8 million negative impact to net income as set out in figure INV-37.

MR. STEVE SCARFONE: Yes. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 9: MPI 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

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now, if we go to pro forma 1 from the GRA as filed.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: If we could scroll down a little bit. Thank you. If we look to line 35 -- and perhaps we could scroll up to the top again just for the reference. Thank you.

So, for 2020/'21 forecast budget, the original application reflected a $34.8 million negative impact related to interest rates based on the March 31, 2020 interest rate assumptions. And we saw that in the previous table, as well?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then based on the June update, so that's PUB-MPI-2-11 and page 5, figure 1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: We see that the interest rate impact on the 2020/'21 forecast was a negative impact of $50.1 million, and we already looked at that, Mr. Bunston.

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And that took into account, as we discussed previously, the interest change from 2.58 percent to 1.93 percent.

MR. GLENN BUNSTON: Correct, yeah.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now, if we could go to the October 9th update and I believe this is the subject of the undertaking already given, but just to confirm and perhaps add some detail to that undertaking.

MPI Exhibit Number 27, page 29, we see for Pro Forma 1 -- and, Kristen, if we could please minimize it just a little bit to get the full document in.

So we see then at line 33, for 2020/'21, the forecast budget, line 33, the total net impact due to interest rate changes was now a negative $33.4 million, yes?

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And so just to confirm, I -- I'm not sure if we had this specific question in relation to the previous undertaking, but perhaps the Corporation could advise as to the explanation for the variation from the June update in the interest rate impact to the October 9th update, at line 22 of PF-1 in MPI Exhibit Number 27?

(BRIEF PAUSE)

MR. STEVE SCARFONE: Yes, so again, Ms. McCandless, because there's a number of factors that will have to go into that reconciliation, we'd like to take that by way of separate undertaking.

--- UNDERTAKING NO. 10: MPI to advise as to the explanation for the variation from the June update in the interest rate impact to the October 9th update, at line 22 of PF-1 in MPI Exhibit Number 27.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Now, with respect to the impact of pension valuation, the interest rate impact on pension valuation, could we please go to PF-3 from the October update, and that should be page 31.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Yes, so if we look to line 13 under the column 2021 FB, we see that for Basic, there is a change in the re-measurement of employee future benefits of negative $65.2 million, yes? And --

MR. GLENN BUNSTON: Correct.

MS. KATHLEEN MCCANDLESS: -- and that amount is due to changes in the pension valuation discount rate?

MR. GLENN BUNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And the August 31, 2020, Fiera Capital curve was used for this purpose, and Fiera is F-I-E-R-A, for the record?

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

MS. KATHLEEN MCCANDLESS: What was the yield rate that was used?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Just confirming the question. I'll get the answer. The pension discount rate used -- I'm just looking at the date of this. Would this be June 30th update?

MS. KATHLEEN MCCANDLESS: This is the October 9th update, so --

MR. LUKE JOHNSTON: Update, oh, sorry.

MS. KATHLEEN MCCANDLESS: -- it should be the August 31.

MR. LUKE JOHNSTON: So the pension discount rate used in the October update. Okay.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Mr. Johnston, are you --

MR. LUKE JOHNSTON: I will need a few moments.

MS. KATHLEEN MCCANDLESS: -- taking that away?

MR. LUKE JOHNSTON: If you're -- if you're able to continue without that, I can get back to you, but just -- there may be -- I don't know if you're seeking the pension discount rate at -- at all the different stages, that'll just take me a bit longer. The change in the -- the discount rate's obviously relevant.

MS. KATHLEEN MCCANDLESS: It would be as of August 31 that we would need that. Thank you.

I -- I think I can move on for now. The -- the change of negative 65.2 million flows directly to capital available?

MR. GLENN BUNSTON: Yes, I believe so.

MS. KATHLEEN MCCANDLESS: It has a direct impact on the minimum capital test ratio?

MR. LUKE JOHNSTON: It does.

MS. KATHLEEN MCCANDLESS: So it can affect the capital build or release provision.

MR. LUKE JOHNSTON: That's correct. We, of course, are only -- unlike the Basic claims portfolio, we're only seeing one (1) side of the coin, so to speak. We're seeing a liability impact.

The pension portfolio would have, obviously, experienced the gains and the rec -- the recovery of the stock market for that portion, and any increases in the value of bonds from declining interest rates, the pension portfolio would experience that as well.

So, unfortunately, in this presentation, it's not as easy to see that as it for -- as it is for Basic claims, but there is a -- an offsetting and potentially larger benefit from equity gains and bond price increases.

MS. KATHLEEN MCCANDLESS: I'm not sure if this is for Mr. Johnston or Mr. Bunston, but would you agree that the main impact of changes in interest rates on the capital available is due to the change in the re-measurement of employee future benefits?

MR. LUKE JOHNSTON: The -- I guess it has to be since the other Basic is hedged and there could be -- there can be net impacts coming from the employee future benefits portfolio. The -- with the liabilities not hedged completely by bonds, the impact of interest rates on -- on the -- the backing assets would be -- always be less than what it is for -- what the liability impact is.

And then depending on how the growth assets perform and other asset categories, it -- it could be offsetting, like, it could be more or less, yeah.

MS. KATHLEEN MCCANDLESS: But you would agree that MPI was not able to fully hedge this interest rate exposure, and hence, MPI does have some interest rate risk due to the employee future benefits.

MR. LUKE JOHNSTON: Correct. It's intentionally not hedged. We are seeking growth in that portfolio as well, yeah.

MS. KATHLEEN MCCANDLESS: Thank you.

Now I'm going to move to some question about investment impairment. I believe these will be

for Mr. -- for you, Mr. Bunston.
Kristen, could we please go to Investments Appendix 12?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And we heard in your presentation, Mr. Bunston, that due to the uncertainty related to COVID-19, there was market volatility in March 2020?
MR. GLENN BUNSTON: Yes, there was.
MS. KATHLEEN MCCANDLESS: And that MPI experienced a market decline in its investment portfolio value as at March 31?
MR. GLENN BUNSTON: We did, yeah.
MS. KATHLEEN MCCANDLESS: And MPI undertook an impairment review of its corporate investments at the end of March 2020?
MR. GLENN BUNSTON: Yes.
MS. KATHLEEN MCCANDLESS: Now, if we look to MPI's policy for writing down investments, and that's found at PUB-MPI-1-37, Attachment C.
Are you familiar with this document, Mr. Bunston?
MR. GLENN BUNSTON: Yes, I am.

MS. KATHLEEN MCCANDLESS: Okay. So just to summarize, and we could scroll down a -- a little bit, please, Kristen.

So I understand that based on MPI's impairment policy, it will take a writedown of -- of investment income if the decline is significant or prolonged or as a result of significant changes with an adverse effect that has taken place in the technological market, economic, or legal environment?

MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And the decline that took place in March of this year was significant, according to MPI's criteria?

MR. GLENN BUNSTON: Yes, it was.

MS. KATHLEEN MCCANDLESS: In that it was prolonged and significant, or...?

MR. GLENN BUNSTON: It was not prolonged; it was significant.

MS. KATHLEEN MCCANDLESS: And MPI chose to take the impairment charge agaist -- against investment income.

MR. GLENN BUNSTON: Well, our policy required that we take the charge, yes.

MS. KATHLEEN MCCANDLESS: And so, essentially, this is, in effect, writing down the

value of the investments against net income.
MR. GLENN BUNSTON: It's reducing the book value of the investments to reflect the current market value at the time.
MS. KATHLEEN MCCANDLESS: And as -- INV Appendix 12 was just before us, so I think, Kristen, if we could switch back. Thank you.
And we did see this impairment elsewhere in my earlier questioning. We see on the right-hand side of the page the write-down of 67.8 million dollars there, yes?
MR. GLENN BUNSTON: Correct, yes.
MS. KATHLEEN MCCANDLESS: And at PUB MPI 2-21, page 2, I think if we scroll down a little bit more.
Of that $67.8 million total impairment, 54.4 million was attributable to equities and 13.4 was attributable to fixed income, yes?
MR. GLENN BUNSTON: That's correct, yes.
MS. KATHLEEN MCCANDLESS: And if no impairment charge had been taken, the adjustment and value would have been reflected in accumulated other comprehensive income?
MR. GLENN BUNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And as you mentioned, since March 31, 2020 the markets have rebounded.

MR. GLENN BUNSTON: They have, yes.

MS. KATHLEEN MCCANDLESS: And I gather in the Application MPI had indicated that by June 5th, 2020 the total equity portfolio had increased by 32.1 percent?

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

MS. KATHLEEN MCCANDLESS: And at that time it was only approximately 7.3 percent below the peak reached in February 20, 2020?

MR. GLENN BUNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: Is it possible to have an update of the equity portfolio return to August 31, 2020 and how the October 9th updated forecast for 2020/21 equity returns was determined?

MR. GLENN BUNSTON: Are you asking me if we can provide that by way of undertaking?

MS. KATHLEEN MCCANDLESS: Yes, I'm not expecting you to explain it all right now.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So, Ms. McCandless, I think the -- the witness wouldn't or would like some clarification on the question, because it seems that there may already be that information in the update, and then if not, perhaps an update on the returns on the equities might not be available.

But anyways, if you could clarify exactly what it is that you're asking for. It seems as through you're wanting an update on -- on the investments to a certain date and how that might impact upon the October update?

MS. KATHLEEN MCCANDLESS: Correct, yes.

MR. STEVE SCARFONE: That was already provided?

MS. KATHLEEN MCCANDLESS: Yes. So perhaps we'll just have a discussion offline and sort that out if the information is available.

MR. LUKE JOHNSTON: Yeah, I think I heard the -- an update on the returns of the equity portfolio up until the date of the -- used for the updated filing, and then how we use that information to update the forecast.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Yes.

MR. LUKE JOHNSTON: And so yeah, the -- I guess one (1) of the tricky parts of the update is we're not actually updating the whole application and so it makes it difficult to find references.

Obviously we have it, but just not at our fingertips.

MR. GLENN BUNSTON: Yeah, we can provide the returns on the equity portfolios to -- to August 31st, and the market values.

Those market values, I believe, would have been updated in -- in the financial model when the October update was completed. So if you want to clarify the exact question offline, we can certainly do that.

MS. KATHLEEN MCCANDLESS: Yes, we can have that discussion. And --

MR. LUKE JOHNSTON: Oh, sorry. I just -- whenever is a good time to do this pension discount rate, just let me know.

MS. KATHLEEN MCCANDLESS: You have the information now?

MR. LUKE JOHNSTON: I do.

MS. KATHLEEN MCCANDLESS: Okay, please.

MR. LUKE JOHNSTON: You're ready for it? Okay. So the pension discount rate in the original filing, you didn't ask for this, but 3.97 percent. And in our updated filing, 2.85 percent.

MS. KATHLEEN MCCANDLESS: Thank you. And subject to sorting out the possible undertaking, those are my questions on investments, so thank you, Mr. Bunston. I'll be speaking to you again, Mr. Johnston.

THE PANEL CHAIRPERSON: This looks like it's a convenient time to break for lunch, if that's acceptable for everyone.

Let's come back at one o'clock, please.

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

--- Upon resuming at 1:01 p.m.

THE PANEL CHAIRPERSON: Okay. Thanks very much. Mr. Williams...?

DR. BYRON WILLIAMS: Madam Chair, I believe My Learned Friend, Ms. Meek, will be going next. And I think I've had some discussions with counsel for Manitoba Public Insurance. There was some confusion -- at least on my part -- in terms of the order. So I prepared for a Capital Management Plan, CERP investment collectively.

I'm still awaiting my materials. So I think we've agreed that I will be sequentially cross-examining MPI with Mr. Bunston a bit later. Subject to the direction of the Board.

THE PANEL CHAIRPERSON: Thanks, Mr. Williams. Yes, I think that what we'll do is, after the break this afternoon, we'll just review the procedural outline to clarify what's happening and when to make sure that everyone's aware of the order in which panels are coming up.

So thank you, Mr. Williams. Ms. Meek...?

CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Thank you, Madam Chair. Good morning. I'd like to start with Exhibit CMMG-4, please -- 4-5, plus MPI -- CMMG-MPI 2-5, please, Kristen. Thank you.

So in this IR, CMMG was inquiring about MPI's rationale for not supporting the use of a special backing portfolio for the motorcycles claims liabilities, as well as inquiring as to the basis that MPI provided for -- that -- sorry, as well -- as well as the basis that MPI gave as to why it's precluded from including growth assets in the Basic portfolio. Yes?

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

MS. CHARLOTTE MEEK: And MPI provided a response -- well, they were provided one (1) response and then provided a further response in a letter to CMMG. If we could go to that. I believe it's Exhibit MPI-16.

So if we can scroll to the bottom of this page, where it starts with, 'Quite simply'. Thank you, Kristen. That's perfect.

So MPI says here:

"Quite simply, the assert liability management study, completed in January 2018 by Mercer, prohibits the inclusion of gross assets or equities in the Basic claims portfolio."

And then, it provides two (2) reasons for that as to the basis for that.

Are you familiar with this letter that was provided by counsel for MPI?

MR. GLENN BUNSTON: I'm -- I'm not familiar with this letter, no.

MS. CHARLOTTE MEEK: Are you familiar

with the information in the letter, that -- that there was a study provided by Mercer in 2018 and that it prohibited the inclusion of growth assets in the Basic claims portfolio?

MR. GLENN BUNSTON: Yes, I'm familiar with the asset liability management study.

MS. CHARLOTTE MEEK: Okay. And you're familiar with some of the reasons that MPI has provided here? So the reasons that equities were excluded, being MPI's low tolerance for investment risk and to hedge against interest rate risk?

MR. GLENN BUNSTON: Yes, I'm familiar with that.

MS. CHARLOTTE MEEK: Thank you. So you're -- you said you're familiar with the ALM study in the Mercer report?

MR. GLENN BUNSTON: Yes, I am.

MS. CHARLOTTE MEEK: Thank you. So the report provided by Mercer, as I understand it, is based on the risk appetite of the Corporation as determined by MPI's Board of Directors.

Is that correct?

MR. GLENN BUNSTON: That's correct, yeah.

MS. CHARLOTTE MEEK: Okay. And MPI's

Board of Directors indicated that it has a very low tolerance for risk in the Basic claims portfolio.

Is that correct?

MR. GLENN BUNSTON: That's right, yes.

MS. CHARLOTTE MEEK: Okay. And that was the reason that Mercer provided the portfolios in the way that they did, based on the Corporation's appetite for risk, specifically those two (2) points that we identified above?

MR. GLENN BUNSTON: Correct, yes.

MS. CHARLOTTE MEEK: Thank you. So other investments, like equities, for example, were excluded from the Basic claims portfolio because they were seen as higher risk. Correct?

MR. GLENN BUNSTON: They're volatile and they don't hedge the risk associated with the Basic claims, yes.

MS. CHARLOTTE MEEK: So -- and that was despite the fact that some investments, like equities, provide greater returns, especially for long-tailed liabilities. MPI has chose to be more conservative in order to favour short-term stability.

Would you say that's a fair generalization?

MR. GLENN BUNSTON: Well, I would say

that equities have the possibility to provide greater returns, but they can also provide lower returns. They're volatile, so it really depends.

MS. CHARLOTTE MEEK: Right. So they're more volatile, so, in favour of short-term stability, MPI chose to hedge against short-term risk by not including those equities.

MR. GLENN BUNSTON: Correct.

MS. CHARLOTTE MEEK: Thank you. So MPI's strategy then, for the Basic portfolio, is to hedge against short-term risk.

MR. GLENN BUNSTON: Strategy is to hedge against interest rate risk by investing in fixed income assets. Yeah.

MS. CHARLOTTE MEEK: And it better protects against short-term risk, rather than long-term risk. Would you say that's accurate?

MR. LUKE JOHNSTON: I wouldn't. The first objective is rate stability of our policy holders. And so fixed income, particularly for motorcycles where more than half the claims are for long-term, seriously injured claimants, the ALM is very important piece for the stability of motorcycle rates.

MS. CHARLOTTE MEEK: So just

responding to what you said there, Mr. Johnston. You said one of the most important things is rate stability of policy holders. Is that correct?

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

MS. CHARLOTTE MEEK: But that's not something that we're seeing for motorcycle rate holders at the moment.

MR. LUKE JOHNSTON: We've actually seen incredible rate stability for motorcycles. I can provide that evidence, if -- if necessary.

We just looked today and motorcycle rates were about nine hundred dollars ($900) in 2005 and, in 2019, they were nine hundred dollars ($900).

MS. CHARLOTTE MEEK: And what is the -- what is the basis for that rate stability? Is it something to do potentially with the loss transfer that was created in -- I believe, in 2006 -- with a Board Order in 2006?

MR. LUKE JOHNSTON: There's a lot of things that -- that have happened, for sure. But the stability of the rate-making methodology is one (1) main reason.

MS. CHARLOTTE MEEK: And when you're referring to rate stability there, you're referring to the stability of specifically motorcycle rates from --

you're talking about 2005 to current year, and you're saying that they've maintained a similar amount over that period of time.

Is that -- is that what you're implying?

MR. LUKE JOHNSTON: Yeah. There was -- I was here during periods of time where motorcycles needed 100 percent rate increase. And when no fault was implemented, motorcycle rates were immediately determined to be extremely deficient. And there was a bunch of painful years where we were basically deciding whether we were going to have double-digit rate increases or not. Those days are long gone.

As I mentioned, we have seen some up and down movement in motorcycle in 2 -- since 2005 but, for the most part, I would describe it as pretty stable.

MS. CHARLOTTE MEEK: All right. And you're describing it as stable, as I said, based on the duration from 2005 to 2018 just looking at motorcycle rates.

But if I could put it to you that, if you look at a comparison between the rates that ratepayers are seeing, say, in the private passenger class versus the motorcycle class, there's significant differences between the kinds of rates that MPI is requesting for private passenger vehicles versus motorcycle vehicles.

Is that correct?

MR. LUKE JOHNSTON: I'm not sure what you mean by 'differences.' Do you mean that motorcycle rates are more or...?

MS. CHARLOTTE MEEK: I would say the -- the rate request that you're requesting each year, so the -- yeah, so the rate request.

MR. LUKE JOHNSTON: Given -- given the nature of motorcycle experience, and I'll expand on that, motorcycles are about 85 percent injury claims; more than half of those injury claims are seriously injured claimants. And, obviously, motorcycles are a much smaller pool than private passenger vehicles.

So, should we expect more volatility in that classification? Absolutely. It's a small group of vehicles with -- where the actual number of claims isn't that high -- that is definitely true -- but the -- it's kind of low frequency/high severity class.

And just looking at the rates charged for motorcycles over the last ten (10) to fifteen (15) years, I think it's a testament to this process and the rate making methodology that -- that rates have stayed as stable as they have.

MS. CHARLOTTE MEEK: Would you agree, Mr. Johnston, that the rate increase this year is predominantly -- for the motorcycle class is predominantly due to changes in interest rates?

MR. LUKE JOHNSTON: The biggest reason for the rate increase is because of the change in methodology for handling serious loss claims. This issue was brought to MPI's attention last hearing.

We were asked to separately analyze serious losses versus non-serious losses and figure out if there's a more accurate way to forecast those two (2) pools.

The unfortunate impact for motorcycles was a pretty substantial increase in their average rate, I believe in the neighbourhood of about 8 percent. Absent that change, motorcycles would have experienced a much lower rate impact.

MS. CHARLOTTE MEEK: So, aside -- and -- and we'll talk about serious and non-serious losses next week, I think, in a little bit more depth.

But aside from the methodology change, would you say the second indicator that has -- that has changed motorcycle rates this year or impacted motorcycle rates in a negative way would be interest rate fluctuation?

MR. LUKE JOHNSTON: Yeah. And when I spoke this morning about a disproportionate impact to motorcycles from interest rates, I don't mean disproportionate in terms of fair -- fairness. I mean disproportionate in the sense that there's no other group like motorcycles who have such a high weight to long-term claims.

So, by definition, taking the present value of that pool exposes yourself to, I guess, interest rate risk or investment return risk.

So, what we're actually talking about here is in -- for other classes where -- that are mostly physical damage, money is in and out the door. There's no real chance for MPI to earn investment income on those dollars. You -- you pay a thousand dollars premium. You have a collision. We pay -- pay out the claim. There's not a lot of investment potential.

Motorcycles, because most of the claims are long-term, we sit on those premium dollars for longer, and we invest them. So, motorcycles have always got the benefit of that investment return through a lower rate.

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 motorcycles for that -- for that reason, but it impacts everything MPI does.

So, our -- our -- all of our fixed income is earning that -- the -- the yields that we've talked about today.

MS. CHARLOTTE MEEK: Okay. And so, to summarize then, the two (2) most biggest factors affecting motorcycle rates this year are investment return risk and the methodology change.

So to assume from that it is not a result necessarily of increased collisions or increased claims?

MR. LUKE JOHNSTON: I haven't seen anything that suggests motorcycle claims are trending, you know, in a really bad direction. In fact, I think recent years we've seen some better frequencies, so that -- that's obviously great news.

The -- the other -- the other piece -- so I agree with you that -- the methodology change. Absolutely, that's a big one. And, you know, that's not -- that's not MPI feeling any certain way to motorcycles. That's just updating the methodology fair for everyone.

And then the same with interest rates. Everyone got the same treatment, but motorcycles are -- are more hedged.

The -- the other part that -- if we want to create a fair comparison, the 3 percent rate decrease from the product changes has almost no impact on motorcycles.

So, to suggest that motorcycles should, you know, be getting a 3 percent decrease, too, is -- is not valid. There's a very small amount of physical damage claims for motorcycles, which means that a higher deductible doesn't have much of an impact. Motorcycles also don't have comprehensive insurance.

So, that portion of the decrease, it only has very minor applicability to motorcycles.

MS. CHARLOTTE MEEK: Okay. And so, we kind of jumped ahead a little bit of where -- where I was. But I wanted to talk about interest rate risk, and it was defined in the Application. So, if we could go to Exhibit MPI 1, part 7, at page 69, please. And I think it's right on the bottom.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: Yeah, interest

rate risk; that's perfect. Thank you. So, interest rate risk is defined by the Corporation as -- well, for this application, the net impact of changes in interest rates on claims liabilities and the gain or loss for marketable bonds.

So, changes in interest rates on claims liabilities, those changes would impact the requested rate indication that MPI seeks for the PUB each year. Is that correct?

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

MS. CHARLOTTE MEEK: Thank you.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: And two (2) years ago, the Board noted that MPI had emphasized that, based on the ALM strategy being implemented by the Corporation, the impact of interest rates on Basic will be significantly reduced going forward.

Is that correct?

MR. GLENN BUNSTON: That's correct.

MS. CHARLOTTE MEEK: So, what MPI is saying here is that, based on the ALM strategy that MPI had taken on, the impact of interest rates on the

Basic portfolio from an overall perspective would be reduced.

Is that correct?

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

MS. CHARLOTTE MEEK: But we know that each vehicle class is impacted slightly differently by MPI's investments and returns, as of -- as we've already identified.

Each vehicle class's Basic premium is weighted differently. Is that correct?

MR. GLENN BUNSTON: Yes.

MS. CHARLOTTE MEEK: Okay. So, for example, as Mr. Johnston just alluded to, we know that PIPP makes up much higher portion of the motorcycle Basic claim, something -- I think you said 85 percent, I've seen other numbers in the range of 91 percent, so somewhere between that range, whereas it only makes up about 29 percent for the private passenger premium.

Is that accurate?

MR. LUKE JOHNSTON: Yes, that's more accurate. I was being general there. I probably should have gave the exact number, yeah.

MS. CHARLOTTE MEEK: Thank you. So, you agree it's about 91 percent of the -- of the motorcycle --

MR. LUKE JOHNSTON: Subject to check, that sounds reasonable, yes.

MS. CHARLOTTE MEEK: Thank you. So, MPI's statement then that the ALM -- ALM strategy, as implemented, would reduce interest rate risk for the Basic portfolio overall has not had the same positive effect for the motorcycle class.

Would you say that's accurate?

MR. LUKE JOHNSTON: Can you repeat that just to make sure I heard it right?

MS. CHARLOTTE MEEK: Sure. So, MPI's statement that the ALM strategy, as implemented, would reduce interest rate risk for the Basic portfolio has not had the same impact for the motorcycle class specifically?

MR. LUKE JOHNSTON: I -- I don't see why motorcycles wouldn't have benefitted from that risk reduction. We're seeing it not only in the very significant decline in our MCT target, but also through the rebates that we've paid out recently and the effective hedging of what was enormous interest rate impacts in recent years.

MS. CHARLOTTE MEEK: But in terms of the impact of changing interest rates on other Basic Portfolios or the -- the Basic premiums paid by other insurers, other classes of vehicles, we haven't seen the reduction of interest rate risk for the motorcycle class seeing as they are being impacted significantly this year.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Just -- just to be clear, we -- we continue to discount our claims this year in the same manner we did in previous years. It just turns out this year interest rates have taken a fairly monumental decline.

And if they go in the other direction, obviously motorcycles would be big winners from that situation if you determine -- you know, if you define winning as having lower rates this year. But the -- yeah, the impact is -- is situational based on the interest rates we have today.

MS. CHARLOTTE MEEK: So the impact is situational based on interest rates and based on the vehicle class and their makeup of their Basic Claims Portfolio?

MR. LUKE JOHNSTON: The PIPP benefits for all major classes get discounted in the same way. Motorcycles just have more PIPP than the typical major class. So all classes are treated fairly, and, you know, the return has to be based on what we're actually investing in.

But again, motorcycles are just a very PIPP-heavy class, and they are unfortunately impacted by this massive decline in interest rates we're seeing.

MS. CHARLOTTE MEEK: So if we could go back to Exhibit MPI 16, please, Kristen. So there's a quote at the bottom of page 2 that reads -- sorry, just give me a moment to see if I can find it.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: Sorry, it might be at the top of page 2. Could you scroll up a little bit? Yeah, it's just here. Thank you. So MPI quoted from Board Order 159/'18, and the last sentence of this quote says:

> "It appears to the Board that the Corporation has selected from a range of reasonable options for its portfolios as a result of the Mercer ALM study."

Is that correct?

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

MS. CHARLOTTE MEEK: Okay. And so while this letter provides that quote, the Board Order actually reads on. And the Board provided further comment at page 89, and the Board went on to express this concern that:

> "It may be the case that the Corporation has foregone an opportunity to hedge against long-term risks by rejecting RRBs and reducing real assets."

I appreciate I haven't put that in front of you. I can if you'd like, but does that sound accurate?

MR. GLENN BUNSTON: Sounds accurate to me, yes.

MS. CHARLOTTE MEEK: Thank you. The Board then directed the Corporation to set up and run shadow portfolios for the Basic and Pension Portfolios. Is that correct?

MR. GLENN BUNSTON: That's correct.

MS. CHARLOTTE MEEK: Thank you. And the Board directed the Corporation to provide an update on the progress and the implementation of the new portfolios and the shadow portfolios in this year's GRA. Is that correct?

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

MS. CHARLOTTE MEEK: And that was -- allowed the Board to determine whether the Corporation's asset-liability management strategy was reasonable. Is that correct?

MR. GLENN BUNSTON: Yes.

MS. CHARLOTTE MEEK: So if we can go back to that letter again, please, Kristen. Thank you. So if we can scroll down on page 2, yeah, the paragraph that begins with "Further". Thank you.

So what MPI is saying in this paragraph is that MPI is noting that Shadow Portfolio 2, which mirrors Basic but also includes equities among some other investments, only showed a return of 2.31 percent from March 2019 to March 2020 versus the 6.19 percent return that the actual Basic Portfolio received. Is that accurate?

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

MS. CHARLOTTE MEEK: Okay. So if we could go back to the application, please, Kristen, and if we could go to Part 7, Appendix 10, page 3, please.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: Okay. So the 2.31 percent that was referenced in the letter from MPI, this is -- this is where that 2.31 percent was found, right? In total, all the way across to the right side, it says March 2019 to March 2020 returns, and it says 2.31 percent?

MR. GLENN BUNSTON: That's right.

MS. CHARLOTTE MEEK: Okay. And if we look at the notes at the bottom of this page, the third one down says:

"For private equity, return was assumed to be zero for the first twelve (12) months due to the J-Curve."

And I think you mentioned this a little bit in your presentation this morning?

MR. GLENN BUNSTON: I did, yes.

MS. CHARLOTTE MEEK: And so the next note also says:

"The J-Curve reflects the reality that, for private investments, there is usually an initial period where expenses are incurred with little

return to offset those expenses."
Is that correct?
MR. GLENN BUNSTON: Yes, that's right.
MS. CHARLOTTE MEEK: Okay. And again, yeah, you referenced this a little bit earlier in your presentation, so my understanding is that a J-Curve is used in private equities to illustrate the historical tendencies of a private equity fund to deliver negative returns in the early years and investment gains in the outlying years as the portfolio matures.
Is that generally accurate?
MR. GLENN BUNSTON: That's right.
MS. CHARLOTTE MEEK: Thank you. So would you agree then that, as a result of the J-Curve for the first year, the shadow portfolio doesn't provide an accurate portrayal of what returns would usually be expected from private equities in future years?
MR. GLENN BUNSTON: It provides an accurate depiction of the investment returns in the early years of the fund, but not in the later years of the fund.
MS. CHARLOTTE MEEK: Right. So it would be unlikely that we would see the similar investment returns in say the third or fourth year?

MR. GLENN BUNSTON: Correct. We would expect to see positive returns in those.

MS. CHARLOTTE MEEK: More positive returns. Okay. And this figure shows some significant losses in February and March in 2020 if we look at, for example, private equities. Sorry, just in March, it has a negative 17.3 return.

Is that accurate?

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

MS. CHARLOTTE MEEK: Okay. And so on the private equities line, that has a significant impact on the overall return of this portfolio as -- as a result of the downturn in the markets due to results of the pandemic. Is that accurate?

MR. GLENN BUNSTON: Yes. The month of March was a difficult month for -- for equities in -- in general, but we see that the Canadian Equity portfolio had a difficult month in March. But the returns for both asset classes overall were actually very similar, despite the fact that private equity had zero returns for the prior months.

MS. CHARLOTTE MEEK: I see. So you're saying the overall return for the entire year ver -- between Canadian equity and private equity is about almost exactly the same?

MR. GLENN BUNSTON: Right.

MS. CHARLOTTE MEEK: Okay. So it's now been over six (6) months since March 2020, the year end, as provided in this chart.

Has this portfolio recovered from the significant losses that were incurred in March?

MR. GLENN BUNSTON: As the private equity?

MS. CHARLOTTE MEEK: I would say the portfolio in general. So the shadow portfolio 2, has it recovered from the losses that were experienced in March of this year as a result of the downturn of the COVID pandemic?

MR. GLENN BUNSTON: I don't have those numbers at my fingertips, but I can get them.

MS. CHARLOTTE MEEK: Right. In your presentation this morning, you indicated that the fiscal year to date, March 31st to August 31st, that the public equity portfolio, for example, had increased by 16.6 percent.

MR. GLENN BUNSTON: Yes. So -- so public equity markets have rebounded, and as it says here, for private equity, returns of the -- the TSX Index were used, so yes.

MS. CHARLOTTE MEEK: So -- and the TSX

has recovered significantly since the COVID pandemic?

MR. GLENN BUNSTON: It has, yes.

MS. CHARLOTTE MEEK: Right. So if the shadow portfolio, this shadow portfolio 2, were to be presented on a twelve (12) month basis, for example, from August 2019 to August 2020 to bring us a little bit more current, what kind of returns would the portfolio have provided?

MR. GLENN BUNSTON: Again, I don't have those numbers at my fingertip, but we could obtain them.

MS. CHARLOTTE MEEK: Would MPI undertake to provide an update of the shadow portfolio 2 from -- on a basis from August 2019 to August 2020 in a similar format as this -- as this --

MR. GLENN BUNSTON: So what was the undertaking for, Ms. Meek?

MS. CHARLOTTE MEEK: Would MPI undertake, please, to provide an update of the shadow portfolio 2 from August 2019 to August 2020?

MR. STEVE SCARFONE: In a similar fashion that we've done from March to March?

MS. CHARLOTTE MEEK: Yes, please.

MR. STEVE SCARFONE: Yes.

MS. CHARLOTTE MEEK: Thank you.

--- UNDERTAKING NO. 11: For MPI to provide an update of the shadow portfolio 2 from August 2019 to August 2020.

CONTINUED BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Is there a similar portfolio provided for the actual basis portfolio on a similar format to this chart?

I'm not -- I wasn't able to find it in the Application. Is that provided anywhere in the application?

MR. GLENN BUNSTON: We don't have the actual portfolio presented on this -- the same --

MS. CHARLOTTE MEEK: The month-by-month?

MR. GLENN BUNSTON: -- basis. No, we don't.

MS. CHARLOTTE MEEK: Is that something that MPI would be able to provide, so to provide the actual portfolio in the same format as this chart? So from March 2019 to March 2020, as well as a -- for the actual portfolio for August 2019 to August 2020 as well, so we can compare those two (2)?

MR. GLENN BUNSTON: Sorry, let me --

let me go back on that.

The first page in this appendix, page number 1, it does show the Basic portfolio with the passive benchmark returns. So these are the -- the target weights for each asset class and the benchmark returns.

MS. CHARLOTTE MEEK: Okay.

MR. GLENN BUNSTON: So these would be the -- the passive return on MPI's portfolio, what we call the policy benchmark.

MS. CHARLOTTE MEEK: Okay. So could we get an update of this same chart, please, for August to August?

MR. GLENN BUNSTON: Yes, we can do that.

MS. CHARLOTTE MEEK: Thank you.

--- UNDERTAKING NO. 12: MPI to provide to CMMG a chart that will allow her to compare the shadow portfolios and the format that they're presented in with the actual returns of the Basic claims portfolio

CONTINUED BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: So then if we could go to page 2 of this document, please.

So this is another shadow portfolio that was ordered by the Board, so this is shadow portfolio 1, which is the same as Basic, but it includes RRBs, which are Real Return Bonds. Is that correct?

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

MS. CHARLOTTE MEEK: Okay. And when we look at the total returns, so the last line and then all the way over to the right column, which provides returns for March 2019 to March 2020, it shows return for Basic for this portfolio of 7.19 percent. Is that correct?

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

MS. CHARLOTTE MEEK: And as we stated earlier, the return for Basic was 6.19 percent?

MR. GLENN BUNSTON: Yes, the actual return on the Basic portfolio for the same period was 6.19 percent.

MS. CHARLOTTE MEEK: Thank you.

So here the inclusion of RRBs in the Basic portfolio, that was a recommendation that was made by CAC in the report of Mr. Viola in June of

2018. Do you remember that?

MR. GLENN BUNSTON: Yes, I do.

MS. CHARLOTTE MEEK: Thank you. And so you'd agree then that had MPI opted to include RRBs in the Basic portfolio, that the returns would have exceeded those from the actual portfolio?

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

MS. CHARLOTTE MEEK: Okay. And where investment returns were higher, that would have had an impact on the premiums for insureds, is that correct?

MR. GLENN BUNSTON: Yes.

MS. CHARLOTTE MEEK: Thank you. So, as we've discussed, MPI has indicated that it does not support the idea of creating a special asset backing portfolio specifically for motorcycle claims liabilities, is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: So while MPI does not support this idea, what would a special -- special asset backing portfolio look like?

MR. LUKE JOHNSTON: It's -- it sounds to me like CMMG is looking for all the benefits of the low risk portfolio, but all the -- you know, but the return of the high risk portfolio.

So there's many benefits that accrue to

motorcyclists from the -- the approach we've taken on the ALM to suggest that our -- our Board would create a separate investment portfolio for a group of seventeen thousand (17,000) policyholders out of about a million.

And I'm not sure how you would deal with capital releases and -- and things like that. That was a not a -- not a consideration at all.

I -- I don't have any idea right now what that -- how we'd even do that or what that would look like.

MS. CHARLOTTE MEEK: But it would be possible to create a special portfolio specifically for the motorcycle class to reduce the impacts of interest rate risk?

MR. LUKE JOHNSTON: I would say no. I'm not really sure what -- what you're asking for.

The -- the approach we're using is very much -- we talked about the rate stability piece, but the other reason for the ALM is, of course, that we have literally billions of dollars in long-term PIPP liabilities, and there's no group that that's more specific to than -- than motorcycles.

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

The question I would ask is who pays the bill when that goes wrong? Like, are motorcycles going to cover a 30 percent decline in the stock market when that happens? What is the process?

So I would -- it would be very strange for us to create a -- an entirely different investment portfolio and capital and rate-making strategy for one (1) small group of policyholders.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: Would MPI consider a portfolio for liabilities associated with long-term PIPP claims?

MR. LUKE JOHNSTON: Our -- our current claim liability portfolio is essentially that. The vast majority of those liabilities are long-term PIPP claims, stemming back to 1994.

What we have up -- I don't want to go too far off base here, but what we have put forward in this application is a recognition that using a single discount rate is -- there are fairness issues with --

with that.

So, in a normal environment where long-term bonds have higher yields than short-term bonds, we're not in -- we're in a fairly flat interest rate environment today, there is definitely merit that we should have a different discount rate for motorcycles and all classes to reflect the nature of the claims in those classes.

And so we've recognized that, that is definitely appropriate and aligns with our -- our investment strategy.

The issue this year was that when we looked to do that, the yield curve at -- at one (1) stage was inverted such that long-term bonds were returning lower than short-term bonds and that would have actually been detrimental to motorcyclists.

But in the normal yield curve environment, that type of approach would make sense and we are definitely willing to do that. And -- but this idea of creating a whole new investment portfolio just for motorcycles, I -- I don't see how we -- we could justify that.

MS. CHARLOTTE MEEK: Thank you. So you brought up the issue of MPI's suggestion of having points on a yield curve, and you noted -- I had understood this year from the Application, and maybe it's shifted slightly, that the yield curve is currently flat, so there would be no benefit to the motorcycle class.

But were you just saying that it was actually inverted?

MR. LUKE JOHNSTON: The -- in normal times, and we're not in normal times, there's usually an -- an upward sloping yield curve. And so is it appropriate to use a single discount rate when -- when we all know motorcycles have a much more long-term liabilities.

And we've said the answer is no. Like, we should look at that. And that answer should be the same for every class.

So when we tested that, the yield curve is actually inverted at the time, so there was really no benefit at all to having those long -- you know, a longer-term discount rate. That will not be true in the future. At some point, we will -- we will go to more normal upward inclining yield curve. And MPI is definitely open to that, again, because that is -- that is fair for -- for everyone. And it should be a net -- all else equal, it should be a net benefit to motorcycles in normal -- normal times.

MS. CHARLOTTE MEEK: So -- and I just wanted to make sure I understand. Is it inverted at this time right now because of the pandemic and the situation that we're currently in? So you're saying, right at this moment, the yield curve is inverted, but it would usually be flat or inclining?

MR. LUKE JOHNSTON: I don't believe it's inverted anymore. I'm just going to check with Mr. Bunston to see where it's at.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: It's -- the yield curve is no longer inverted, but it's still very flat. So, normally, you'd have a bigger yield pickup for a ten (10) year bond than you would a one (1) year bond. That difference right now is very small, but in normal times, it would be bigger. And if motorcycles claims are on average ten (10) years in -- in duration, for example, it would make much more sense to use the return on a ten -- ten (10) year bond and -- and -- which would be higher for a class that, say, had an average payment of one (1) year.

So that -- that does make a lot of sense. We -- we just -- our point in this Application was that there's nothing to gain from that strategy right now.

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

THE PANEL CHAIRPERSON: Thank you, Ms. Meek. Mr. Gabor...?

THE CHAIRPERSON: Mr. Johnston, I just want to see if I understand something in relation to motorcycles.

You mentioned that 85 percent of the claims for motorcycles are for injuries and more than half of those are serious injury claims?

MR. LUKE JOHNSTON: Those were approximations, but within reason, yeah, yeah.

THE CHAIRPERSON: Okay. So as I understand it, motorcycle premiums, then, are set based on sort of pricing of risk.

MR. LUKE JOHNSTON: So -- yeah, so motorcycles are treated the same as every class. We look at the composition of claims, and then we project out the -- the expected cash flows for -- I'll just use an extreme example in the other direction. For trailers, there's no PIPP.

THE CHAIRPERSON: Yeah.

MR. LUKE JOHNSTON: So it's just

physical damage claims. There's no investment income to -- to be gained. Motorcycles, more than half their claims are lifetime. They'll project thirty-five (35), forty (40) years out in the future. If you take the present value of that at 4 percent versus 1 percent, that's a pretty big difference in the present-day value.

So that's what motorcycles are experiencing right now. This really sharp decline in interest rates is making the present-day costs. But that's true for anyone that has PIPP. It's just motorcycles have 85 to 90 percent of PIPP. So when we talked about disproportionate impact earlier, it's not a unfair impact, like, in terms of the calculation, but -- but, absolutely, 90 percent of the claims.

THE CHAIRPERSON: But are the costs for the PIPP claims or the injury claims from motorcycles charged against the motorcycle class, and that's how you determine the pricing of the risk?

MR. LUKE JOHNSTON: Absolutely, yeah.

THE CHAIRPERSON: Okay.

MR. LUKE JOHNSTON: And that includes the Order from the Board years ago, including loss transfer and all the other things that have been since decided. But it is, and always will be, their costs based on the agreed methodology.

THE CHAIRPERSON: Okay. And if the person who is injured riding a motorcycle is not the registered owner of the motorcycle, is it charged against the motorcycle class? If the person, let's say, owns a passenger vehicle, not a motorcycle, is it charged against the motorcycle class or the passenger vehicle class?

MR. LUKE JOHNSTON: We would follow what we call -- I can't remember if it's called the same here -- we call PIPP cost allocation methodology. The -- the total injuries from that -- any accident involving a motorcyclist would be split equally among the parties involved.

So if a motorcycle and a car, if only the motorcycle was injured, for example, and let's say it was a million dollars, five hundred thousand (500,000) would go to the motorcycle pool, five hundred thousand (500,000) would go to the vehicle pool.

That was determined years ago to be a reasonable type of cost allocation approach in a no-fault environment like MPI. So that -- that's true for every claim, though.

THE CHAIRPERSON: But if you have, for

example, a motorcyclist go off the road -- there's no other car involved -- go off the road and is seriously injured, let's say becomes quad --

MR. LUKE JOHNSTON: A hundred percent --

THE CHAIRPERSON: -- a hundred percent quadriplegic --

MR. LUKE JOHNSTON: Yeah.

THE CHAIRPERSON: -- but that person does -- is not the registered owner of the vehicle, does it fall within the motorcycle category or does it fall within the category where I will say he -- could be she -- but he is the registered owner of -- of a car?

MR. LUKE JOHNSTON: If -- so anyone with a motorcycle licence can operate legally --

THE CHAIRPERSON: Yeah.

MR. LUKE JOHNSTON: -- a mot -- so assuming the person had a motorcycle licence, then definitely it would go to the motorcycle pool. I have -- I can't recall if -- if, say, the motorcycle was stolen --

THE CHAIRPERSON: Okay.

MR. LUKE JOHNSTON: -- I have to check on that. I can get back to you on that.

THE CHAIRPERSON: Yeah, but --

MR. LUKE JOHNSTON: But we also -- subject to check, my understanding is where there is no -- we already have a pool for pedestrians and other types of things. There's a pool fund, and that's shared equally among all classes, including motorcycles. But I'll look into the -- I think your question is more if somebody was unlawfully riding a motorcycle.

THE CHAIRPERSON: Well, no, I'm -- I'm just asking if -- not necessarily unlawfully. I mean, I'm asking the situation. We'll get into it more in the DSR discussion.

There is a decision made to have somebody register the vehicle who may or may not drive it, and the primary person driving the vehicle isn't the registered owner of the vehicle. I -- I'm -- I'm just wondering -- I'm trying to figure out how that relates to the allocation of risk in the premium being charged.

MR. LUKE JOHNSTON: I see. I see. So to your point, we'll take -- we'll put the theft of the motorcycle to the side for a second.

We do, in -- in some of the motorcycle product discussions that we've had, it is a concern to

MPI that there, I believe, is about seventy thousand (70,000) licensed motorcycle riders, and we talk about seventeen thousand (17,000) motorcycles. Not all seventy thousand (70,000) are riding, but that's also a cur -- somewhat of a concern because maybe you haven't rode a bike for thirty-five (35) years, and then you borrow your buddy's bike, have that one (1) big accident, and then the rest of the -- the group has to pay for your -- your loss forever, right?

So that is one (1) of the things we've discussed in our proposals about whether you should have to contribute something for your licence so at least you have -- you know, you've made some contribution to that pool and not just, you know, renew your licence with no extra charge for thirty-five (35) years free, yeah.

THE CHAIRPERSON: Thank you, Mr. Johnston. Thank you.

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

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: I think maybe not.

DR. BYRON WILLIAMS: Madam Chair, it's -- again, depending on how the Board wishes to proceed, but I've -- I can now do Mr. Bunston, if that's the -- the will of the Board. Okay.

THE PANEL CHAIRPERSON: Yes, thank you very much, Mr. Williams.

CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Bunston, I'm going out of order here, so we're going to start with a couple of short snappers. And I wonder if we can go to PUB-1-34, Figure 2, which appears at page 2 of 5.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Just towards the bottom of that page, please.

And, Mr. Bunston, here on Figure 2, you see the Government of Canada ten (10) year bonds yield spread at different points in time, running from December 31st, 2019, to June 30th, 2020, sir?

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

DR. BYRON WILLIAMS: And we see it also, this figure captures a number of bond types, ranging from corporate, BBB, to Government of Canada ten (10) year bonds, correct?

MR. GLENN BUNSTON: That's right, yeah.

DR. BYRON WILLIAMS: And I'm going to ask you to pay attention to the first three (3) lines because we're going to go and then compare them to your slide from your exhibit this morning, Exhibit 30, page 8.

So, if you want to take notes on the numbers, if you want to check my math, sir, you can -- you can do that. I'll give you a second just to get that slide, Mr. Bunston, if you're -- if that's helpful to you.

So, first of all, still focussing on PUB-1-34, for corporate BBB bonds as at June 30th, 2020, the yield was 2.63 percent.

Is that correct, sir?

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

DR. BYRON WILLIAMS: And for corporate single 'A', as of June 30th, 2020, the yield was 2.03, correct?

MR. GLENN BUNSTON: That's right.

DR. BYRON WILLIAMS: And for provincial, the yield at June 30th, 2020, was 1.45 percent, correct?

MR. GLENN BUNSTON: Correct.

DR. BYRON WILLIAMS: Now, if we turn to slide 8 of MPI Exhibit 33 -- 30, excuse me. Thank you. And, Mr. Bunston, I want you to focus on the August 31st time.

You'll see that the yield for corporate BBB as of August 31st, 2020, is 2.33, correct?

MR. GLENN BUNSTON: That's right.

DR. BYRON WILLIAMS: So, about thirty (30) basis points less than it was in -- as of June 30th, 2020, correct?

MR. GLENN BUNSTON: Correct.

DR. BYRON WILLIAMS: And then you'll see the yield for corporate 'A's' as of August 31st, 2020, was 1.84 percent, correct?

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

DR. BYRON WILLIAMS: And that's about nineteen (19) basis points less than at June 30th, 2020, sir?

MR. GLENN BUNSTON: Correct.

DR. BYRON WILLIAMS: And then we see for provincial the yield as at August 31st, 2020, was 1.46 percent, correct?

MR. GLENN BUNSTON: Correct.

DR. BYRON WILLIAMS: And so, that's an

extremely modest climb of one (1) basis point?

MR. GLENN BUNSTON: Yes.

DR. BYRON WILLIAMS: And assuming a weight -- and I think, Mr. Bunston, generally, if we think of the weight of the portfolio for Basic being about 20 -- about 25 percent corporate bonds, would that be about right, sir?

MR. GLENN BUNSTON: Well, the target weight is 20 percent for corporates.

DR. BYRON WILLIAMS: Okay. And is it at the target weight right now? We don't -- 20 to 25, sir?

MR. GLENN BUNSTON: Yeah, I think that's reasonable.

DR. BYRON WILLIAMS: Okay. And recognizing the fall in corporate bonds, at least corporate BBB and 'A's' of thirty (30) and nineteen (19) points respectively, and the modest rise in provincial bonds by one (1) basis point, why did the new money yield climb by one (1) basis point from -- from June until August instead of falling by about 6 percent?

MR. GLENN BUNSTON: The new money yield also includes MUSH bonds in the calculation, so the MUSH bonds don't change in -- in terms of yield, so those have a bit of a anchoring effect on the -- on the new money yield.

So, they would -- they are factored into the -- into the new money yield, and to the discount rate, as well.

DR. BYRON WILLIAMS: Okay. So, they don't change. And corporate -- sorry, and provincial bonds barely move and corporate bonds move more aggressively, and yet the movement is upward rather than downward?

MR. GLENN BUNSTON: Correct.

DR. BYRON WILLIAMS: Okay. Mr. Bunston, you'll recall last year perhaps with -- with pain or perhaps with pleasure an extensive discussion of shadow portfolios?

MR. GLENN BUNSTON: I do recall that, yes.

DR. BYRON WILLIAMS: And without meaning to revisit that dialogue whatsoever, you understand from our client's closing argument last year that our client takes issue with the methodology with which Manitoba Public Insurance and Mercers conducted their shadow portfolio analysis, agreed?

We -- we agree to disagree. Would that be fair, sir?

MR. GLENN BUNSTON: That would be fair, yes.

DR. BYRON WILLIAMS: Mr. Bunston, do you recall from both your and Mercer's evidence last year that, in terms of -- regardless of the -- the measurement, in terms of assessing the relative comparison between the MPI portfolio and the shadow portfolio, the advice of you and Mercers was it takes about five (5) years for -- for the puts and takes to roll out?

Would that be your recollection, sir?

MR. GLENN BUNSTON: Yes, it takes a period of time to properly assess the -- the performance of an investment portfolio generally over a market cycle.

DR. BYRON WILLIAMS: And that's especially the case when one's taking a longer investment horizon. Would that be fair, sir?

MR. GLENN BUNSTON: Yes.

DR. BYRON WILLIAMS: Mr. Bunston, portfolio theory 101, or even more basic, when we talk of an efficient portfolios, we're talking about portfolios that maximize a return for a given level of risk along the full risk spec -- spectrum?

MR. GLENN BUNSTON: That's correct.

DR. BYRON WILLIAMS: Yeah, so from low risk tolerance to high risk tolerance, agreed?

MR. GLENN BUNSTON: Yes.

DR. BYRON WILLIAMS: And when we think of effective portfolios, those are ones that meet the investment goal of the investor. Would that be fair?

MR. GLENN BUNSTON: Right. So, at each -- each risk level, you would seek to identify the most efficient portfolio, the one with the highest return that creates the efficient frontier.

And then, it's really up to the investor's preference to select the appropriate point on the efficient frontier depending on how much risk they're interested in taking.

DR. BYRON WILLIAMS: Okay. Mr. Bunston, I wonder if I could ask you to turn to the response to PUB-MPI First Round 1-37A, and specifically attachment 'B'.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And that's the quarterly portfolio review of QV Investors, agreed, sir?

MR. GLENN BUNSTON: Agreed.

DR. BYRON WILLIAMS: And they administer the Canadian small capitalization equity fund for Manitoba Public Insurance. Is that right?

MR. GLENN BUNSTON: Yes, they do.

DR. BYRON WILLIAMS: Okay. And I just have a few questions of clarification about this report. If we could go to page 16, that's it, of 24. And, Mr. Bunston, I'm directing your attention to the table on the left-hand side of the -- of this page, being page 14.

And you'll see there's -- I'm going to call it a table. You may give it a -- or a graph depicting the bear market duration for different periods in time.

Do you see that, sir?

MR. GLENN BUNSTON: Yes, I do.

DR. BYRON WILLIAMS: And, for example, you'll see in 1938, four (4) up from the bottom, there was a bear market that apparently lasted three and a half (3 1/2) years, according to Standards and Poor.

Do you see that, sir?

MR. GLENN BUNSTON: Yes, I do.

DR. BYRON WILLIAMS: Not probably a good thing, one would suspect. You can see that in 2007, for example, the bear market lasting almost --

well -- well over a year.

Do you see that, sir, second from the top?

MR. GLENN BUNSTON: Yes.

DR. BYRON WILLIAMS: Okay. And then you see the little red in 2020. And I'll suggest to you that's depicting the duration of the bear market in -- in 2020 from the perspective of San -- Standard and Poor's.

Do you see that, sir?

MR. GLENN BUNSTON: I see that, yeah.

DR. BYRON WILLIAMS: And you agree with that characterization? That's what they're trying to show there?

MR. GLENN BUNSTON: Yeah.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And just above the -- this bear market duration depiction you see CV -- or QV Investments describing this as the shortest bear market in history.

Do you see that description, sir, just right above the --

MR. GLENN BUNSTON: Yes, I see that.

DR. BYRON WILLIAMS: Okay. And do you agree with that based upon the information before you?

MR. GLENN BUNSTON: Based upon this chart, it would appear that that's accurate, yes.

DR. BYRON WILLIAMS: Okay. I want to direct your attention to the next page, being 17 of 24, on the right-hand side under, "Portfolio positioning."

And, Mr. Bunston, I'm just going to give you a second to read that paragraph on the bottom right-hand side of page 17. And, Kristen, could you make that bigger for those of us who wear progressives and are old, i.e., me?

(BRIEF PAUSE)

DR. BYRON WILLIAMS: So, Mr. Bunston, I'm just going to get you to help me understand a little bit about what they're talking about here. You'll see the second sentence on line 3, starting:

"While market conditions have changed drastically in three (3) months, our equity portfolios remain of good quality on are -- and are valued at significant dista --

discounts to their respective market. As such, we believe our longer-term return prospects remain attractive. We've been active in our bond portfolio, seeking additional high-quality corporate investments with attractive spreads to government bonds. With yields as low as they are, few investments are competing with attractively valued equities. As such, we are being compensated considerably for the business we own in the portfolios."

First of all, Mr. Bunston, I read that correctly?

MR. GLENN BUNSTON: You did read that correctly, yes.

DR. BYRON WILLIAMS: Okay. That's a miracle. There -- the sentence that begins with "yields as low as they are," what yields do you understand QV Investments to be referring to?

MR. GLENN BUNSTON: I would suspect that they're referring to corporate bond yields.

(BRIEF PAUSE)

MR. GLENN BUNSTON: Well, sorry, yes, they -- they talk about "high-quality corporate investments with attractive spreads to government bonds," so they're referring to the spreads between corporate bonds and government bonds.

DR. BYRON WILLIAMS: And when they're talking about the low yields, they're referring to bonds generally and -- and government bonds in particular, sir?

MR. GLENN BUNSTON: Both, I would think, yes.

DR. BYRON WILLIAMS: Okay. If we can go to the very first page of this report, you'll see the second paragraph states that:

> "Fuelled by extensive financial stimulus from central banks across the globes, the rebound in equity markets since the lows of March has been nothing short of remarkable."

Do you agree with that characterization, Mr. Bunston?

MR. GLENN BUNSTON: Yes, I would say the recovery in the markets has been -- has been dramatic.

DR. BYRON WILLIAMS: Okay, and if we

go down one (1) more paragraph and stay on that page, it's the third full paragraph and the second-last sentence. You'll see a sentence beginning:

"QV's bond strategy benefited from the narrowing of provincial and corporate credit spreads, but it was not enough to up -- offset the decrease in longer-dated bond yield."

You see that reference, sir?

MR. GLENN BUNSTON: I do, yeah.

DR. BYRON WILLIAMS: And what do you understand them to be referring to when they're talking about longer-dated bond yields?

MR. GLENN BUNSTON: So, yeah, they're talking about longer-term bond yields with the -- the yield curve remaining relatively flat and long bond yields not -- not increasing -- in fact, decreasing.

DR. BYRON WILLIAMS: And being quite low. Is that what --

MR. GLENN BUNSTON: Low, yes.

DR. BYRON WILLIAMS: Yeah. Thank you, Mr. Bunston. Earlier this morning in your presentation of Exhibit 30, you were talking about long Canadas. Do you recall that, sir?

MR. GLENN BUNSTON: Yes.

DR. BYRON WILLIAMS: Or words to that effect? And when you speak of long Canadas, are you speaking of ten (10) year Canada bonds or bonds beyond that, sir?

MR. GLENN BUNSTON: Well, we use -- we use the Government of Canada ten (10) year bond as the -- as the benchmark.

DR. BYRON WILLIAMS: Okay. And in your leadership role with the investment portfolio, your duty is to be aware of factors that may affect the performance of the investment por -- portfolio, including the performance of the bond portfolio.

Would that be fair?

MR. GLENN BUNSTON: Yes.

DR. BYRON WILLIAMS: And you regularly monitor the actions of central banks such as the Bank of Canada because of the -- the potential of their impacts on factors which may influence the investment portfolio, agreed?

MR. GLENN BUNSTON: Agreed.

DR. BYRON WILLIAMS: And you're familiar with the long Canada bonds and the -- the website that presents long Canada bonds offered by the Bank of Canada, sir? That's something that any --

anyone who invests reviews?

MR. GLENN BUNSTON: I'm aware that the Bank of Canada has a website. I don't review their website that regularly. I mean, long Canada bonds are quoted in the marketplace and -- and traded between investors, so the -- yeah.

DR. BYRON WILLIAMS: So -- so perhaps could I -- could I take you to that website, sir, and show you the portrayal of bonds and just see if you are comfortable -- if that's consistent with your understanding of what's going on with -- with bonds?

MR. GLENN BUNSTON: Certainly.

DR. BYRON WILLIAMS: And if you need a second to get familiar with this, sir, I'll suggest to you it's a -- from the -- the Bank of Canada website, a portrayal of selected bond yields starting in the early 2000s and extending out till today to Aug -- or, to 2020. Do you see that, sir?

MR. GLENN BUNSTON: I see that, yes.

DR. BYRON WILLIAMS: And it captures a variety of different Government of Canada marketable bonds, those with an average yield of one (1) to three (3) years, five (5) to ten (10) years, ten (10) years, et cetera. You'll -- you see that, sir, in the legend at the bottom?

MR. GLENN BUNSTON: I see that, yes.

DR. BYRON WILLIAMS: Okay. And would it be fair to describe the general pattern in terms of bonds from the early 2000 to -- to twenty -- 2020 as tending to slope downward, sir?

MR. GLENN BUNSTON: Yields have been declining over this period, yes.

DR. BYRON WILLIAMS: Okay, and if -- could we go to the -- Kristen, to the 2020 year in particular? And stop right there for a second.

You'll see, Mr. Bunston, in March that -- of 2020 that a fairly sharp decline in bonds, which would, I'll suggest to you, coincide with the timing of the pandemic? Would that be your understanding as well, sir?

MR. GLENN BUNSTON: Yes, there was a -- a flight to quality during that period of time, so investors were looking for safety and were purchasing government bonds.

DR. BYRON WILLIAMS: And if we could go right to the October -- let's see how far -- maybe we can get the October 19th, 2020, Kristen, and go up.

So if we're looking at the average yield for three (3) to five (5) year bonds, marketable bonds, would that be zero point three point one (sic) percent, sir, on this date, October -- or, on yesterday, October 19th?

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

DR. BYRON WILLIAMS: Okay. And if we went up to the five (5) year Government of Canada benchmark bond yield, that would be 0.35 percent, sir?

MR. GLENN BUNSTON: Correct.

DR. BYRON WILLIAMS: And if we went to the Government of Canada benchmark seven (7) year, that would be 0.39 percent, correct?

MR. GLENN BUNSTON: That's right.

DR. BYRON WILLIAMS: And the Government of Canada marketable bonds yield five (5) to ten (10) years, that's 0.49 percent, sir?

MR. GLENN BUNSTON: Correct.

DR. BYRON WILLIAMS: And in terms of the Government of Canada ten (10) year, that's 0.58 percent, sir?

MR. GLENN BUNSTON: That's right.

DR. BYRON WILLIAMS: Okay. And even if we went to -- up to Government of Canada long-term bonds, their benchmark yield as of October 19th, 2020, is 1.17 percent. Is that right, sir?

MR. GLENN BUNSTON: That's correct.

DR. BYRON WILLIAMS: Okay. Mr.

Bunston, based upon your obser -- observations of the activities of the Bank of Canada, you're aware that they've indicated recently that they are considering changing their long-standing policy of managing inflation to focus more on economic growth? That's one (1) of the things they're deliberating on, sir?

MR. GLENN BUNSTON: Yes. Yes, I'm aware of that.

DR. BYRON WILLIAMS: And just by way of background, since 1991, the Bank of Canada's had an inflation targeting framework established by joint agreement between the Bank and the Government of Canada, agreed?

MR. GLENN BUNSTON: Agreed.

DR. BYRON WILLIAMS: And that agreement's re -- renewed every few years, with the most recent agreement being signed in 2016 and running to the end of 2021, correct?

MR. GLENN BUNSTON: I believe that's correct, yes.

DR. BYRON WILLIAMS: And that agreement defines the inflation target as the 2 percent midpoint of a 1 to 3 percent control range for the twelve (12) month range -- rate of change of the total Consumer Price Index, agreed?

MR. GLENN BUNSTON: Agreed.

DR. BYRON WILLIAMS: And the core of that framework, that 2 percent inflation target, sir, has remained unchanged since 1995, I'll suggest to you. You'll agree with that?

MR. GLENN BUNSTON: I believe that's correct.

DR. BYRON WILLIAMS: Subject to check?

MR. GLENN BUNSTON: Yes.

DR. BYRON WILLIAMS: And in terms of the 2021 renewal, I'll suggest to you that the priorities for that renewal were established in 2018 with two (2) key challenges in mind, the first of which being the low neutral rate of interest which reduces the scope to cut the conventional policy interest rate when needed.

Is that your understanding, sir, that was one (1) of the scopes of review?

MR. GLENN BUNSTON: I'll take your word for it, sounds correct.

DR. BYRON WILLIAMS: And the second was that the low interest rates associated with the low neutral rate, there was a concern they may encourage excessive risk-taking and debt accumulation.

You'll accept that, subject to check?

MR. GLENN BUNSTON: I'll accept that subject to check, yes.

DR. BYRON WILLIAMS: And so currently the Bank of Canada is reviewing, it hasn't made a decision yet, alternative frame -- frameworks that may do a better job than inflation targeting.

Was that your understanding, sir? You're nodding your head?

MR. GLENN BUNSTON: Yes. Yes.

DR. BYRON WILLIAMS: And in the course of doing that, they'll be revisiting the implications of raising the inflation target in environments in which the long run Phillip's curve is not vertical.

Is that your understanding as well? It's flat?

MR. GLENN BUNSTON: Yes, I'll -- that sounds correct.

DR. BYRON WILLIAMS: And one (1) of the wide range of alternative frameworks they're looking at for the 2021 renewal includes an -- an employment inflation dual mandate. That's one (1) of the six (6) alternatives that they're considering, sir, agreed?

MR. GLENN BUNSTON: I believe that's correct.

DR. BYRON WILLIAMS: Let's leave the Bank of Canada aside for a moment, sir.

At the theoretical level, and focussing on the world of nominal bonds, if inflation is higher than the coupon on the face of the bond, that -- the purchasing power of that bond is declining.

Is that fair, sir?

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

DR. BYRON WILLIAMS: And would that be called a negative real yield?

MR. GLENN BUNSTON: Yes.

DR. BYRON WILLIAMS: Staying at the conceptual level of portfolio theory, sir, if one were trying to assess the impact on risk from changing asset allocations, that would depend on both the current allocation of the asset in question, and the allocation to other assets?

MR. GLENN BUNSTON: Yes, you would consider your current asset allocation and -- and other potential different asset allocations.

DR. BYRON WILLIAMS: Okay. And would it be fair to say that the marginal impact on risk is lower when the current allocation is zero, as compared to if the allocation was higher to start with?

MR. GLENN BUNSTON: I'm not sure I

follow. Current allocation to what?

DR. BYRON WILLIAMS: Take a portfolio, you're looking at adding in a -- a new class, there's nothing of that class in the current portfolio.

Assuming that the risks associated with the new class you're asking is -- is not perfectly correlated with the existing portfolio, is it fair to say that the marginal impact on risk from adding this new class is lower when the current allocation is zero?

MR. GLENN BUNSTON: Yes, if you add a new asset class then if the correlation is less than 1 it has the potential to reduce the overall risk of the portfolio, yes.

DR. BYRON WILLIAMS: Thank you. Thank you for answering the question far better than I asked it.

Sir, you'll recall -- we don't need to go there, but in the response to PUB 1-38B, there's a comparison of the returns of Manitoba Public Insurance to the returns of the Insurance Corporation of British Columbia, ICBC, as well as the Saskatchewan Public Insurer, SGI.

Do you recall that, sir?

MR. GLENN BUNSTON: Yes, I do recall

that.

DR. BYRON WILLIAMS: And as you spoke of this morning, sir, Manitoba Public Insurance has recently moved to a segregated portfolio where the pension assets are kept separate from the Basic assets, kept separate from the -- from the Rate Stabilization Reserve assets. Agreed?

MR. GLENN BUNSTON: Agreed, yes.

DR. BYRON WILLIAMS: So in doing that assessment and in terms of the average returns presented by Manitoba Public Insurance from 2015 to 2019, what portfolio are they looking to at? Is that the entire portfolio of Manitoba Public Insurance?

When you're doing that comparison, what is the Manitoba Public Insurance starting point, sir?

MR. GLENN BUNSTON: So that would be the portfolio that existed during that period -- those periods, which was our consolidated corporate portfolio.

DR. BYRON WILLIAMS: And so when you're looking at results in 2019, that's after you were in segregation, or you are still looking at the consolidated portfolio?

MR. GLENN BUNSTON: No, that would still be the consolidated portfolio.

DR. BYRON WILLIAMS: Okay, so that's comparing the historic consolidated portfolio of Manitoba Public Insurance against this -- or against SGI comparator?

MR. GLENN BUNSTON: Correct.

DR. BYRON WILLIAMS: So it -- it doesn't tell us that much about what's going on with the -- the current returns?

MR. GLENN BUNSTON: Correct. The current segregated portfolios didn't exist in those years, so there's no returns on that basis for those reasons.

DR. BYRON WILLIAMS: Okay, thank you for clarifying that for me. If we could turn to CAC 1-50, and you can see -- we can stop right here for a second.

Mr. Bunston, generally just to refresh your memory, in this Information Request, CAC Manitoba is referring to the total return assumptions for different investments of Manitoba Public Insurance, including Canadian Equities, Global Equities, the real estate preferred fund, and infrastructure. Agreed?

MR. GLENN BUNSTON: Agreed, yes.

DR. BYRON WILLIAMS: And it's asking what testing has been performed in terms of the investment predictions. Would that be fair, sir?

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

DR. BYRON WILLIAMS: And without going in exhaustive detail to the answer, but would it be fair to summarize the response to CAC-MPI 1-50 to suggest that the total return assumptions have not been frequently tested by Manitoba Public Insurance?

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

DR. BYRON WILLIAMS: And we'll get -- if we could turn now to CAC 2-18. Stop right there, thank you, Ms. Schubert.

You'll see -- I'll just wait until Mr. Bunston gets there.

You'll see the first question is when and how MPI intends to test return assumptions that are otherwise infrequently tested.

Do you see that, sir?

MR. GLENN BUNSTON: Yes, I do.

DR. BYRON WILLIAMS: And MPI is planning to test the validity of the return assumptions for each asset class prior to the next GRA. Would that be fair, sir?

MR. GLENN BUNSTON: Yes, that's what we wrote.

DR. BYRON WILLIAMS: And if we could

go to the response to CAC-MPI 2-18B.

What MPI does do here in figure 1, I'll suggest to you, Mr. Bunston, is compare the real estate returns versus forecast for a number of years running from 2015 to 2019.

Would that be fair, sir?

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

DR. BYRON WILLIAMS: And in looking at the forecasted returns as compared to the actual concern -- returns, would it be fair to say that there has been a -- with -- with no judgment or no -- just mathematically, there's been a variance in each year with the forecasted returns being lower than the actual returns. Is that fair, sir?

MR. GLENN BUNSTON: That's accurate. Yes.

DR. BYRON WILLIAMS: And it's ranged from a pretty modest variance in 2016 of 0.32 percent to a 6.2.1 (sic) percent variance in 2018.

Would that be fair, sir?

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

DR. BYRON WILLIAMS: And over those five (5) years, the variance, as a simple average, has been 2.24 percent. Would that be fair?

MR. GLENN BUNSTON: That's correct. Yeah.

DR. BYRON WILLIAMS: With forecast returns being 2.24 percent less than the actual returns. Correct?

MR. GLENN BUNSTON: Correct.

DR. BYRON WILLIAMS: And if we -- if we go to figure 2, this compares infrastructure returns versus forecasts, I'll suggest to you, for the years 2015 through to 2019. Would that be fair?

MR. GLENN BUNSTON: That's correct.

DR. BYRON WILLIAMS: Okay. And, for example, in 2015, the forecast return was 5.9 percent. Correct?

MR. GLENN BUNSTON: Correct.

DR. BYRON WILLIAMS: And the actual return, at line 1 of figure 2, was -- in 2015 was 8.5 percent for infrastructure returns. Agreed?

MR. GLENN BUNSTON: Agreed.

DR. BYRON WILLIAMS: So that was a 2.6 percent variance when the actual returns were higher than the forecasts. Correct?

MR. GLENN BUNSTON: That's correct.

DR. BYRON WILLIAMS: If we go down one (1) year, being 2016, we see the forecast returns being 6.8 percent and the actual returns being a negative 5.9 percent -- or sorry, being 5.9 percent less. Agreed?

MR. GLENN BUNSTON: So the actual return was 0.9 percent. The forecast was six-point-eight (6.8) and the variance was negative five-point-nine (5.9).

DR. BYRON WILLIAMS: Yes. Thank you for answering that question better than I asked it again.

And, finally, let's go to 2018. The forecast returns were seven-point-two (7.2). Correct?

MR. GLENN BUNSTON: Correct.

DR. BYRON WILLIAMS: The actual returns were fifteen-point-eight (15.8). Agreed?

MR. GLENN BUNSTON: Agreed.

DR. BYRON WILLIAMS: And that was a variance of 8.6 percent. Correct.

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

DR. BYRON WILLIAMS: So, while the average variance for infrastructure is 1.46 percent, there's a wide range between an 8.6 percent under forecasted returns and a negative 5.9 percent situation where forecasted returns were -- were higher than the actual returns. Would that be fair?

MR. GLENN BUNSTON: Yes, there's been significant variability between the forecast and the -- and the actual returns for infrastructure.

DR. BYRON WILLIAMS: Madam Chair, those are our questions for Mr. Bunston. Thank you.

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

MS. CAROL HAINSWORTH (by phone): No, I do not have any. Thank you.

THE PANEL CHAIRPERSON: Thank you. Mr. Scarfone, do you have any re-direct?

MR. STEVE SCARFONE: Thank you, Madam Chair.

So just before I begin, does My Learned Friend -- is your intention to mark those bond exhibits? Or do you --

DR. BYRON WILLIAMS: My apologies for that. I -- I just thought it was such a common thing.

So we -- I think we should probably take a snapshot in time of -- and what I -- I'll propose, Mr. Scarfone, is we -- remember when we did the one from 2000 down to 2020?

MR. STEVE SCARFONE: Right. The twenty (20) year one, yes.

DR. BYRON WILLIAMS: Yeah. And then, secondly, that we -- we were discussing the results as of October 19th, 2020. And we will -- I'll file that as an exhibit.

MR. STEVE SCARFONE: Okay.

DR. BYRON WILLIAMS: Okay. And thank you for assisting me with that, sir.

MR. STEVE SCARFONE: So maybe that's a good place to start, Kristen, since it's on the screen, the twenty (20) year one. Not that one. I think it was the other one that -- the lines were all -- yeah, how it was first presented. There we go.

--- EXHIBIT NO. CAC-6: Selected Bond Yields Graph, 2000 to 2020

RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: So, Mr. Bunston, counsel for the CAC asked you to confirm that that -- those yields are showing a downward sloping trend over the past twenty (20) years. Correct?

MR. GLENN BUNSTON: Yes, he did.

MR. STEVE SCARFONE: And earlier in your presentation, you made reference to the Corporation again making use of the naive forecast methodology?

MR. GLENN BUNSTON: I did, yes.

MR. STEVE SCARFONE: And just wondering, sir, how that trend might support that decision versus the use of the standard interest rate forecasting methodology or even the 50/50 methodology?

MR. GLENN BUNSTON: Yeah. So the standard interest rate forecasting methodology relied on forecasts developed by the Canadian Chartered banks. And as we had presented in the past, the banks consistently forecasted rates to -- to normalize, to -- to start to increase. And we recommended abandoning that methodology because, year after year, that didn't happen.

And this chart just graphically illustrates that bond yields have continued to decline for the last fifteen (15) -- at least fifteen (15) years. And so, we felt that using the naive forecast was less biased upwards as the bank forecasts had been in the past.

MR. STEVE SCARFONE: So Mr. Johnston -- and I'm going to paraphrase for my friend, Ms. Meek. I apologize if I do so inappropriately, but I -- I expect that she would agree that her client is of the view that MPIC is subjecting the motorcyclists to a disproportionality of sorts. You'll recall that line of questioning?

MR. LUKE JOHNSTON: Yes, I do.

MR. STEVE SCARFONE: I'm wondering if you could comment, if you can, sir, on the proportionality between the different classes of motor vehicles, that is, passenger vehicles and motorcycles versus the proportionality within the motorcycle class as it concerns the rates that those customers pay.

MR. LUKE JOHNSTON: Yeah. Our -- our discussion -- I think I did touch on it somewhat.

The -- the truth is -- yeah, motorcycles are just more sensitive to interest rate changes because they're a composition of long-term PIPP. Every class, except RVs and trailers, has PIPP in their -- in their loss experience and they're treated the same way.

The -- the additional impact is -- for motorcycles is just that they have a larger composition of PIPP.

MR. STEVE SCARFONE: And you mentioned, in response to a question of Ms. Meek, that because interest rates are lower, the investment piece that helps ameliorate the premiums for all our customers is less. Is that correct?

MR. LUKE JOHNSTON: That's correct.

MR. STEVE SCARFONE: And does that apply equally across the classes?

MR. LUKE JOHNSTON: It does. The -- it's purely the composition of the claims within those classes that changes the -- the affect of discounting. But the assumption itself is applied consistently across all classes.

MR. STEVE SCARFONE: And Ms. Meek also put to you the suggestion of a separate investment strategy for the motorcyclists. Do you recall that?

MR. LUKE JOHNSTON: Yeah. If it wasn't obvious, I was struggling with the concept. Maybe a better way to explain -- SGI, for example, invests or -- or matches liabilities with equities in the -- in the tail of the -- or the longer-term tail of the distribution.

Just a quick glance at SGI's, RSR balance today -- or, pardon me, in 2019, it was in the $800 million range. Their 100 percent MCT, appears to be around 600 million. These are approximations.

They're not much different than MPI in composition. The difference is that the portfolio of -- of -- of that nature with a high allocation to equities requires a lot more capital. So whereas

MPI's 100 percent MCT is around 400 million; SGI -- because of the -- the risk choices that they have made -- is closer to 600 million for 100 percent MCT.

Both are fine. Those are choices that their -- those organizations have made. But it's not as -- when I say, you know, you -- you just want the benefits, but not the -- the downside risks or implications of that strategy, that -- that's what I was getting at.

And of course, our board never contemplated making a special investment portfolio only for motorcycles. They had all -- all Manitoba ratepayers in mind when they made those decisions.

MR. STEVE SCARFONE: Okay. So you rather deftly anticipated where I was going with that, but I'll just ask a follow-up question.

What would the effect of having equities inserted into the Basic claims portfolio have on the capital requirement to Basic in terms of dollars?

MR. LUKE JOHNSTON: Of course, it would depend on how -- how -- what percentage, but the -- the minimum capital requirement would -- would increase. Obviously we're -- we're at a -- in a very low-risk position.

You'll recall it was only a few years ago that MPI was in the 25 to 50 percent MCT range. A major contributor to how we got back to 100 percent was the derisking of Basic, reducing their equity composition and moving to a very low-risk approach.

If we were to ver -- revert to more investments and growth assets, we would have to put up the required capital to get back to 100 percent MCT, and that would take some time.

So we're not debating at all that there's costs and benefits to either approach. But as you're well aware, ours is focussed on minimizing risk and ensuring rate stability for customers in the long term.

MR. STEVE SCARFONE: And a follow-up question to Mr. Gabor's question about the motorcyclists.

So is it fair to say that passenger vehicle owners are not paying for the injury benefits of a motorcyclist that's injured in a situation that does not involve a passenger vehicle?

MR. LUKE JOHNSTON: Correct.

MR. STEVE SCARFONE: And also -- and I don't know if we got an answer to this -- if the registrant of that motorcycle is not involved, does the -- are the passenger vehicle customers still expected to pay for the injury benefits if it doesn't involve a passenger vehicle -- the accident doesn't involve a passenger vehicle?

MR. LUKE JOHNSTON: Sorry, can you just repeat that one for me?

MR. STEVE SCARFONE: Yeah. So if the registrant of that motorcycle isn't injured, but rather someone that he's provided his consent to have operate the motorcycle, and that motorcycle's involved in a -- in an accident that doesn't involve a passenger vehicle, does the passenger vehicle cust -- do the passenger vehicle customers pay for those injury benefits under the current scheme?

MR. LUKE JOHNSTON: No. There's -- if -- there's many people that have a motorcycle licence and aren't necessarily the registered owner. I believe about 25 to 30 percent of motorcycle accidents are actually by individuals that aren't the registered owner to the extent that no other vehicle class is involved in that collision.

So to your example I think was falling -- you know, crashing off the road. That would allocate 100 percent to the motorcycle class. If anyone or a vehicle is involved, those costs would be split 50/50, the -- the PIPP portion.

The logic behind that decision, to my recollection, I was -- I was there -- is that obviously other vehicles have a -- can have a disproportionate impact on the -- you know, causing injury, like a large truck hitting a motorcycle. A fair balance between those competing, I guess, risks was to just split them 50/50.

On the one (1) side, there -- a motorcyclist is making a choice to drive that vehicle that obviously has much less safety features than a -- than a modern car would have.

On the other end of the spectrum, obviously, a large truck can inflict a lot of damage and have almost no injuries. And so there should be some accountability to that as well.

So the decision, to my recollection, was to split that down the middle and divide the costs equally.

MR. STEVE SCARFONE: Thank you for that. And then a question for Mr. Bunston.

Mr. Bunston, you'll recall Mr. Williams asking you about whether the Corporation was in favour of the asset classes that are contained within the shadow portfolios.

And you said that you would agree that, generally, we'd just agree to just disagree. Do you recall that?

MR. GLENN BUNSTON: Yes, I do.

MR. STEVE SCARFONE: But more specifically, Mr. Bunston, tho -- when comparing the two (2), one (1) of them has equities versus bonds, is that correct, in the Basic claims portfolio?

MR. GLENN BUNSTON: Yes. One (1) of the shadow portfolios contains equities.

MR. STEVE SCARFONE: And one (1) strategy hedges against interest rate fluctuations versus taking on more risk for greater returns.

Is that true?

MR. GLENN BUNSTON: Yes. The portfolio with equities would definitely be seeking higher returns by including equities.

MR. STEVE SCARFONE: And -- and one (1) of those equities hedges against inflation staying below 2 percent versus rising above that level?

MR. GLENN BUNSTON: Equities have some correlation to inflation, but not a strong correlation.

MR. STEVE SCARFONE: No, not the equities. The -- the portfolios themselves. So one

(1) of the portfolios would have bonds to hedge against rising inflation while the other does not?

MR. GLENN BUNSTON: Well, the portfolio with real return bonds in it would provide inflation protection.

MR. STEVE SCARFONE: And the Basic claims portfolio doesn't contain those bonds. Is that right?

MR. GLENN BUNSTON: The Basic claims portfolio does not contain real return bonds, no.

MR. STEVE SCARFONE: And then lastly, the -- the strategy that the Corporation has structured is based on a nominal liability benchmark versus that of a real liability benchmark?

MR. GLENN BUNSTON: Yes, that's correct, and the optimization that Mercer did was -- the original optimization was based on a nominal liability benchmark, yes.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Those are my questions, Madam Chair.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone.

Mr. Gabor, you have another question?

THE CHAIRPERSON: Yeah. Sorry. Just a brief question with -- with Mr. Johnston.

Mr. Johnston, is there a requirement that a registered owner of a motorcycle hold a motorcycle driver's licence?

MR. LUKE JOHNSTON: No, there's not, and that's -- that is one (1) of the issues that came up in our discussions with CMMG, whether that should be allowed, yeah.

THE CHAIRPERSON: Thank you.

THE PANEL CHAIRPERSON: Thank you. I think what we'll do is take the afternoon break right now.

Back to my earlier comment at the beginning of this afternoon's session, we've got the procedural outline. It appears that we will now proceed to a panel on Rate Stabilization Reserve, Capital Management Plan, Compulsory and Extension Revision Project Panel with Mr. Johnston and Mr. Giesbrecht.

Could counsel meet over the break and just go through the plan outline to confirm what will be happening in terms of who's proceeding when? I just note that investments was not included on this outline, and I think we need to have some certainty with regard to what information is going to be presented in relation to the application and by whom on these panels. Thank you.

MR. STEVE SCARFONE: Thank you. I wasn't aware -- so the panel wasn't expecting Mr. Bunston today? No? Okay.

MS. KATHLEEN MCCANDLESS: No, and that was my error. I -- I will point that out.

MR. STEVE SCARFONE: Okay.

THE PANEL CHAIRPERSON: Sorry, just one (1) other matter. We'll come back at ten (10) to 3:00, okay?

--- Upon recessing at 2:39 p.m.

--- Upon resuming at 2:59 p.m.

THE PANEL CHAIRPERSON: Welcome back, Mr. Giesbrecht. Mr. Scarfone...?

MR. STEVE SCARFONE: Thank you, Madam Chair. Just before we begin with the next panel, a couple housekeeping items to -- to go through.

So there's a couple outstanding exhibits that MPIC needs to mark. MPIC Exhibit Number 30 is the investments presentation that Mr. Bunston just made.

--- EXHIBIT NUMBER MPI-30: Investments presentation by Mr. Bunston.

MR. STEVE SCARFONE: And the next exhibit will be the presentation on the Capital Management Plan and the rate stabilization reserve that you're about to hear.

--- EXHIBIT NO. MPI-31: Presentation on the Capital Management Plan and the Rate Stabilization Reserve

MR. STEVE SCARFONE: Secondly, I had a discussion with PUB counsel about the hearing calendar and so what we had indicated in our opening statement was that at some point during the hearing Mr. Wennberg would appear and provide to the Board an update on the conciliation that's been ongoing between MPIC and the brokers.

And so -- but he has also scheduled, and we thought that the best place for that would be during the expenses panel, which is tomorrow. But Mr. Wennberg is also appearing next week to speak to PIPP.

So we decided the best way to do this is to have Mr. Giesbrecht provide, as part of his presentation tomorrow, a quick update on the broker conciliation and to the extent that my friends have any questions about that, they can put those to Mr. Wennberg when he appears next week to speak about PIPP, rather than have him come in for what amounts to essentially one (1) or two (2) slides in the expenses presentation.

And then there was discussion with Ms. Meek about an undertaking that the Corporation provided just before the break, and we'd like to change that to reflect that MPI is now going to provide to the CMMG a chart that will allow her to compare the shadow portfolios and the format that they're presented in with the actual returns of the Basic claims portfolio.

Because you heard Mr. Bunston say that that chart is only the passive returns. So we're going to change the undertaking to reflect that.

And then I know Mr. Hacault is listening or watching and he's waiting for me to go on the record to say that the Corporation has agreed to the qualifications of Mr. Crozier, re -- recall at the pre-hearing conference that we wanted to take some time to consider those qualifications.

So, MPIC is consenting to Mr. Crozier being qualified as an expert in regulated auto insurance.

THE PANEL CHAIRPERSON: Thank you very much, Mr. Scarfone.

MR. STEVE SCARFONE: One more -- one last thing, maybe I should announce that the Corporation just announced the new president and chief executive officer that will be replacing Mr. Graham. And that gentleman's name is Eric Herbelin, and he will be -- be starting effective January 4th, 2021.

So Herbelin, for the record, yes, it's H-E-R-B-E-L-I-N. And it's Eric with a "C".

Thank you.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone.

THE BOARD CHAIRPERSON: Sorry, Mr. Scarfone, did you tell Mr. Herbelin that it's a dry cold?

MPI PANEL NO. 3 - Rate Stabilization Reserve, Capital Management Plan, Compulsory and Extension Revision Project Panel

LUKE JOHNSTON, previously Affirmed
MARK GIESBRECHT, previously Affirmed

EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: I don't know if that message is going to be delivered until he gets here.

So we both have -- we have both these witnesses already sworn, so I think I'll have one of them confirm that the -- the information that is set out in the presentation, Mr. Johnston, will be adopted as part of your direct examination.

MR. LUKE JOHNSTON: Confirmed.

MR. STEVE SCARFONE: Okay. And if there's nothing else, you can begin.

MR. LUKE JOHNSTON: Okay, so this is the three (3) acronym presentation, I guess here, Capital Management Plan, CMP. Rate Stabilization Reserve, RSR. And probably the worst acronym we've ever created, the CERP, Compulsory and Extension Revision Project. That will be just a one year use for -- for that.

Rate Stabilization Reserve, we've talked a bit about this already. To protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from non-recurring events or factors. That purpose has not changed from last year.

And as noted, MPI's Capital Management Plan, the intent is to continuously manage rate volatility every year as opposed to waiting until there's either big deficits or large rebates to pay out.

The Reserves Regulation sets out the manner for determining how much capital should be maintained by the Corporation. We have targets for Basic, Extension, and SRE. The Basic target is 100 percent MCT, Minimum Capital Test ratio.

Extension insurance is 200 percent MCT. Being a competitive line of business and wanting to set a lever -- level playing field for competition, it's appropriate that a competitive line also has a -- appropriate capital that other competitors would be expected to use.

In terms of the RSR, there are transfers of Extension, excess retained earnings into the Basic Rate Stabilization Reserve, but it never goes the other direction at all. Funds in the Basic RSR remain in Basic. So if Extension was in financial trouble, or SRE, we would not expect a transfer of capital from Basic.

The Capital Management Plan was brought forward by MPI. Important piece of that, obviously, was the approval of the target, the capital target of 100 percent MCT. We had many debates on that subject over the years. By having a -- a confirmed, consistent target, we can create a plan around that, which we have.

And as noted at the bottom, we've tried to eliminate a lot of diff -- other confusing terms, investment income, the RSR, capital maintenance, rebates and surcharges, and -- and rolled all these impacts into one (1) mechanism.

One (1) thing that MPI has heard pretty loud and clear from government, from customers, and I believe in some cases from the PUB, regular rebates are not real -- really desirable approach to distributing capital. It would be better if we just got it right the first time.

So this -- this approach, the intent is to not pay out rebates. Obviously, we just had an emergency rebate with COVID, but the idea of the Capital Management Plan is to just constantly adjust rates to stay close to that target MCT and not let bubbles build up that require more extreme action.

The components of the Capital Management Plan, we continue to use accepted actuarial practice rate making with a zero percent profit provision. As mentioned, we have capital targets for each line of business. Capital transfer rules, and build and release provision.

No changes to our accepted actuarial practice approach. We have had some debate on the use of investment income on the RSR, but MPI's position is that that is now handled through the Capital Management Plan and investment income earned in the RSR that exceeds the amount necessary for the capital target is automatically released through the Capital Management Plan.

Another new feature, the Capital Management Plan was to end, hopefully, the debate on Extension excess retained earnings, recognizing that these customers are very similar, if not the same, between Basic and Extension.

If we have excess retained earnings on Extension, they are transferred to Basic in our -- in our forecasting that is assumed to happen automatically.

And as mentioned earlier, we

proactively will release funds based on the expectation of receiving these transfers to Basic, we will not wait until we have the money in-hand, so to speak. It is part of the forecast.

Just a quick example of capital -- how the capital build and release provision works. We would obviously create our forecast, determine our basic MCT at the beginning of the rating period, determine if capital needs to be built to release.

We'd project target MCT being a -- restore the MCT to 100 percent within five (5) years if we need to build and three (3) years if we need to release.

The idea there being a more -- I guess, not as aggressive approach on builds, recognizing that paying more is a more sensitive word or difficult thing than paying out money.

We then calculate a target MCT at the end of the rating period. And we -- we target to meet or exceed that target by the end of the rating period.

To see this in action, based on our original filing, the -- I'm not sure what colour that is, green orange or green yellow-looking colour is the filing if we did not include any capital release.

We then calculate -- the dotted line is

the Capital Management Plan target. And then the green line is our filing. The reason that the green line is not at or below the dotted line is because we've capped the release at 5 percent. And the same logic applies for the updated filing.

One (1) -- one (1) thing to note about the -- the way the Capital Management Plan operates, the capital release of 5 percent is effectively built into the rate.

So, what I mean by that is, if the average rate is a thousand dollars, we've reduced the rate to nine hundred and fifty (950). To the extent we don't have a capital release anymore, we had to restore -- or eliminate that release provision that's built into the rate.

So, assuming all four (4) forecasts went as planned, you may have a negative 5 percent. And that would gradually fall to a lower number until getting back to zero.

We have to be -- we have to communicate very well on this to make sure customers understand that their base breakeven rate is different than their net rate, including capital release. So, we are definitely focussing on that in the renewal notice.

So, for example, let's say we approve

the negative 5 percent and we did have that big stock market crash or -- or whatever the case and the MCT was no longer a hundred percent.

We don't want customers thinking that they got a 5 percent rate increase next year and MPI's, you know, all over the place on the -- on the rate volatility front, so we are -- we are going to do that in the renewal notice.

But that would also be my caution in terms of giving bigger releases. You -- you will eventually have to undo that impact from the rates, and we'd want that to occur in a kind of gradual manner.

In terms of the coverage enhancements, as noted, our -- our Basic product hasn't changed much in the last twenty (20) years as part of the driver safety rating change but, otherwise, you can see from these examples that I believe third-party liability hadn't changed since about 1983, so there -- there's -- these are long overdo.

For the most part, they are inflationary changes. And we are going to -- going forward, we are going to track the growth of these coverage levels with inflation and look to make more regular adjustments rather than -- than sitting on these for -- for years.

The first change, increasing the Basic deductible from five hundred (500) to seven fifty (750). I can tell you that, on average, the rate impact of -- of that change is about twenty-eight dollars ($28) on an overall basis ranging from about thirty-eight dollars ($38) for private passenger vehicles to less than three dollars ($3) for motorcycles.

Obviously, the more physical damage coverage you have in your rate, the more of an impact it'll be.

Third-party liability. We increased the minimum from two hundred thousand (200,000) to five hundred thousand (500,000). Of all the coverages, this -- this coverage is probably the -- MPI would have the greatest role in terms of protecting Manitobans. I'm not sure this is very understood in terms of, you know, the potential exposure.

We can provide this extra coverage at a cost of just over a dollar a policy. But to anyone that had an accident, it could be devastating, obviously, for -- for that individual if they -- if they bought -- didn't buy enough coverage, so that was a pretty easy decision for us.

The third bullet, maximum insured value. Again, similarly, this is just an inflationary adjustment up to seventy thousand dollars ($70,000) maximum value for Basic coverage.

Average cost of that was about a dollar and forty ($1.40) cents per policy. The private passengers was about a dollar ninety-five ($1.95). And motorcycles, the cost of that was twenty-three (23) cents.

So, in a nutshell, the increase in the TPL and increase in the maximum insured value were -- were very inexpensive coverage enhancements. The main driver of the 3 percent decrease is the deductible change.

On that note, our board and government were very concerned, as -- as usual, about individual customer rating impacts. And what we've done is ensure that nobody would pay more for this coverage change if they kept their coverage the same. And that is before application of any Basic or Extension rate decreases.

So, the way we did that is recalculated the indicated rate for Basic and literally just goal -- did a goal seek exercise to make sure the new

Extension rate would add up to the same total.

Doing so, cost us profitability on Extension. As you know, Extension has higher profits and higher broker commissions, so it's not a one-to-one trade. But we were focussed on lowering Extension profitability anyways, so the timing for this was -- was a good way to do that.

In terms of the Transition Plan, customers will be transitioned into the coverage that they currently have. And if they wish to select out of that coverage, they would have to see a broker or an MPI service centre to -- to make that change.

We did have a lot of debate on this issue. Obviously, we don't want eight hundred thousand (800,000) customers going to a broker on renewal, so we -- we want an approach that minimized that.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I think that's all I have on that.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: That concludes my presentation.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Mr. Scarfone, anything further?

MR. STEVE SCARFONE: Just a couple questions.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: So, Mr. Johnston, this, of course, is the inaugural year for the Capital Management Plan, correct?

MR. LUKE JOHNSTON: Correct.

MR. STEVE SCARFONE: And in its first year, the Capital Management Plan has hit the 5 percent target or cap, correct?

MR. LUKE JOHNSTON: Correct. It is a very different year for the Capital Management Plan to -- to start as I wouldn't -- wouldn't consider this normal, but it is -- we are still utilizing it.

MR. STEVE SCARFONE: Okay. And so, that kind of leads into my next question.

Is -- is this something that Manitobans

can expect on a -- on a year-to-year basis, that the rate indication will be reduced by 5 percent, or is this year somewhat of an anomaly?

MR. LUKE JOHNSTON: I -- I believe we were asked that -- a question like that last year, how often would we really be at these plus or minus 5 percent caps anyways. The -- our answer would have been, hopefully, rarely. We would constantly move in small increments to the -- to the target.

Because of the year that we're in with the COVID savings and such, we're indicating the maximum release. But on a go-forward basis, this should be tweaked every year and moved to target in a way that's more stable for ratepayers.

MR. STEVE SCARFONE: Okay, and with those comments, are -- are you generally pleased with how it worked in its first year?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah, yes, I am. Absent the emergency situation we were in where a special decision was made, that was a one-off scenario, or at least we wouldn't -- not something we would have planned for.

Post the $110 million rebate, you can see the plan is doing its job in the -- in the sense that we're projecting a rising MCT level. And per the graphs that were just shown in the presentation, we intend to get down to the 100 percent MCT within the -- the target time frame.

If we do, or if we have results better than anticipated, we will continue to have larger releases. But as we approach that target, they should gradually go somewhere close to zero (0).

MR. STEVE SCARFONE: And then on the modernization of the products, I don't want to put you on the spot, but for those Basic customers that choose the Basic product, so those customers that are now at $500 or two hundred thousand (200,000) or fifty thousand (50,000), particularly for the deductible, will they automatically be moved up to the seven fifty (750), or will they remain at the five hundred (500) and have to take steps to -- to be put into the seven fifty (750) category?

MR. LUKE JOHNSTON: They would stay at the -- the same level. We don't want to make that decision for them, necessarily. That said, we -- we have in our forecasting made assumptions about how many customers will make that decision. Those are very, obviously, judgmental forecasts, but again, we're trying to make a -- a best estimate. So something other than, you know, no one changing at all had to be -- a forecast had to be made there.

MR. STEVE SCARFONE: And so to be clear, a customer that's currently has a $500 deductible on his or her vehicle will effectively be kept at that level by purchasing the Extension product?

MR. LUKE JOHNSTON: If that -- if they choose to do that, yes, and that'll again be at no additional rate impact to -- to them for the same coverage.

MR. STEVE SCARFONE: Okay, thank you. Those are my questions for Mr. Johnston.

THE PANEL CHAIRPERSON: May I ask you a question, Mr. Johnston, with regard to your last comment? You said, "If they choose to do that." Is it not a negative option, where they get moved to that and then they have to choose not to do it?

MR. LUKE JOHNSTON: Our assumption is that policyholders have selected the coverages they have for a reason, and so the deductible that they like, for example. We -- if they want to change from that, we're asking them to come in and make that choice, yeah.

THE PANEL CHAIRPERSON: Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you.

CROSS-EXAMINATION BY MS. MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Mr. Johnston, I'm going to have some questions about the capital management first, and then I will move into the CERP after that.

So, Kristen, could we please pull up PUB-MPI-1-31, page 2?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And -- and just essentially to paraphrase what you've spoken to in your presentation, but to be clear for the record, MPI considers the minimum regulatory target for Basic to be the minimum of either the target minimum capital test -- or MCT ratio -- from the Capital Management Plan or a 100 percent MCT ratio.

In capital build scenarios, MPI must demonstrate that the base case scenario will meet or exte -- exceed the -- the target MCT ratios from the

Capital Management Plan that are required to build capital back to the 100 percent MCT target within five (5) years or less. In capital release scenarios, the Basic MCT ratio is greater than the 100 percent MCT target. Yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Now, if we proceed to MPI Exhibit 24, and that's Financial Condition Test, and Section 5.2, which is the going concern scenario definition of satisfactory MCT level.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. Beginning at line 11, MPI has stated that it has:

> "Satisfactory financial condition under the going conc -- concern scenario when the MCT ratio remains above the minimum amount required to meet the requirements of the CMP."

MR. LUKE JOHNSTON: I see that.

MS. KATHLEEN MCCANDLESS: Yes?

> "Through reverse stress testing, MPI has determined that the MCT ratio must remain above 50 percent MCT in

order for Basic to meet the going concern capital requirements, i.e., build capital back to 100 percent MCT within five (5) years or less"?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS:

"In other words if the MCT falls below 50 percent and Basic cannot return to 100 percent MCT in five (5) years through the routine application of rate increases, capital rebuilding fees, and Extension transfers."

Yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So as long as Basic has an MCT of 50 percent or higher, MPI's position is that it should -- or believes it should be able to return to 100 percent MCT in five (5) years.

MR. LUKE JOHNSTON: Based on the current analysis, it is -- that's the approximate MCT ratio where you could apply the rules of the Capital Management Plan and still get to -- to 100 percent MCT.

It -- you know, the fif -- the 50

percent wasn't just a arbitrary number. We picked it. It was, like 50.5 percent or something like that. But because of the -- the target we have at 100 percent MCT and MPI's commitment to rebating amounts above that target, it -- the target can't be treated as something that we always have to stay above, because by definition, we've committed to not being above it all the time.

So on the flip side of that, we can't say that MPI's unsatisfactory because it has a -- you know, it's slightly below the target with plans to rebuild it. So that's -- that's the logic behind the going -- in meeting the going-concern requirement.

MS. KATHLEEN MCCANDLESS: And MPI -- its position -- and this is -- was fairly well-trodden ground last year, so I won't spend any length of time on it, but MPI's position is that as long as it is at 50 percent or higher, then it is in compliance with the reserves regulation, which it believes it is required to follow.

MR. LUKE JOHNSTON: That is -- based on our current situation, yes. We'll, of course, update the FCT every year, and if that changes, we'll update the Board. But as of today, that's the case.

MS. KATHLEEN MCCANDLESS: Thank you.

Kristen, could we go to PUB-MPI-1-3, and Figure 1, on page 2?

This is the Extension statement of changes in equity with the 10.5 percent Basic rate change as filed?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And line 8 represents what is forecast to be transferred from -- to Basic from Extension retained earnings on the basis of the initial rate change, or rate indication.

MR. LUKE JOHNSTON: Yes, that's our forecasted excess retained earnings, yeah.

MS. KATHLEEN MCCANDLESS: And there was no transfer of capital in 2020. We see that under the leftmost column, 2020A?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And, Kristen, I'm going to be making you jump around a fair bit, so I apologize in advance. If you could go to MPI Exhibit Number 19, and page 15 of the PDF.

This is the Annual Report from '19/'20.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: I believe

it's fifteen (15) of the PDF. Yes, thank you.

If we could scroll to the bottom of the page, under the heading 'Organizational Health', at the very bottom, we see 'capital adequacy, minimum capital test.' And under Extension, we have 317 percent actual for 2019/'20. Yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And then, we take you to the reference if need be, but I'm going to try to give Ms. Schubert a little bit of a break.

But Extension's MCT, per EPF-3 in the filing, was at 325 percent for that same period?

MR. MARK GIESBRECHT: I'll take your word for it.

MS. KATHLEEN MCCANDLESS: It's subject to check. Okay.

So, clearly, significantly above the target of 200 percent.

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Now, Kristen, if we could please go to PUB-MPI 1-28.

And, here, the Corporation was asked that, from the examination of EPF-3, the Extension MCT ratio exceeded 200 percent as at March 31, 2020, even allowing for the subsequent payment of the $52 million premium rebate paid from Extension in May 2020.

The Corporation was asked to provide an explanation for why the capital transfer mechanism was not followed in that instance.

And so, if we turn to the response, just to paraphrase, the Corporation's response was that the COVID-19 pandemic was declared and Manitoba was thrust into a state of emergency.

MR. MARK GIESBRECHT: That's correct.

MS. KATHLEEN MCCANDLESS: And that financial markets were in turmoil and volatility in the markets was experienced daily. And we heard about that earlier?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And so, a special one-time rebate was being considered and management made the decision to not transfer an estimated amount in March, after receiving approval from government for the immediate rebate of $52 million. Yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And that $52 million was taken from $75 million forecast in the 2020 GRA compliance filing. Yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: So if not for the decision to rebate, MPI would have transferred over that $75 million as forecast last year?

MR. MARK GIESBRECHT: Yes. So as we talked about during the special rebate hearing, you know, it was a very complex time with a lot of moving parts, a lot of discussions with many stakeholders, and trying to understand what is the best course of action.

Ultimately, you know, we -- we came to the PUB to issue that special rebate. And so, if not for that process, then it would have been transferred in a normal course of the CMP.

MS. KATHLEEN MCCANDLESS: And it would have been the amount of $75 million?

MR. MARK GIESBRECHT: That was a best estimate at that potion in time. It may have been a bit different, but, at that point in time, that was the estimate.

MS. KATHLEEN MCCANDLESS: And so, that's what would have been -- had to have been transferred for Extension's MCT to be at 200 percent, based on the estimates available at that time?

MR. MARK GIESBRECHT: At that time, yes. As it turns out now -- and I believe it is in an

IR somewhere -- the amount was actually -- ended up closer to 52 million. It was, I think, within a million dollars or so, if I remember correctly.

And so, that leads us to how we enact this going forward. There's the question of, you know, do you transfer based on an estimate before you finalize a year-end? Or do you finalize year-end figures and then, immediately thereafter, transfer those funds?

And so, I think there's an opportunity that we can look, in the future, to refine some of the -- the language to tighten that up. But, again, based on estimates at points in time, at one point in time, we had thought 75 million was that number. Upon closing the final results and the books for Extension, it was closer to 52 million.

MS. KATHLEEN MCCANDLESS: And then, if we scroll to 'B' in the same Information Request. The Corporation advised that the CMP does not stipulate what accumulated profits generated by the 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. Yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And so, I appreciate what you had just said.

But under this definition, should MPI not have transferred over the excess amounts to comply with the CMP?

MR. MARK GIESBRECHT: Yes. And it would have, if not for bringing forward a Special Rebate Application.

MS. KATHLEEN MCCANDLESS: And then, at the bottom of this response, we see that the Corporation states that:

> "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 capital transfers forecasted in the pro formas included in this GRA."

Yes?

MR. MARK GIESBRECHT: That -- that is correct. And that's -- that is why those figures are included in all of our forecasts moving forward.

MS. KATHLEEN MCCANDLESS: However, in the future, could MPI make a decision to utilize excess monies rather than transfer to Basic as it had done previously?

MR. MARK GIESBRECHT: That is a possibility.

MS. KATHLEEN MCCANDLESS: So the Corporation does acknowledge that its position is it has the flexibility to not transfer those monies then?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: So another use for the funds could be deemed by a management business case, for example?

MR. MARK GIESBRECHT: Possibly.

MS. KATHLEEN MCCANDLESS: Or a direction from the Board of Directors?

MR. MARK GIESBRECHT: That is correct, yeah. It should be stated, though, that there are no plans. That is not the case.

However, if something were to arise where there was a need and it was deemed as the -- appropriate to utilize those funds, that -- that could be possible at the discretion of the MPI Board of Directors.

MS. KATHLEEN MCCANDLESS: Kristen, could we please go to PUB-MPI 2-16.

Here, the Corporation was asked to provide alternate pro formas with supporting schedules for Basic, assuming no transfers from Extension to

Basic in 2020/'21 and beyond, but reflecting full compliance with the Capital Management Plan.

And then, if we scroll to the response, the Corporation advised that in the absence of capital transferred from Extension -- so all excess Extension capital is assumed to remain in retained earnings -- the capital build release provision changes from a 5 percent decrease to a .73 percent increase. Yes?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And the scenario assumes no change to the Basic AAP breakeven rate indication. Correct?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So, in effect, the removal of Extension transfers then -- put another way -- results in a 5.73 percent change or increase or smaller decrease, depending.

MR. LUKE JOHNSTON: Yeah. This gets -- this gets back to previous years' discussion about capital maintenance. Obviously, if you are calculating a breakeven rate, you're not anticipating to make any net income, not anticipating to grow capital. And capital requirements generally rise over time as the liabilities and assets grow.

So Extension transfers are effectively

covering the capital maintenance requirement and -- and currently providing funds even in excess of that requirement.

But definitely, Extension capital transfers are a very key component to any releases we're going to have in the future.

MS. KATHLEEN MCCANDLESS: Would it be possible to provide an update to PUB-MPI 2-16 to advise what the indicated capital release would be, based on the updated info from October 9th, if Extension transfers did not occur?

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

MS. KATHLEEN MCCANDLESS: Thank you. So that's an undertaking.

--- UNDERTAKING NO. 13: MPI to provide an update to PUB-MPI 2-16 to advise what the indicated capital release would be, based on the updated info from October 9th, if Extension transfers did not occur.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you.

So based on the assumptions inherent in the GRA, but with no capital transfers from Extension, the capital rebuild charge of .73 percent would be required to maintain 100 percent MCT for Basic?

MR. LUKE JOHNSTON: That's my understanding from this response, yes.

MS. KATHLEEN MCCANDLESS: Thank you. So in effect, the required net income for Basic -- and perhaps we could pull up PF-1 from the GRA as filed and put it beside Figure 1 from PUB/MPI 2-16.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Kristen.

So, in effect, the required net income for Basic from the GRA as filed would -- it would change from net loss of 1.19 million in 2021/'22 to net income of 29.1 million in the update at PUB-MPI 2-16. And that's at line 34 of both pro formas.

Is that correct?

MR. LUKE JOHNSTON: That's correct, and I suspect there's some difficulty following the logic on this, but I'm not quoting the numbers exactly, but in previous financial statements, you went through the Extension capital transfers, roughly 67 million in that first year and let's just say 30, 40 million a year after.

Obviously, not sending over $100 plus million of capital is going to have a pretty big impact on whether you can have anything to release.

So in the pro forma on the right, we have that capital from Extension, and the 5 percent rebate is what's generating that loss of 50 plus million per year because we are intentionally losing money to bring the MCT down to 100 percent.

On the left side, where no transfer has occurred, Basic has to stand on its own. And in order to stay at that 100 percent MCT level, it needs to make a little bit of net income to -- to maintain the capital ratio.

MS. KATHLEEN MCCANDLESS: And we can see, just carrying on through the forecast on the right-hand side with the transfers, we have the net loss for 2023 forecast of 45.2 million, correct? And then if we compare with the -- with no capital transfers from Extension for the same period, we have net income of 16.6 million.

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: So a net

change of $31 million for '21/'22 and roughly 61.8 million for 2022/'23?

MR. LUKE JOHNSTON: That's correct, and maybe you'll go there, but I would definitely make sure everybody focusses on the -- the premiums collected as well at the top as those are very -- very different.

MS. KATHLEEN MCCANDLESS: I was going to go there, so. So if we look first at the pro forma from the GRA, so on the right-hand side, we see that, in order to achieve the increase in required net income, the Basic motor vehicle premium would increase.

So if we look at Pro Forma 1 from the GRA, which is on the right-hand side of the screen, at line 3, we see --

MR. LUKE JOHNSTON: Sorry, I see this.

MS. KATHLEEN MCCANDLESS: -- 2021/'22 forecast, the premium of 1.006 million.

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And we compare that with no capital transfers from Extension, and we see on the left-hand side of the screen at line 3 under 2022 forecast a Basic motor vehicle premium of 1.07.

MR. LUKE JOHNSTON: Correct, and that was the point I was trying to make earlier about proactively rebating it essentially. Extension's built right into the CMP calculation, and we are asking to, in this case, rebate before the -- the net income's actually been earned, yeah.

MS. KATHLEEN MCCANDLESS: And I believe I've probably misspoken, used "million" instead of "billion," so I apologize to correct the record.

And then we see also for 2022/'23 for Basic and the GRA as filed, we have 1.043 billion compared to 1.1 billion with no capital transfers from Extension, yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So those two (2) swings then would be an increase in premiums required from Basic customers of $66 million in 2021/'22 if there were no capital transfers?

MR. LUKE JOHNSTON: I'll accept that, yeah.

MS. KATHLEEN MCCANDLESS: And 68 million in 2022/'23 with no capital transfers?

MR. LUKE JOHNSTON: I'll accept that as well, yeah.

MS. KATHLEEN MCCANDLESS: And so to summarize -- and this is -- you can agree subject to check -- if you're prepared to agree that the removal of Extension transfers would mean a rate indication of a decrease of 4.77 percent.

So that would be a decrease of 3 percent from the CERP at 2.5 percent break -- breakeven indicated rate and a .73 percent capital rebuild?

MR. LUKE JOHNSTON: I'll accept that. That sounds reasonable, yes.

MS. KATHLEEN MCCANDLESS: Does the GRA forecast of a transfer from Extension represent MPI's best estimate expectation?

MR. LUKE JOHNSTON: Yes, it does. The forecasts themselves and the financial model are interlinked. So whether we're forecasting rate scenarios or FCT adverse scenarios, they -- like Basic and Extension are -- are very linked.

So if collision frequency goes down, for example, or the stock market crashes, it will impact both lines. So Extension is also a best estimate.

MS. KATHLEEN MCCANDLESS: Thank you. And that's taking into account Mr. Giesbecht --

Giesbrecht's remarks that, notwithstanding what the Capital Management Plan states, that it is possible that MPI may not make those transfers?

MR. LUKE JOHNSTON: The -- the way this is presented, as mentioned, about proactively transferring, whether the year-end timing is slightly delayed, it wouldn't impact these projections in terms of the -- the impact to the -- the Basic rate indication that the key is the -- the amount expected to be transferred.

If there were decisions made suddenly about using Extension capital for other purposes or not using it at all, MPI would either have to proactively show that expectation years ahead of schedule because I would have to show you that today, or effectively eat the -- the loss if we had assumed we were going to transfer, say, $60 million and didn't transfer the 60 million.

That's true whether we just had back luck from forecasting results or some other decision is made. So the -- from a rating perspective, the -- the approach likely isn't impacted. From a capital perspective, if those decisions were made, it obviously could impact our performance relative to forecasts.

MS. KATHLEEN MCCANDLESS: Kristen, could you go to PUB-MPI 2-38. Just very quickly, here the Corporation was asked to provide an updated CMMG-MPI 1-12 Figure 1 with the forecast to fiscal year '23/'24. And if we jump to the figure here, this is RSR Basic Program amounts.

Just quickly, is it possible for MPI to update this figure based on the October 9th information?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I don't see why not. I'm just looking. So it looks like the -- we would just be updating the 2021 and after figures. We could do that.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. You were asked brief --

THE COURT REPORTER: Is that, sorry, an undertaking?

MS. KATHLEEN MCCANDLESS: Yes. Pardon me. That's to provide Figure 1 from PUB-MPI-2-38 updated to include the information provided in the October 9th filing, MPI Exhibit number 27.

MR. LUKE JOHNSTON: Confirmed by MPI.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 14: MPI to provide Figure 1 from PUB-MPI-2-38 updated to include the information provided in the October 9th filing, MPI Exhibit Number 27

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: This morning, under questioning from Ms. Meek, you were asked to touch on briefly the issue of any further rebates?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Could MPI provide a threshold with respect to a reduction in claims incurred costs for 2020/'21 mainly due to COVID impacts beyond which it might consider an immediate rebate similar to what was sought in the special rebate application?

MR. LUKE JOHNSTON: We -- we don't have that at -- at this time. The truth is I don't know that we really know what that looks like until we see it, but we are constantly monitoring that -- that situation.

Pre-COVID, we had no such threshold, and the situation was so extreme that there was a decision to act. My expectation would -- would be that, if -- if a similar situation arose, government and our Board would convene similarly and -- and discuss -- discuss that matter, and, obviously, there may be involvement here, but that's how I would expect it to proceed.

We don't have -- you know, if we had, you know, no kind of threshold, if we have this much million in the bank, we're going to trigger another rebate. As mentioned, we -- our -- our first preference would be to let the Capital Management Plan function as intended, but I understand there's -- there's always a limit to that way of thinking and -- and perhaps there is some -- a threshold where we wouldn't follow it, but I don't have a number for you.

MS. KATHLEEN MCCANDLESS: So just generally though, does MPI have any sense as to whether any such threshold would be based on claims incurred costs compared to an MCT or excess capital amount?

MR. LUKE JOHNSTON: We've -- we've talked a lot in -- in the first couple days about

COVID claims impacts. I've discussed at -- within the last few months, at least, we seem to be hovering around 10 percent under budget. Although favourable, I wouldn't call that extreme in the sense that it's not 50 or 60 percent. Like, that's ver -- obviously, very extreme.

We haven't talked a lot about potential unfavourable impacts which, of course, could exist. I don't think I need to convince anybody about interest rates. And we've talked a little bit about concerning economic conditions, impacts on driver behaviour, DSR, all -- all kinds of things like that. Do I know what's actually going to happen? I don't. But, yeah, I just -- I guess I'm saying there's -- there's costs and benefits.

As of today, I don't feel like MPI -- MPI has a need to react with another rebate, but obviously that could change if -- if things went more -- to more extreme numbers.

MS. KATHLEEN MCCANDLESS: Thank you. Madam Chair, I'm moving into CERP now. My best estimate is that I might take about twenty (20) minutes to a half an hour. Shall we proceed?

THE PANEL CHAIRPERSON: Yes, please.

MS. KATHLEEN MCCANDLESS: Okay. Thank

you.

THE PANEL CHAIRPERSON: Yes, please. Yes.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So in your presentation we saw the highlights of the changes due to the Compulsory and Extension Revision Project. I -- I will be referring to it as CERP. I trust that will be appropriate.

MR. LUKE JOHNSTON: Fortunately, yes. Yes. Yeah.

MS. KATHLEEN MCCANDLESS: Could we please move to PUB-MPI-1-4...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: ...and at 'A', the response. MPI had provided an illustrative example that showed that the combined effect of the reduction in Basic coverage and the corresponding changes to the Extension coverage were designed to be rate neutral, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: This

response shows that the actual rate changes experienced by customers will not be rate neutral due pri -- primarily to the significant overall rate decrease requested.

Is that right?

MR. LUKE JOHNSTON: Yeah. We -- we wanted to do this piece in -- in isolation. We didn't want to say it's revenue neutral because we gave a capital release amount or something, right. Like, it -- we want it to be rate neutral on its own, and then everything -- every other impact, whether it's a decrease in Extension rates or Basic or capital release, stood separately from that.

MS. KATHLEEN MCCANDLESS: And we heard from you that the Corporation has chosen to opt in customers, adding or adjusting Extension coverage to keep their coverage as close to current levels as possible?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And customers will not have to pay fees to alter the opted in option?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Ratepayers are required to visit a broker's office if they want to make changes or opt for the new seven hundred and fifty dollar ($750) deductible level, yes?

MR. LUKE JOHNSTON: Correct. And that would be true as well if they -- if we didn't do CERP and they wanted to change their deductible or -- or any coverage change.

MS. KATHLEEN MCCANDLESS: And as of the time that MPI provided a response to PUB-MPI-2-1, I don't think we need to go there, but MPI had not prepared any sort of mockups of the communications of the changes that were going to be given to ratepayers?

MR. LUKE JOHNSTON: So do you mean in terms of the renewal notice and any type of inserts that might be included?

MS. KATHLEEN MCCANDLESS: Yes.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I am definitely actively working with that group to ensure the renewal notice communicates not only this -- this change, but also what this new capital release provision is and -- but I can't recall where we're at on that, so I would have to that -- take that away, so...

MS. KATHLEEN MCCANDLESS: So, I -- I

gather nothing has been finalized as yet?

MR. LUKE JOHNSTON: The renewal notice itself is still in progress, but I can't remember if we've completed the customer communications on the products. I'd have to -- I'd have to check, yeah.

MS. KATHLEEN MCCANDLESS: Perhaps then if you could just undertake to advise as to the status of any of the communication of the changes and provide any detail on either the CERP changes or capital release that has been approved to date?

MR. LUKE JOHNSTON: I definitely can do that, yes.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 15: MPI to advise as to the status of any of the communication of the changes and provide any detail on either the CERP changes or capital release that has been approved to date

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: If we could

go to CAC-MPI-1-39, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And page 3 of 5.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Here the Corporation was asked for the total impact of the product changes. And we see that the estimated impact of increasing the Basic deductible is a decrease of 3.2. -- 3.28 percent to the Basic overall required rate change?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Increasing the Basic third-party liability coverage from two hundred thousand (200,000) to five hundred thousand (500,000) was an increase of .15 percent?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And increasing the Basic maximum insured valued from fifty thousand (50,000) to seventy thousand dollars ($70,000) was an increase of .18 percent?

MR. LUKE JOHNSTON: Correct. And just to be clear, this is an overall basis depending on where -- you know, the type of vehicle you have could be quite different.

So if -- if you think about lower rate groups or, in other words, really old cars, you wouldn't expect to have any impact from maximum insured value, but higher on the rate group spectrum, the impacts would be -- obviously be greater than 0.18, for example.

MS. KATHLEEN MCCANDLESS: And then just above the table we see that the total impact of the product changes is a 2.96 percent decrease to the Basic overall required rate change?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Kristen, could we please go to PUB-MPI-2-4?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And at page 2.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And while we're waiting for that, just for the record, MPI had provided further details of the calculation of the impact of the changes to CERP in a previous Information Request, PUB-MPI-1-7. Are you familiar with that?

MR. LUKE JOHNSTON: I'm willing to accept that. If -- you can bring it up if you want. I can confirm, but --

MS. KATHLEEN MCCANDLESS: We don't need to go through it. I just wanted to have that --

MR. LUKE JOHNSTON: Yeah, I'm fine with the numbers --

MS. KATHLEEN MCCANDLESS: -- clear.

MR. LUKE JOHNSTON: -- that we discussed, yeah.

MS. KATHLEEN MCCANDLESS: And at page 2 here, the -- MPI stated that for the purpose of estimating the impact of the deductable change, it did not adjust the forecast for property damage third-party deductible transfer, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And that MPI did not calculate the amount transferable from collision, given that there is no effect on overall costs, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: For the purposes of forecasting of claims by coverage and for comparison to future rate applications, could MPI undertake to provide an estimate of the amount of claims that would be transferred between these two (2) categories?

MR. LUKE JOHNSTON: Yeah, I -- I don't see -- I don't see why not. We can -- yeah. I'll -- we'll undertake to do that, and if for any reason it's -- it's an issue that we can't, I'll let you know. But we'll accept the undertaking.

MS. KATHLEEN MCCANDLESS: Thank you. So just to confirm for the record, MPI will undertake to provide an estimate of the amount of claims that would be transferred between property damage third-party deductible transfer and collision.

MR. LUKE JOHNSTON: Confirmed.

MR. STEVE SCARFONE: Just -- sorry, Mr. Johnston. So let's -- can we just -- that particular undertaking -- Mr. Johnston is very agreeable to undertakings, and maybe we should take that one under advisement because there seems to be a lot of work that could be involved there. So we just want to confirm that that's something that can be produced in -- in short order. So we take that under advisement, Ms. McCandless.

MS. KATHLEEN MCCANDLESS: And you can advise --

MR. STEVE SCARFONE: Yeah, we can advise --

MS. KATHLEEN MCCANDLESS: -- shortly?

MR. STEVE SCARFONE: -- hopefully by tomorrow.

MS. KATHLEEN MCCANDLESS: Okay, thank you.

--- UNDERTAKING NO. 16: MPI to undertake to provide an estimate of the amount of claims that would be transferred between property damage third-party deductible transfer and collision (UNDER ADVISEMENT)

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Kristen, could we please go to PUB-MPI-2-5?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And this IR relates to the CERP impact on vehicle rate groups. At page 2, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you.
And, Mr. Johnston, you already touched on this somewhat when I was walking you through the CAC Information Request. MPI here states that it recognizes that the impact of the increase in the maximum insured value is not uniform across all vehicles, correct?
MR. LUKE JOHNSTON: Yes.
MS. KATHLEEN MCCANDLESS: MPI allocated the calculated increase in costs resulting from changes to the maximum insured valued back to the corresponding rate groups before running the minimum-bias model?
MR. LUKE JOHNSTON: Well, that's correct to the best of our estimating abilities, but we've attempted to make a best estimate there.
MS. KATHLEEN MCCANDLESS: And so this means that the .18 percent increase impact that we saw on Basic overall required -- the overall required rate

change should only affect the relatively small proportion of vehicles with insured values of at least $50,000?

MR. LUKE JOHNSTON: That's -- that's correct. Low -- lower-valued vehicles, old vehicles that are nowhere close to that range wouldn't -- would have no impact.

MS. KATHLEEN MCCANDLESS: And would affect them to a greater extent than the overall .18 percent increase in order for the overall impact to be a .18 percent increase?

MR. LUKE JOHNSTON: Absolutely, yes, yeah.

MS. KATHLEEN MCCANDLESS: Does MPI know what proportion of its book of business would fall into this category?

MR. LUKE JOHNSTON: The proportion of -- that would have a higher-than-average rate increase, or any rate increase at all?

MS. KATHLEEN MCCANDLESS: That would have --

MR. LUKE JOHNSTON: From --

MS. KATHLEEN MCCANDLESS: -- a higher than average of that 1.8 percent.

MR. LUKE JOHNSTON: Off the top of my

head, I don't -- it would probably be just a matter of me of looking at what rate groups we increase the relativity and discounting the number of vehicles in that. I've already been in trouble for accepting too many undertakings, but that is a pretty easy one.

Okay, since it's easy, it's good to go, yeah?

MS. KATHLEEN MCCANDLESS: And I -- thank you. Since you've offered, then MPI has undertaken to advise the proportion of its book of business, I suppose, that will be affected to a greater extent than the overall .18 percent increase with respect to the maximum insured value.

MR. LUKE JOHNSTON: We can do that, yes.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 17:   MPI to advise the proportion of its book of business that will be affected to a greater extent than the overall .18 percent increase with respect to maximum insured value.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Kristen, could you please go to PUB-MPI-1-18, and Figure 1?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: The computer is tired.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: There we go.

So this table shows the assumed impact to Extension coverage claim costs from CERP for each of collision, comprehensive, third-party liability bodily injury, third-party liability property damage, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And would you accept that for each coverage, the impact on claims costs was approximately 90 percent of the savings assumed for Basic coverage?

MR. LUKE JOHNSTON: Yes. Not -- not everyone would purchase Extension coverage.

MS. KATHLEEN MCCANDLESS: Okay. This was due to the assumption as to the number of Basic customers that would continue to have simil -- similar coverage.

MR. LUKE JOHNSTON: Correct. Or changes in coverage or no coverage at all, yeah.

MS. KATHLEEN MCCANDLESS: And if we --

MR. LUKE JOHNSTON: Extension coverage, that is, yeah, yeah.

MS. KATHLEEN MCCANDLESS: If we jump to CAC-MPI-1-41.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And Figure 1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you.

And this figure represents the impact of product changes on Extension written premium for 2021/'22?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: The overall impact, on the right-hand side of the screen at line 1, of a decrease of 2.96 percent translated to a reduction in Basic written premium, at line 2, of 33.9 million?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And at line 3, 90 percent of Basic customers were assumed to purchase Extension?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So at line 5, this translates to $30.51 million.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Then at line 7, we see that the product changes on Extension written pre -- premium for 2021/'22 for product changes that affect only Extension loss costs was a decrease of $3.14 million, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And the total impact of product changes on Extension written premium for 2021/'22 was an increase of 27.37 million, yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And so that translated to an overall impact of requiring that 17 percent increase in Extension rates that we saw in your presentation?

MR. LUKE JOHNSTON: Yes, but just to be very clear, the costs are transferred. The premiums are matched to be neutral. So the difference between if we just sent the costs over and recalculated the premium at the existing profit levels, the premium we need would be higher.

So we -- we transferred the claims over and matched the premiums for each I guess coverage choice to make sure that it was neutral and effectively reduced profits by that offsetting difference.

MS. KATHLEEN MCCANDLESS: The -- this may be for Mr. Giesbrecht, but the commission rate on the Extension product is higher than on Basic, correct?

MR. MARK GIESBRECHT: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And per PUB/MPI 2-26 -- and while Kristen's pulling it up, the increased commission rate would result in approximately $5 to $6 million increase in commissions written? And we can wait for the reference if you want to --

MR. MARK GIESBRECHT: Subject to check, that sounds about right.

MS. KATHLEEN MCCANDLESS: But MPI has indicated again in that IR that it will not pass the increase along to the consumer and will reduce extension profits to offset any rating impacts to ensure rate neutrality, yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Right. And we see that there in Response B on the screen now.

MR. LUKE JOHNSTON: I see that, yeah.

MS. KATHLEEN MCCANDLESS: Thank you. And the overall extension rate change for 2021/'22 before product changes was targeted at a decrease of 7.5 percent?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: With a lower profit target?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And so combining the decrease of 7.5 percent with the -- the increase, the 17 percent increase on the -- due to the product changes results in an increase of 9.5 percent, yes?

MR. LUKE JOHNSTON: Yes. As you can imagine that -- all that was very interesting to present to government, but we did show that it was cheaper, yeah.

MS. KATHLEEN MCCANDLESS: And so MPI has made a conscious decision to make less money on its Extension line, accepting a lower profit while it phases in the changes, correct?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And if we could -- Kristen, this is your last reference of the day -- go to PUB-MPI-1-19, Figure 1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. So we see here that the profit margin for Extension for 2021/'22 was targeted at 24.8 percent, yes?

MR. LUKE JOHNSTON: Yes. Yes.

MS. KATHLEEN MCCANDLESS: 28.7 percent in 2022/'23, yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: So we see the decrease in the profit target there before and after the product changes?

MR. LUKE JOHNSTON: Yes, that's correct. It was a focus to lower that profit percentage prior to the product changes, but again the

-- the timing was fortunate that we were able to make the product changes and achieve the -- the profit reduction at the same time.

MS. KATHLEEN MCCANDLESS: And were there any changes to any of these assumptions by virtue of the October 9th update?

MR. LUKE JOHNSTON: In terms of the rate neutrality kind of goal-seeking exercise, for lack of a better word, no. We've committed to doing that, so whatever the Basic impact is, it will be exactly offsetting on Extension. And that of course is net of the approved rate decrease, but no -- no other changes have -- have been made to -- to main assumptions, I guess.

MS. KATHLEEN MCCANDLESS: Thank you. Those are my questions on CERP.

THE PANEL CHAIRPERSON: So, Mr. Williams, can you give us an indication of how long you might be?

DR. BYRON WILLIAMS: Maybe an hour.

THE PANEL CHAIRPERSON: Okay. Then I think perhaps we should adjourn for the day and start tomorrow morning with your cross.

DR. BYRON WILLIAMS: I really wanted to make Ms. Schubert go to another twenty-seven (27) different references, but I'll -- I'll defer that right.

THE PANEL CHAIRPERSON: Yeah, and the computer doesn't seem to be cooperating with that idea. Okay. Thanks very much. We'll see everybody tomorrow morning.

--- Upon adjourning at 4:15 p.m.

Certified Correct,

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Donna Whitehouse, Ms.