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 21, 2020

Pages 613 to 800

APPEARANCES

Kathleen McCandless	)Board Counsel
Robert Watchman (by phone)	)Board Counsel
Steve Scarfone	)Manitoba Public
Anthony Guerra (by phone)	)Insurance
Byron Williams	)CAC (Manitoba)
Charlotte Meek (by phone)	)CMMG
Antoine Hacault (by phone)	) Taxicab Coalition

TABLE OF CONTENTS

LIST OF EXHIBITS

LIST OF UNDERTAKINGS

LIST OF UNDERTAKINGS (CONT'D)

--- Upon commencing at 9:00 a.m.

THE PANEL CHAIRPERSON: Good morning, everyone. I believe, Mr. Williams, that you were about to cross-examine.

DR. BYRON WILLIAMS: Good morning, Madam Chair and members of the panel. Before we start, we have two (2) exhibits to -- to present. One is from our conversation yesterday with Mr. Bunston. On page 1 is selected bond yields, and it's covering the period from 2000 to 2020.

On the second page is a snapshot in time of bond rates as they were at October 19th, 2020. And the third page is just a snapshot of the 2020 year, including the sharp dip in 20 -- in March of 2020. And we ask that that be marked as CAC (Manitoba) Exhibit Number 6.

--- EXHIBIT NO. CAC-6: On page 1 is selected bond yields covering the period from 2000 to 2020. Page 2 is a snapshot in time of bond rates as at October 19th, 2020. Page 3 is a snapshot of the 2020 year,

including the sharp dip in
March of 2020

DR. BYRON WILLIAMS: And secondly -- and this other one is being introduced with the consent of my -- my friends at Manitoba Public Insurance, and it is a table presenting the estimated financial impact of Basic insurance rates changes from 2017/'18 to 2020/'21.

And we -- we would ask that that be marked as CAC Exhibit 7.

--- EXHIBIT NO. CAC-7: Table presenting the
estimated financial impact
of Basic insurance rates
changes from 2017/'18 to
2020/'21

DR. BYRON WILLIAMS: And perhaps if we could turn to CAC Exhibit number 7.

(BRIEF PAUSE)

Resumed:
MPI PANEL NO. 3 - Rate Stabilization Reserve, Capital

Management Plan, Compulsory and Extension Revision Project Panel

LUKE JOHNSTON, previously Affirmed
MARK GIESBRECHT, previously Affirmed

CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Johnston, you've been participating in Public Utility Board hearings for many years?

MR. LUKE JOHNSTON: I have.

DR. BYRON WILLIAMS: More years than you care to recall, sir?

MR. LUKE JOHNSTON: I used to be the young guy. I don't think that's the case anymore.

DR. BYRON WILLIAMS: So did I, if you can believe that, Mr. Johnston.

MR. LUKE JOHNSTON: The -- the scary thing is I -- I could have twenty (20) more years, I guess, but...

DR. BYRON WILLIAMS: And, as -- as such, you're familiar -- familiar generally with the rate approvals granted by the Public Utilities Board in prior proceedings?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: Okay. And if I could direct your attention to CAC Exhibit Number 7. And let's take the -- the first row, being the 2017 row, Mr. Johnston.

And you -- you see in the second column we're talking about the 2017/'18 fiscal year, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And in the next two (2) columns we're seeing the Board ordered Basic rate change of 3.7 percent flowing from PUB Order 162/'16, correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And mathematically, and what we're -- we -- we then do is times that 3.7 percent by the base -- Basic motor vehicle pro -- projected premiums written for 2016/'17, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And recognizing that this is an estimate, but it's -- that would suggest that the estimated rate change impact on premiums written of that 3.7 percent order would be in the range of $33 million, agreed?

MR. LUKE JOHNSTON: Agreed. Yeah, agreed.

DR. BYRON WILLIAMS: And just to be careful, just because there's a $33 million rate increase for the 2017/'18 year, because of staggered renewals, roughly half, or a bit more than half, will be realized in the 2017/'18 year and the full impact of that 3.7 -- $33 million rate increase will be realized in the next financial year, agreed?

MR. LUKE JOHNSTON: Agreed. The -- the flow into, I guess, net income, so to speak, would -- would happen over two (2) years.

DR. BYRON WILLIAMS: And similarly, we see for the 2018/'19 year, as a result of the 2.6 percent Basic rate change ordered from PUB Order 130/'17, that that would have an estimated rate change impact on premiums written of almost $25 million, correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And again, because of staggered renewals, we would see the full impact of that show up in net income over two (2) years?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And for the 2019/'20 year, with a Basic rate change ordered of 1.8 percent, we'd estimate that would have a rate change impact on premiums written of $18.3 million, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And then we have the rate decrease in 2021, correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And, Mr. Johnston, when we look, for example, at that $33 million rate change flowing from 2017/'18, it's not just a one (1) year or two (2) year effect. Absent a rate decrease, that is built into the rate base and is a gift that keeps on giving for years in -- into perpetuity?

MR. LUKE JOHNSTON: Yes, it's in the rate. It -- it stays in -- in the rates unless you reverse it out, so to speak, yeah.

DR. BYRON WILLIAMS: And similarly, when we take that 2.6 flowing from Order 130/'17, it builds upon the increased Basic proje -- premiums written of from the year before, so it's -- we've got the 3.7 percent impact that forms the basis for the next year's 2.6 percent impact, right?

MR. LUKE JOHNSTON: That's right. And -- and I don't think that's shocking. If -- if we -- if our rates just followed inflation perfectly, you'd expect that to grow 2 percent a year. And you wouldn't expect it to reverse unless something else happened, like lower frequency or something like that.

DR. BYRON WILLIAMS: Okay.

MR. LUKE JOHNSTON: Yeah.

DR. BYRON WILLIAMS: Thank you. And -- and, Mr. Johnston, I guess the point of that is, if we look at that, the cumulative impact of the rate increases flowing from '17/'18, '18/'19, and '19/'20, that's about $75 million --

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: -- if we added those together?

MR. LUKE JOHNSTON: Yeah. If you take out the -- yeah, the total and you remove the favourable from last year, about 75 million, yeah.

DR. BYRON WILLIAMS: To a certain degree though, sir, that -- that underestimates the impact because that -- that captures the one (1) year impact of those rates increases and doesn't capture how they are built into the rate base in perpetuity?

MR. LUKE JOHNSTON: That's true. These are -- would be incremental additions. But cumulatively, premiums would be 75 million higher than they were in 2016, I guess.

DR. BYRON WILLIAMS: If we can turn to

CMMG-MPI-1-12, figure -- figure 1. And, Mr. Johnston, you recognize this -- this document? You went -- went over a revised version -- a PUB version of this yesterday with Ms. McCandless, agreed?

MR. LUKE JOHNSTON: I recognize it, yes.

DR. BYRON WILLIAMS: Yes. And without going into details, it captures a lot of the history of the Basic program, including the beginning RSR, the net income, et cetera?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And I do want to direct your attention to line 16, the 2017/'18 year and column B, net income. And you'll see, sir, that that is -- for the '17/'18 year, that's $34.4 million, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And captured -- or an element of that net income of $34 million would be roughly one-half of the effect of the $33 million rate increase in '17/'18?

MR. LUKE JOHNSTON: I'd have to look at my history a little bit here. And -- and I don't have any debate of the numbers you've just shown in terms of the rate impact.

But at least when we present rate indications to the PUB, we're anticipating a break even.

So, obviously, this particular fiscal year has impacts of two (2) insurance years at the same time. But my explanation of the net income would be that there were reasons that MPI's breakeven target wasn't met, so -- be it investment income or favourable claims experience. I -- I can't recall the reasons.

DR. BYRON WILLIAMS: Then maybe my question was imprecise.

When we look at the financial results for the '17/'18 year, baked into the revenue results for that '17/'18 year would be one-half of the impact of the 3.7 percent rate increase, amounting to roughly 33 million, agreed?

MR. LUKE JOHNSTON: Yes. All else equal, that net income would be lower by that amount without those monies, yes.

DR. BYRON WILLIAMS: Yeah, and -- and so if we go to the 2018/'19 year, you'll see that net income was 78.8 million, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And without

trying to dissect all the puts and takes that led to the positive net income, you'll agree that in terms of the revenue for the '18/'19 year, we would have the full effect of the '17/'18 three point seven (3.7) thirty-three mil -- percent $33 million rate increase, correct?

MR. LUKE JOHNSTON: Agreed, yeah.

DR. BYRON WILLIAMS: And also in there would be the half-year effects, sir, of the two point six (2.6) $24 million rate increase flowing from the Board's Order relating to the '18/'19 General Rate Application.

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And, sir, you see for the '19/'20 year, we see a net income for the Basic program of $130.7 million, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And again, without trying to dissect the multi -- multiple factors affecting naid -- net income, built into the revenues for that year would be the full effect of the three point -- let me check my -- my number here -- the three point seven (3.7) 33 million --

MR. LUKE JOHNSTON: Yeah.

DR. BYRON WILLIAMS: -- as well --

from '17/'18, as well as the full effect flowing from 2018/'19 of the two point six (2.6) 24 million, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And we would also see the half-year effect of the one point eight (1.8) roughly 9 million -- one point eight (1.8) $18 million rate increase for 2018/'19.

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: Yeah. Sir, if we just looked at that net income number for '19/'20 as well of $130.7 million, and again, recognizing there were a lot of puts and takes in that year, it would be fair to say that Manitoba Public Insurance enjoyed a $26.5 million lower than expected impact on claims incurred related to frequency, agreed? My source for that's CAC-1-29(a).

MR. LUKE JOHNSTON: Lower frequency in 2019/'20 was definitely a driver. It was one (1) of the lowest freq -- collision frequencies we's ev -- we've ever seen. So all subject to actual impact to check, but the -- the cause -- one (1) of the major causes was frequency for sure.

DR. BYRON WILLIAMS: Okay. And so you're not disputing the suggestion of 26.5 million, which I'm suggesting comes from your response to CAC-1-29(a), but you just say subject to check.

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: Okay.

MR. LUKE JOHNSTON: Yeah.

DR. BYRON WILLIAMS: Thank you, sir.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: If we could go to PUB-MPI-1-28(b), and this goes to you, Mr. Giesbrecht.

And we did hear your conversation with My Learned Friend from the PUB about this response yesterday, so I'll try not to travel too much over that same ground.

But in this response, Manitoba Public Insurance indicates that it is conceivable that Extension profits could be utilized for purposes other than transfers to Basic. That's the response that Ma -- part of the response that Manitoba Public Insurance provided. Agreed?

MR. MARK GIESBRECHT: Yes, it is conceivable.

DR. BYRON WILLIAMS: And one (1) of the exampl -- historic examples that was given by

Manitoba Public Insurance was the Enhanced Driver Licence ID Project, correct?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And this may test your memory or that of Mr. Johnston's, but would it be accurate to suggest that the Immobilizer Project was another capital project funded from excess Extension retained earnings? And Mr. Johnston may have more historical knowledge of this.

MR. LUKE JOHNSTON: Yes, it was.

DR. BYRON WILLIAMS: Mr. Giesbrecht, would it be fair to say that the funding of those capital projects out of Ext -- Extension, whether it was enhanced driver licence ID or the immobilizer expenditure, was undertaken before there was any Capital Management Plan or consensus between the Public Utilities Board and MPI about what to do with excess Extension retained earnings?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And, Mr. Giesbrecht, you were part of the General Rate Application last year, in which the Capital Management Plan was presented by Manitoba Public Insurance for consideration and approval by the Public Utilities Board?

MR. MARK GIESBRECHT: I was.

DR. BYRON WILLIAMS: And to your knowledge, in seeking Public Utilities Board approval of the Capital Management Plan, did MPI bring to the attention of the Public Utilities Board or others that it was conceivable that Extension profits could be used for purposes other than transfers to Basic?

MR. MARK GIESBRECHT: I don't recall a discussion specifically. You know, the -- what was brought forward was that any excess profits above 200 percent would be transferred, but I don't believe we got into that exact discussion.

DR. BYRON WILLIAMS: And, Mr. Giesbrecht, in terms of corporate policy for MPI, would it be accurate to say that MPI does not have a corporate policy which prevents it from using excess capital in Extension for purposes other than transfers to Basic?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: No, I'm not aware of any policy to that effect.

DR. BYRON WILLIAMS: And, Mr. Giesbrecht, in terms of the Capital Management Plan as a whole, is there a corporate policy with regard to it?

MR. MARK GIESBRECHT: The policy would be subse -- would be effectively what is in the GRA materials.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: One (1) more thing to add there -- also what is in legislation, regulation pertains to MPI as well.

DR. BYRON WILLIAMS: Yeah, fair enough, and thank you for that elaboration.

Beyond the year end of '20/'21, so March of -- of '21, would it be fair to say that Manitoba Public Insurance is not in a position to guarantee that excess retained earnings would be transferred to Basic rather than spent for other purposes?

MR. MARK GIESBRECHT: I think what is fair to say is that any excess profits above 200 percent MCT for Extension would be transferred. That isn't to say there couldn't be an example or a scenario arise where some funding was moved to other purposes.

Now, that would have to be an extreme circumstance. There's nothing that we know today that would give rise to utilization of funds for other purposes, and that's why we forecast our best estimates to show that we expect those transfers to take place.

As we've seen with the pandemic, things can change quickly and -- and needs arise, so I can't say definitively that we would not be having discussions with our board or shareholder if need were to arise. But I do not expect that at this point in time.

DR. BYRON WILLIAMS: Thank you for that answer, Mr. Giesbrecht.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: I wonder if -- I'm not sure we go -- need to go here, but for you, Mr. Johnston, I think my source is Rate Stabilization Reserve 6.4, and specifically I think it's page 1414, if you want to check.

Generally though, in that section of its application, MPI indicates that it applies capping rules with regard to the Capital Management Plan, to ensure rate changes generated from the Capital Management Plan are publically acceptable. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And MPI proposes the application of -- in terms of the capital release provision of the -- of the following capping rule.

In order to manage rate volt -- volatility, which is the main purpose of the Rate Stabilization Reserve, the Capital Management Plan uses a 5 percent cap on capital release provisions in any given GRA.

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And Mr. Johnston, as we've discussed, perhaps too many times in the course of this hearing, MPI ratepayers received a 110 million dollar rebate from -- collectively from Basic and Extension insurance in response to the COVID-19 pandemic in -- in or about June of 2020, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And MPI is proposing a 8.8 percent rate decrease for the -- the year beginning April 1st, 2021. Agreed?

MR. LUKE JOHNSTON: Agreed. Of course, recognizing the components of that, some break even, some other reasons like product and capital release, yeah.

DR. BYRON WILLIAMS: And that amount would be earned over a -- by MPI over a twenty-four (24) month period, due to staggered renewals. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And Mr. Johnston, subject to check, could we estimate that the value of that 8.8 percent decrease for the 2021/'22 year to be around $95 million if we take the projected motor vehicle premiums written for the fiscal year 2021 of $1,080,096,000 and multiply that by .088?

MR. LUKE JOHNSTON: Yes, it's 95 million, yes.

DR. BYRON WILLIAMS: And recognizing staggered renewals, Mr. Johnston, it would correct -- it would be correct to say that there will be ratepayers renewing their insurance in the -- that time period between April and June 2021 who within the span of a year to twelve (12) months will have received both their relative share of the Basic and Extension $110 million rebate, as well as their relative share of the Basic 8.8 percent rate increase. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And of course,

depending upon the type of vehicle, territory, and driving experience, certain vehicle owners may receive even more than an 8.8 percent decrease when they go to renew their insurance in that April to June 21 time period. Agreed?

MR. LUKE JOHNSTON: Yeah, not being too precise, but they'll likely be half above and half below the -- the average. So some will get more, some will get less.

DR. BYRON WILLIAMS: Between the rebate, Mr. Johnston, and the proposed 8.8 percent rate rela -- rate decrease, including a 5 percent excess capital release, it would be fair to say that ratepayers, in that time period we're speaking of, would be seeing an effective 20 percent difference in their -- in their rates, between the 110 million dollar rebate and the $95 million rate decrease?

MR. LUKE JOHNSTON: I'll accept that on an approximate basis, obviously, recognizing the uniqueness of the $110 million rebate would not be considered normal course.

But the math you're providing agree, that is the approximate impact in that period.

DR. BYRON WILLIAMS: And recognizing that the premise of the capital release provision under the Capital Management Plan is to manage rate volatility, and -- and thank you for your help on the math -- would MPI regard this reality as a failure on its part to manage volatility, contrary to the intentions of the Capital Management Plan, or would it consider its actions to be an appropriate response to both the pandemic crisis and to the objective of sharing the benefits of program changes and excess capital with captive ratepayers in an orderly manner?

MR. LUKE JOHNSTON: Well, I -- I hope there's no debate on the emergency situation and the position MPI found itself in.

Never in the design of the Capital Management Plan would we have anticipated to be 50 to 60 percent lower crash rates, so something -- something needed to happen there.

If we had been further along on the Nova journey, a more practical way to provide relief might have been to adjust the premiums for a couple months, if there's a way to do that. That's not something MPI can do easily today. So other options were explored and the rebate was chosen.

The -- in terms of the question of whether this was a failure, I -- I don't see how we can consider it a failure. We're managing to the situation like -- like everyone else. We -- I thought we did a really good job forecasting the impacts of the rebate in a very uncertain situation.

You've seen that for the most part those estimates have turned out. Where MPI truly has no knowledge of the future, we're not pretending that we do, we just admit that it's uncertain times and -- and like everyone, we're trying to figure that out.

The Capital Management Plan itself is -- is doing its job in the sense that it -- the -- we're over 100 percent MCT, which has triggered the release and we're managing that number to 5 percent maximum release.

The only -- the only other piece I'd add is the coverage change is -- is not -- I don't think we should really call that a rate volatility for ratepayers in the sense that we are, of course, giving them the option to maintain revenue neutrality in that situation. They may not, but -- but it is a 3 percent decrease to Basic, but to someone that keeps the same deductible it's no change at all.

So I'd argue that that's not really volatility.

DR. BYRON WILLIAMS: Thank you for that answer and what I hear from that, Mr. Johnston, is the -- a couple points. A) that MPI is reacting to an extraordinary crisis and highly uncertain time. And also, committed to returning excess capital ratepayers in an orderly manner. Agreed?

MR. LUKE JOHNSTON: Absolutely. But like everyone, we're -- we're navigating through this with, you know, changing information every day, really.

DR. BYRON WILLIAMS: And in responding to that extraordinary crisis and to the reality of excess capital, there -- there may be more rate volatility than in the -- what we might expect from a clinical look at the Capital Management Plan, which looks very orderly. And this -- this is not orderly because of the highly extraordinary circumstances.

MR. LUKE JOHNSTON: Yes, we should expect more volatility than we would in normal course.

So when we model claims, we have, obviously, the benefit of the entire history of MPI and we can look back and say, Okay, you know, nine (9) times out of ten (10), collision frequency varies, you know, by a certain amount. Those types of models are -- are, I guess, under stress right now -- or whatever you want to call it -- because the situation is so unusual.

But at some point, we will end the pandemic and, hopefully, get back to more stable, predicable results.

DR. BYRON WILLIAMS: Okay. Thank you. I'm going to turn to issues of communication relating to the rate changes. And I -- I was listening, I hope intently, to your conversation with PUB counsel. There may be a bit of overlap, Mr. Johnston. But, hopefully, to a point.

And you kind of -- when we look at the '21/'22 insurance year and the proposed 8.8 percent rate decrease, there are, of course, three (3) moving -- three (3) different parts.

One being the 3 percent related to the Basic coverage reduction; another being the 5 percent related to the excess capital; and the third being the 0.8 percent related to changes in accordance with accepted actuarial practices, or AAP. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And as you adverted to in your conversation with My Learned Friend yesterday, one (1) of the concerns in terms of the rate volatility issue is that a customer may, in one year, have a 8.8 percent rate decrease and then, the following year, see their rates whipsaw or ricochet back up if, for example, the Capital Management Plan release is not available, and the rate -- rate indication in accordance with accepted actuarial practice requires an increase. Agreed?

MR. LUKE JOHNSTON: That is possible. The -- the design of the Capital Management Plan was created to try to prevent that scenario with the -- using, you know, the three (3) year phased-in release, and then, on the other end, a five (5) year rebuild.

But, of course, extreme scenarios are possible where that could -- could swing the other way in a -- in a one (1) year period.

DR. BYRON WILLIAMS: And I did hear some of the conversation you had with My Learned Friend about the renewal notice. But can you help my client understand a little bit more detail.

How will the distinction between the Capital Management Plan release of excess capital, the rate change in accordance with AAP, and the 3 percent waive to the coverage reduction be communicated?

MR. LUKE JOHNSTON: So I -- I can't remember if I undertook or just said I would -- was going to do it yesterday. But I am looking into the communication that we're using for the product changes, just to see how far along that was and if anything can be shared.

Just putting the product changes aside for -- for the moment. If you recall, the current renewal notice...

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I don't believe that's on the record. But we'll have somebody check if it is.

What we do is we, obviously, show the customer's rate for the products that they've purchased. And last year, we added a -- a pie chart showing, you know, this is what you pay for collision, injury, commissions, expenses, et cetera.

That portion of the renewal notice will stay exactly the same for the breakeven accepted actuarial practice rate indication. So that process -- that piece should continue along the same path that we've done for -- for many years. And that portion of the renewal notice should stay the same.

We'll then have, a line below that, basically explaining that because of MPI's favourable or unfavorable capital position, that there's a, I guess, a credit or a charge. And the -- the amount of that. And then, obviously, the total.

So recognizing that every customer -- if most customers are like me, I just pay the bill. But -- so some will maybe have questions. But if they look at their renewal notice from the -- the previous year, they will hopefully notice that, you know, the base charge is the same and the -- and the previous year -- in this case, they -- they got a rebate.

But we're not naive to think that some -- some people will, of course, see it as an increase when -- when the release is gone.

DR. BYRON WILLIAMS: And, Mr. Johnston, I -- I appreciate you're also checking back on how the coverage change is communicated. But do you anticipate an explanation that 3 percent of that is because of the reduction in the deducible coverage?

MR. LUKE JOHNSTON: Yes. Yeah, I would expect an explanation on how the products have changed and how we've placed those customers into, essentially, their current deductible choice and the options available to them, should they want to change that.

Specifically, the customers at the five hundred dollar ($500) level that, you know, maybe don't want the five hundred dollars ($500) because that was the mandatory piece. But I'd expect those items to be in the renewal notice or at least in an insert with the renewal notice.

DR. BYRON WILLIAMS: And we'll come to the deductible issue is just a couple minutes, Mr. Johnston.

Sounds like there's a lot of moving parts in the renewal notice in this year if you take both the three (3) moving parts in the rate decrease, as well as the implications of the coverage change and -- with forty-five (45) days to -- to change one's coverage as assigned by MPI with a broker. Agreed?

MR. LUKE JOHNSTON: It's definitely a very busy renewal notice for sure. Yeah.

DR. BYRON WILLIAMS: And, certainly, in last year's General Rate Application, MPI was sharing some interesting information about its increased engagement with consumers through the -- I forget the word, but let's say the E-focus or the -- that -- that communication -- two (2) way communication tool. You'll recall that, sir?

MR. LUKE JOHNSTON: I do. I believe it's called the customer E-panel. But that's someone else who had the talk with details of that. Yeah.

DR. BYRON WILLIAMS: In the process of

developing the renewal notice, is MPI -- and -- and recognizing the complexity of these multiple moving parts, is MPI engaging with consumers in terms of plain language or communicating that. Or is it using its E-panel to test the appropriateness of its communication exercise, sir?

MR. LUKE JOHNSTON: I would have to -- to take that one away. I know there's a lot of work they do on -- on that end of the business.

With the renewal notice, my role, I mostly come in and make sure that, from the impacts and -- and -- are explained correctly and such. But I -- I can take that away.

In terms of the question being what -- maybe you can word it better than me.

DR. BYRON WILLIAMS: Yeah. This one, I'm ready to word, sir.

And recognizing that Mr. Scarfone's ever alert for undertakings, but on this one, if MPI could undertake to describe its process of computer -- consumer engagement with regard to the renewal notice for the '21/'22 year, including -- yeah. That -- that should do it.

--- UNDERTAKING NO. 18: MPI to describe its process of consumer engagement with regard to the renewal notice for the '21/'22 year

(BRIEF PAUSE)

MR. STEVE SCARFONE: So it's kind of like the undertaking that, I think, the Corporation agreed to yesterday on I think it was Undertaking Number 15. But we're prepared to -- to the extent that there are some differences in -- in the way that you posed that question, Mr. Williams, we'll -- we'll take that away as well and -- and --

DR. BYRON WILLIAMS: Yeah. And maybe I misunderstood the substance of that, but I thought it was on kind of what it was looking like. I'm asking about how the Corporation is engaging with consumers in developing --

MR. STEVE SCARFONE: Right. Yes. Yes, yes, yes. Okay. Yes, and it's acceptable.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Should be -- yeah. Okay. And just so we're clear, we understand that MPI may, in essence, merge the responses --

they'll find a way to effectively response (sic) to the nuance of yesterday's undertaking as well as ours.

Mr. Johnston, we've been focussed on the issue of a perception risk associated with a rate ricochet or rate whip -- whiplash or whipsaw associated with the 8.8 percent rate decrease.

Would it be fair to say that there's less risk of confusion attached with the emergency rebate in the -- in June of 2020 associated with the pandemic?

MR. LUKE JOHNSTON: Yeah. You -- you would say that 'cause it was very clear that that rebate was for that reason, and it is not part of the rate in any way. So I think that you'd have to conclude that.

DR. BYRON WILLIAMS: Thank you. Just a couple more questions on the Capital Management Plan, and then I'll turn to the changes to the deductible.

Mr. Johnston, we're -- we're going to come to this next week when we talk about driver safety rating in greater detail, but MPI recently published an update on driver safety rating in October -- or filed an update in October of 2020?

MR. LUKE JOHNSTON: I believe you're

referring to a pricing analysis?

DR. BYRON WILLIAMS: Yes, and thank you --

MR. LUKE JOHNSTON: Yes, we have, yeah.

DR. BYRON WILLIAMS: -- thank you for better precision in the answer.

And of course, you're aware that the Public Utilities Board and some Interveners have expressed their concerns with the fairness of the driver safety rating system for a number of years?

MR. LUKE JOHNSTON: In -- in different ways. That -- that's a fair statement.

Sorry, just to expand on that, there's -- what I mean is that we've always stated, at least from my actuarial perspective, that the driver premiums and vehicle discounts were set by policy, not by pure actuarial science. So that was one (1) reason.

And then another concern would have been fairness in terms of the -- the design of the system itself, registered owner model versus a different type of model.

DR. BYRON WILLIAMS: And thank you for that distinction. And recognizing the limits of the registered driver's model, which I don't intend to get into today, some might argue, based upon the analysis, that Manitoba Public Insurance -- its pricing analysis, some might argue that registered vehicle owners at the DSR 15 level are overpaying in their rates relative to the insurance risk associated with them.

That's the logic of the -- the pricing analysis that you provided, sir?

MR. LUKE JOHNSTON: From a pure actuarial basis with -- without other considerations in mind, that is the logical conclusion, yes.

DR. BYRON WILLIAMS: And so this question can go to Mr. Gries -- Giesbrecht or -- or to yourself and to the degree you feel able to answer.

In the course of contemplating a significant across-the-board rate decrease for the '21/'22 year, did MPI give any consideration to increasing the vehicle discount to relatively low-risk registered vehicle owners such as those at driver safety rating level 15?

MR. LUKE JOHNSTON: In -- in the filings we provided, we have not done that. The -- everything was a little delayed this year, including the DSR analysis and financial condition testing, just to name -- name a few.

The -- the outcome from the pricing analysis of the current model wasn't overly surprising. I think everybody knew from previous evidence that plus 15 level drivers were probably going to have a higher indicated surcharge, and MPI's stated in the past that that was -- that was a policy choice, not an actuarial choice.

But of course, now that that analysis is complete and it's in front of the PUB, we, of course, recognize that there could be concern that we need to push the discounts in a -- in that direction.

What -- a big concern from our end on doing that analysis was to make sure that it was done with the same rigour and quality of the regular Rate Application, so that was an issue that -- that we wanted to address in -- in preparing that.

But I can say that we can continue to prepare that in future years, and our -- our recommendation today would be to allow us to do that again and present that in the -- next year's Rate Application and come forward with more thought-out recommendations on how to use that information.

DR. BYRON WILLIAMS: Thank you, Mr. Johnston. And -- and certainly our clients recognize the pressures of time in -- in these extraordinary year -- this extraordinary year.

And recognizing that it is not a perfect fit to concerns about cross-subsidy, would one (1) way to ameliorate the ongoing cross-subsidy concern have been to utilize some of the proposed rate decrease on the good driver vehicle discount as a way to signal the intention to address the concerns about cross-subsidy?

MR. LUKE JOHNSTON: On the assumption that we were staying with the registered owner model and using the actuarial indicators, the -- the normal course of a rate hearing relating to any rating factor, be it DSR or territory or vehicle use, would be to move that particular rating classification towards a target.

And of course, with rules around that in terms of credibility and -- and, you know, things like that, rate -- rate caps, rate shock, so any proposal that MPI brings forward would -- would recognize that.

If we had, for example, a vehicle use that was highly credible and paying 28 percent more than, you know, actuarial numbers indicated, we would, of course, move that classification more quickly to the target and address that -- that gap.

To your particular question -- so that was just a general on how --

DR. BYRON WILLIAMS: Thank you.

MR. LUKE JOHNSTON: -- we would answer it.

The -- MPI -- I understand the point. I think what you're saying is so say we have a 1 percent rate decrease. Looks -- it looks like the top of the DSR scale needs a -- a big -- bigger rate decrease. Why don't we just take that money and give it to them and everybody else can get zero, for example -- just as a really simplistic...

The -- we -- we get that approach. All I'm saying is we would want to present an approach that has more rigour and -- and consistency around it as opposed to more -- like of a judgmental, just, hey, let's give it to this group or that group.

Obviously, we've spent a lot of years developing the rate-making methodology, so we don't want to -- to change the rigour on that process.

DR. BYRON WILLIAMS: I think we'll leave that conversation there until next week, but thank you for that, sir.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Just a couple more questions on the experience with rate rebates versus the proposed rate decrease, including the rate release.

And, Mr. Johnston, I should have defined this right at the start, but for the purposes of our -- the next couple questions, I'm going to define rate re -- rate rebate to be a release of excess capital to all eligible ratepayers at the same time regardless of the timing of their insurance renewal through a payment, like a bank deposit or cheque.

Is -- is that a definition you can work with, sir?

MR. LUKE JOHNSTON: I'm -- if we want to call that a rebate, that would be -- that would be a simple way to do that, yeah.

DR. BYRON WILLIAMS: Okay. And, again, I'd like to define a rate release as a release of excess capital to consumers at the time of their insurance renewal in the form of a lower insurance payment than would be otherwise -- otherwise be required under accepted actuarial practices at the time of the renewal.

MR. STEVE SCARFONE: Just before Mr. John -- and certainly Mr. Johnston's the -- the man to ask these questions, but I'm just wondering, Mr. Williams, where these definitions, you're -- you're putting them to the witness, where they're coming from?

DR. BYRON WILLIAMS: I'm asking if he can -- they're coming from my -- my brain, sir, based upon --

MR. STEVE SCARFONE: You've made -- you've come up with these definitions?

DR. BYRON WILLIAMS: Yeah.

MR. STEVE SCARFONE: Okay.

DR. BYRON WILLIAMS: Although I think they would be very consistent with what MPI is doing and has done in practice, which is why I think you're finding a lot of comfort with them from my learned friend --

MR. STEVE SCARFONE: No. And that's absolutely fine.

DR. BYRON WILLIAMS: -- from my -- from my --

MR. STEVE SCARFONE: Mr. Johnston's certainly the person to put them to. I just thought perhaps that you were pulling them from somewhere other than your brain.

DR. BYRON WILLIAMS: No. I'm not seeking to impeach the witness. I'm -- I'm seeking to have some common --

MR. STEVE SCARFONE: Yes.

DR. BYRON WILLIAMS: -- grounds for discussion, sir.

MR. LUKE JOHNSTON: I -- I understand the -- the need for the two (2) definitions. The -- paying out a cash rebate is different than including it in the rate, and we've also struggled internally, appropriate definitions to do that.

I'm willing to accept "rebate" as a -- as defined as basically a cheque to the -- at one point in time and "release" as actual reduction in rates as -- as the way of paying out excess capital.

DR. BYRON WILLIAMS: A reduction in rates at a -- at the time of their insurance renewal?

MR. LUKE JOHNSTON: At the time of the renewal.

DR. BYRON WILLIAMS: Okay.

MR. LUKE JOHNSTON: Yes. Yeah.

DR. BYRON WILLIAMS: And again going back to the rate rebate or the -- the COVID-19 $110 million cheques, that would -- that's analogous to a rate rebate, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And what you're proposing in terms of the Capital Management Plan release of 5 percent in -- for the '21/'22 year is a rate release, an example of that, sir?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And, obviously, MPI's policy in terms of rate releases is -- is premised on the assumption that excess capital will be returned to ratepayers over a three (3) year period to drive Basic retained earnings down to the -- the key target of MCT 100 percent?

MR. LUKE JOHNSTON: That's right. And, again, recognizing the current unique situation that we're in, that's creating the -- the maximum release. In more normal circumstances, we would expect this to be more of a tweaking every year towards that target as opposed to what's traditionally happened on the rebate side, where we wait until perhaps some threshold, predetermined or not, is -- is passed and -- and the PUB or MPI or others propose we -- we send out a bunch of money in a rebate cheque. So that would be a big difference.

DR. BYRON WILLIAMS: Okay. And -- and just the point you're making there without meaning to elaborate is, the Corporation sees the rate release approach as more measured?

MR. LUKE JOHNSTON: It's -- it's definitely measured -- more measured. I think that we have a policy here that -- that supports that. And our view is that it should be less -- create less volatility in the sense that you're constantly adjusting down to target as opposed to waiting for some sort of bubble to occur, be it a major shortfall or major surplus.

And -- and that's -- the RSR is intended to minimize rate stability, and we think this approach with the CMP does it better.

DR. BYRON WILLIAMS: And without meaning to get in -- into an extensive debate, one of the other concerns of the Corporation with rate rebates is the cost of mailing -- mailing out the -- the cheque?

MR. LUKE JOHNSTON: There is a cost. Yes, that is a concern.

DR. BYRON WILLIAMS: Comparing the two (2), Mr. Johnston, being a capital release and a -- and a rate rebate, it's gener -- it would be generally accurate to suggest that a special rebate will get money in the hands of ratepayers sooner than a capital management release over three (3) years?

MR. LUKE JOHNSTON: I actually don't agree with that. So I'll -- I'll give you an example.

So earlier to -- today, you provided a chart that showed that MPI had escalating net income over a period of three (3) to four (4) years. In -- assuming that we were around the 100 percent MCT target, MPI makes it as shown that income pushes over the hundred percent. We immediately trigger a smaller release to return to -- to target.

MPI probably makes a little bit less money the following year because we've done that release. It triggers another adjustment to that release up or down and gets money into the hands of ratepayers again, on and on and on forever.

In the rebate scenario, we wait some undetermined amount of time to decide that MPI's collected an extra 33, 24, 18, whatever that number is. And then, you know, we come to PUB and we say, well, 69 million is too much over the target. You should pay that out as a rebate, and we go through that whole process, and then, eventually, the customer gets a rebate cheque.

The Capital Management Plan would have been addressing that issue every single year in this process and hopefully preventing this from ever happening.

DR. BYRON WILLIAMS: Sir, in the extraordinary circumstances of the COVID-19 pandemic, MPI was able to turn around rebates to consumers in two (2) months roughly, agreed?

MR. LUKE JOHNSTON: Yeah. And I wasn't arguing that it was an issue with how fast we can create a rebate. I just mean that you have to wait to accumulate an amount, just -- just an example, obviously, before you can decide on a rebate.

In the case of the pandemic, that amount was accumulated rapidly, like within months, and -- and MPI really had a pricing issue. This wasn't just random chance around, you know, a best estimate. This was a very clear charging too much situation, and we -- we needed to address it.

DR. BYRON WILLIAMS: And to return the pandemic 110 million through a rate release would have taken -- through reduced rates would have taken over two (2) years?

MR. LUKE JOHNSTON: I agree. And that particular situation --

DR. BYRON WILLIAMS: Okay.

MR. LUKE JOHNSTON: -- the release is slower, agreed, yeah.

DR. BYRON WILLIAMS: Madam Chair, I'm moving, and probably about a half an hour to finish. And I wonder if I could just get myself a glass of water, if that's okay?

THE PANEL CHAIRPERSON: Certainly.

(BRIEF PAUSE)

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Johnston, I'm -- I'm going to turn to the issue of the change in coverage related to the deductible and its impact of Basic ratepayers. And later on in the conversation, I -- I'm going to use the term "negative-option marketing," and I'm going to suggest a definition to you -- which I didn't pull out of my hat, Mr. Scarfone, it comes from the federal office of consumer affairs in the States -- but, Mr. Johnston, you'll let me know if you can work with this definition or not, okay?

MR. LUKE JOHNSTON: Okay.

DR. BYRON WILLIAMS: For the purposes

of our conversation, I'm going to define "negative-option marketing" as:

> "A commercial transaction in which a seller interprets a customer's failure to take affirmative action, either to reject an offer or cancel an agreement, as affirmative assent to being charged."

MR. LUKE JOHNSTON: I'll accept that.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Johnson -- Johnston, obviously MPI has a monopoly in Basic automobile insurance, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: There is an Extension marketplace where there is competition with other service providers -- insurance providers also offering elements of the Extension insurance in Manitoba, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: It's fair to say that Manitoba Public Insurance has dominated the Extension market for many years, correct?

MR. LUKE JOHNSTON: MPI has, yes.

DR. BYRON WILLIAMS: And it currently enjoys a market share in the range of or in excess of 95 percent?

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

DR. BYRON WILLIAMS: And it has done so for over a decade, sir?

MR. LUKE JOHNSTON: At least that amount of time, agreed, yeah.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And one (1) element, to back up, through the auto insurance coverage regulation there were changes to Basic and Extension coverages, with one (1) of the changes to Basic including an increase in the Basic deductible for private passenger vehicles from five hundred dollar ($500) deductible to a seven hundred and fifty dollar ($750) deductible, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And the decision to change the Basic deductible was a government deci -- a government and legislative decision in consultation with Manitoba Public Insurance?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And captive Basic ratepayers did not get a voice, sir, in the decision to unilaterally change their insur -- Basic insurance program, including the reduction in coverage related to the deductible?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: To my knowledge, there was not extensive discussions asking if a seven hundred and fifty dollar ($750) deductible was appropriate, if that's the -- the question.

DR. BYRON WILLIAMS: And the question could have been asked better. Let me try it again. Because this was a legislative change to a compulsory program, this wasn't a circumstance of offer an acceptance with consumers having a choice whether or not to accept the -- within the ambit of the Basic program, the seven hundred and fifty (750) deductible.

MR. LUKE JOHNSTON: Yeah, the -- the -- these coverage changes can be more described as essentially modernizing to current-day clo -- cost levels, while at the same time continuing to let customers make the same coverage choices as they currently have, the one (1) exception, notable exception to that being the $100 deductible, which has been eliminated. MPI's view on that is that customers have been essentially self-selecting them -- themselves out of that $100 deductible over the last decade to -- to the point that we're -- there's only about 1 percent of customers with that product.

DR. BYRON WILLIAMS: Focussing on the Basic program, captive Basic ratepayers got less deductible coverage in exchange for a 3 percent Basic rate reduction, agreed?

MR. LUKE JOHNSTON: Focus completely on Basic, that is true, but obviously we can't ignore the fact that the other coverages continue to be available to them, with the exception of the $100 deductible.

DR. BYRON WILLIAMS: And we'll come to that. In this current insurance year, being the '20/'21 insurance year, the Basic deductible under the compulsory program is five hundred dollars ($500), correct?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: If cons -- consumer for the '20/'21 insurance year wants to lower that deductible, buy it down, they have the option of going to Extension to get lower deductibles, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And there are products in the marketplace other than Manitoba Public Insurance offering a -- a lower deductible, sir?

MR. LUKE JOHNSTON: There are, yeah. I don't know the details of them but there are, yeah.

DR. BYRON WILLIAMS: And according to the MPI evaluation of the business case associated with the deductible found at PUB -- we don't need to go there, I don't think -- 1-81, the Deductible Business Case, 86 percent of policyholders in Manitoba buy down their deductibles to one (1) of the three hundred (300), two hundred (200), or one hundred (100) Autopac Extension options? Would that be your understanding, sir?

MR. LUKE JOHNSTON: That is, yeah.

DR. BYRON WILLIAMS: So in terms of the -- the remaining -- the remainder is 14 percent in terms of captive Basic customers, sir, who don't --

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: -- who don't buy an Autopac Extension deductible buy-down product?

MR. LUKE JOHNSTON: That's right, approximately 14 percent.

DR. BYRON WILLIAMS: And so, presumably, the remaining 14 percent have either gone to a competitor in the Extension market or were left with the risks associated with a five hundred dollar ($500) deductible, agreed?

MR. LUKE JOHNSTON: Agreed, and I would -- given MPI's market share, I would assume that most of those have probably just chosen the five hundred dollar ($500) deducible, just doing the math on -- on how much of a market there is from other competitors. But those are the two -- two (2) reasons, yeah.

DR. BYRON WILLIAMS: And -- and just on that point, and thank you for anticipating my -- my question, what I hear you saying is your understanding is that of the remaining 14 percent, the vast majority of those would not be purchasing insurance in the -- sorry, would not be purchasing Extension deductible buy-downs from a competitor of MPI in the marketplace.

MR. LUKE JOHNSTON: Yeah, and I -- I don't know -- of course, know the exact number, but just, again, given MPI's market position, that would be a reasonable conclusion to draw that not a lot of customers are buying from other com -- companies.

DR. BYRON WILLIAMS: So for '21/'22,

by virtue of the legislative coverage changes -- sorry, by virtue of the regulatory coverage changes, the Basic deductible will be seven hundred and fifty dollars ($750), sir?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And, of course, Basic rates are lower as a result of the deduction by some 3 percent, cor -- correct?

MR. LUKE JOHNSTON: The cumulative effect of all the changes are three -- 3 percent, yes, yeah, reduction.

DR. BYRON WILLIAMS: And what you're suggesting by that, sir, is that, in fact, Basic rates, if you were looking at the deductible in isolation, it would actually be more than a 3 percent impact. It's that the other two (2) changes increase cost to Basic auto insurance.

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: So for a consumer wishing to purchase equivalent protection in terms of deductible -- i.e., the five hundred dollar ($500) deductible that -- currently available under the Basic monopoly -- they will have the option of buying from a provider of Extens -- Extension services, like Ext -- Extension deductible coverage, agreed?

MR. LUKE JOHNSTON: Just to make sure I understand, MPI will offer that five hundred dollar ($500) deductible. What competitors do in response to MPI's change, I -- I don't -- I don't know if they'll offer that, yeah.

DR. BYRON WILLIAMS: You can't anticipate what's going to be offered by competitors, but based on the fact that competitors are already in the deductible market in Extension, it's not unreasonable to -- to conclude that they may want to get a bite of that deductible.

MR. LUKE JOHNSTON: Yeah, they may offer in any range of deductibles, including five hundred (500), yeah -- in the com -- the optional insurance product realm, I guess, yeah.

DR. BYRON WILLIAMS: So for Basic consumers faced with the unilateral legislative change they will have options of accepting the higher risk within Basic, i.e. moving from a five hundred dollar ($500) deductible to a seven hundred and fifty dollar ($750) deductible. That would be one option?

MR. LUKE JOHNSTON: They will have that option, yes. Yeah.

DR. BYRON WILLIAMS: And another option would be the -- purchase the equivalent to the five hundred dollar ($500) deductible, or less than the $500 deductible in the Extension market. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And notionally, again, we don't know what the competitors will do, but they would have the option, presumably, to buy that deductible insurance below the seven fifty (750) Basic from MPI or a competitor?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: If we can turn to CA -- CAC-1-39D. And Mr. Johnston, you're familiar with this response, we've shared it -- shared it with you.

MR. LUKE JOHNSTON: I am.

DR. BYRON WILLIAMS: And Mr. Johnston, in terms of your understanding of the transition plan for Manitoba Public Insurance, we'll come to the response in a second, but generally MPI's transition plan is that MPI customers will be assigned coverage that is the most comparable to their existing previously selected coverage. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And they will receive a notification letter 45 days before their annual reassessment or renewal date advising them of their assigned coverage. Correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And customers wanting to change their assigned coverage can choose to do so by visiting an MPI service centre or MPI broker in the forty-five (45) days prior to their annual renewal of reassessment date?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And customers who do not make a change to their assigned coverage will have their policy coverages transitioned automatically on their automatic renewal or reassessment date, correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: So in terms of that Basic customer, the response to CAC (Manitoba) 1-39D said -- says that MPI customers will be assigned coverage that is the most comparable to their existing previously selected coverage. Customers who currently have a five hundred dollar ($500) deductible Basic will be assigned to the five hundred (500) deductible level in Extension.

Is that correct, your understanding, Mr. Johnston?

MR. LUKE JOHNSTON: That's correct.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And when you say to their five hundred (500) deductible level Extension, that will be the Manitoba Public Insurance Extension product?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And so, Mr. Johnston, we talked before about the -- for example, the 14 percent of captive Basic customers who don't currently purchase MPI Extension, for those customers is it your understanding that they will be assigned to the five hundred (500) deductible level in Extension?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And so those customers will have 45 days to visit a broker or the MPI service centre if they want to change their assigned coverage. Agreed?

MR. LUKE JOHNSTON: Correct. If they want to change it prior to their renewal, obviously if a customer wants to change any other time, of course they go into a broker as well, but prior to renewal at the 45 days, yes.

DR. BYRON WILLIAMS: Would that -- those customers within Basic at that -- that 14 percent, to the extent that those customers had Extension insurance with another service provider, would they also be assigned to the five hundred (500) deductible level for Extension?

MR. LUKE JOHNSTON: They would. MPI wouldn't -- wouldn't know, necessarily, what they have with other providers.

DR. BYRON WILLIAMS: So one of the examples we're talking about is MPI -- a Basic customer who has, at least with regard to Extension, no relation with the MPI Extension product who will be assigned by MPI to the MPI Extension product. Agreed?

Like, the vast majority who are at that $500 cap, they don't have a prior contractual relationship with MPI Extension with regard to deductibles. Agreed?

MR. LUKE JOHNSTON: Most of them wouldn't, yes. Yeah.

DR. BYRON WILLIAMS: We also have consumers within that 14 percent who actually have a contractual relationship with a competitive deductible provider, and they are actually being assigned to the MPI Extension product as well. Agreed?

MR. LUKE JOHNSTON: In -- in the case of the -- that example, they are. Yes.

DR. BYRON WILLIAMS: And in your response to CAC-1-39E, recognizing that this is a judgmental estimate, MPI judgmentally assumed that 75 percent of customers currently selecting the five hundred (500) deductible level will be -- will select the new seven hundred and fifty (750) deductible level, which is the -- the regulatory limit within the Basic program. Agreed?

MR. LUKE JOHNSTON: Agreed. And this is, as you can appreciate, a difficult assumption. The -- I guess the strongest basis we have for assuming this will happen is that that relationship between Extension deductible buy-downs and -- and no buy-down at all has been relatively consistent over time.

It's possible that -- that they all go to the seven fifty (750), but we've judgmentally assumed that some will -- will continue to stay at five hundred (500).

DR. BYRON WILLIAMS: So if this estimate is correct, your estimate currently is that about 10 percent of MPI Basic customers will elect -- not elect, but will choose to -- to only have the -- the Basic deductible coverage of the seven hundred and fifty (750) deductible level?

I think you said seventy-five (75) --

MR. LUKE JOHNSTON: Yes. Oh, 10 percent. Yeah, it's seventy-five (75), yeah, per party here.

DR. BYRON WILLIAMS: Was that a yes?

MR. LUKE JOHNSTON: Yes. Yeah.

DR. BYRON WILLIAMS: I did the math on the fly, so -- and what those customers would have to do would be to actually go to the broker's office or to the MPI service centre and -- and change the -- basically disavow the Manitoba Public Insurance assignment of them to the MPI Extension deductible product.

MR. LUKE JOHNSTON: They would have to do that, and in the case where they did have a competitor's product, likely some other adjustments would have to occur there for a -- if -- if there was a new five hundred dollar ($500) deductible or -- or some -- some form of change. But for the MPI specific, they would have -- that's what they would have to do, yes.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: In essence for

the 14 percent MPI has unilaterally created a -- a new Extension contract with -- and with regards to the deductible that they will have to disavow within forty (40), forty-five (45) days?

MR. STEVEN SCARFONE: I might just --

MR. LUKE JOHNSTON: Yeah.

MR. STEVEN SCARFONE: I might just interject on that particular question.

DR. BYRON WILLIAMS: Is it asking for a legal opinion?

MR. STEVEN SCARFONE: I think it is, because I don't know that there's an offer and acceptance. So use of the word "contract" may not be entirely appropriate if the customer can still, as you've indicated, Mr. Williams, disavow him or herself.

MR. LUKE JOHNSTON: And --

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: So let me just try to rephrase it in a -- a way that's...

(BRIEF PAUSE)

DR. BYRON WILLIAMS: By virtue of the

renewal notice, Manitoba Public Insurance has created a relationship between those 14 percent and the Extension product of MPI that has not existed in the '20/'21 insurance year, and to get out of that relationship they will have to take active actions, either by visiting their service centre or the broker's office within forty-five (45) days.

MR. STEVE SCARFONE: Perhaps the better way -- and -- and if -- you may not agree -- is by virtue of issuing its renewal notice, the Corporation has made an offer to the customer that he or she can accept.

DR. BYRON WILLIAMS: Actually, they've made an offer -- let me try it again.

They've made an offer that the -- the customer actually has to actively reject. Agreed, Mr. Johnston? By visiting the service centre or the broker's office.

MR. STEVE SCARFONE: So I think we've agreed that there's no contract until the customer takes action.

MR. LUKE JOHNSTON: Agree that there is action required by the customer to select out of the five hundred dollar ($500) deductible.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Johnston or -- or to Mr. Giesbrecht, can you describe what engagement, whether in the form of e-panels or focus group, like qualitative surveys, or quantitative public opinion surveys, did MPI undertake either with regard to the specific issue of reducing the Basic coverage in terms of deductibles, or in terms of the issue of assigning customers to Extension insurance deductibles without their permission?

MR. LUKE JOHNSTON: I would have to take that away. The -- the request sounds very similar to an earlier undertaking, but I appreciate that you may have different things that you -- you're requesting.

DR. BYRON WILLIAMS: So just to be clear, the request is prior to -- I'll make it more simple.

Prior to making the decision to unilaterally assign the 14 percent of customers who weren't previously in a relationship with MPI Extension to Extension insurance deductibles without their permission, what engagement did Manitoba Public Insurance undertake with consumers?

MR. STEVE SCARFONE: So the problem

that we have with that particular undertaking is -- is the -- the customer isn't committed. And so the language that you've used in the undertaking, Mr. Williams, that's without their permission --

DR. BYRON WILLIAMS: I agree. That's -- so let's just say assigning them. What kind of engagement was undertaken? Is that satisfactory?

MR. STEVE SCARFONE: Yes. So can you rephrase it just for the record, then?

DR. BYRON WILLIAMS: What engagement did Manitoba Public Insurance undertake with consumers prior to assigning customers with no prior relationship to MPI Extension deductibles for the '21/'22 year?

MR. STEVE SCARFONE: Okay. So that -- that's fine. We can -- we can take that away, as Mr. Johnston indicated, as an undertaking.

--- UNDERTAKING NO. 19: MPI to advise what engagement did Manitoba Public Insurance undertake with consumers prior to assigning customers with no prior relationship to MPI Extension deductibles for the '21/'22 year.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: I'm not sure if this is to Mr. Johnston or to Mr. Giesbrecht. You had conversation with my learned friend on behalf of the Public Utilities Board yesterday with respect to the fact that, in terms of Extension, Manitoba Public Insurance is targeting a lower profit percentage, both for the '21/'22 year and for the '22/'23 year. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And one of the purposes of accepting a lower profit percentage, or targeting a lower profit percentage, was the objective of cost neutrality in terms of people moving between the two programs. Would that be fair?

MR. LUKE JOHNSTON: The -- in our proposal to government, as always there's concern about customer impacts. We brought forward a proposal that allowed us to implement it on a revenue neutral basis, and we were able to do that by lowering Extension profits.

DR. BYRON WILLIAMS: Is MPI making any commitment to consumers to -- to keep its profit targets in Extension -- in Extension low beyond the '22/'23 year?

MR. LUKE JOHNSTON: Recognizing this is Extension, but I'm comfortable sharing general comments.

The -- our -- what our Board has asked on Extension is we're -- it's a competitive market, so a level playing field and consistency with other competitors is desirable. So, for example, if MPI didn't have to hold any capital for Extension, that wouldn't really create a level playing field for other insurers that would have to do so, for example.

Similarly, on the profitability side, there -- not all of it's readily available, but there's what you'd consider reasonable profit targets on -- in a competitive industry. Those can be quite different, depending on the product we're talking about, whether it's rental car insurance or a deductible buy-down.

If -- obviously, if MPI selects a profit level that undercuts everyone, you combine that with the ease of buying our insurance with the compulsory that wouldn't really create a level playing field as well.

So, in general, we're looking to, you know, industry-wide profit indications and not to be out of line significantly with what other competitors would expect to make in profit for similar products.

DR. BYRON WILLIAMS: All other things being equal, will accepting a lower profit in the '21/'22 and '22/'23 year -- insurance years improve the competitive positioning of MPI in the marketplace?

MR. LUKE JOHNSTON: I -- I don't know all the reasons why competitors choose or don't choose to operate in Manitoba.

You would think that lower prices for Extension would help MPI'S market position, but MPI already has an extremely strong market position.

So we are lowering prices. In general, that is favourable for market penetration or market positioning.

DR. BYRON WILLIAMS: Thank you.

Just a couple of last questions, Mr. Johnston. MPI provided a Basic deductible analysis as part of Appendix 2 to PUB-1-81. Do you recall that, sir?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And I just have two (2) questions on that.

If we could go to page 2 of thirty-two (32) under "Rate Stabilization," Mr. Johnston, you'll see the first sentence there suggesting that MPI considers rate increases above the rate of inflation to be rate shock. Do you see that, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And so the current definition of rate shock by the Corporation is rate increases above inflation?

MR. LUKE JOHNSTON: So what we've done here, and you'll see it in a few places in the enterprise risk management, risk appetite statements -- our objective is to keep annual rate increases below 2 percent overall. And if it goes over that threshold, then alert the Board and seek to take action.

So that's -- this statement is really aligned with those year-end principles that anything above two (2) is considered outside of a desirable range for MPI.

DR. BYRON WILLIAMS: Don't the words "rate shock" go farther than that, Mr. Johnston, in -- than saying it's not acceptable, it's shocking?

MR. LUKE JOHNSTON: Yeah, rate shock, so we're saying here more than two (2) is not desirable and we should again alert the Board and take action. We've put an upper cap of 5 percent on that in terms of rebuilding fees, so that would be MPI's I guess range of -- of outcomes.

Anything below two (2), that's pretty low, below inflationary type of growth. Anything over two (2) becomes a concern, and we're proposing to cap at 5 percent when we have to rebuild, for example.

DR. BYRON WILLIAMS: Okay. Sorry, I think, Mr....

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Johnston, is there anything you want to add, or Mr. Giesbrecht wants to add?

MR. LUKE JOHNSTON: There is not.

DR. BYRON WILLIAMS: Okay. And just finally go to page 4 of 32 at the bottom of PUB-1-81, Appendix 2.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: You'll see under "Customer Satisfaction" reference through polls by MPI customer research through the 2008 through 2016 years, Mr. Johnston?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And one (1) of the findings of those rolling polls was that consistently Manitobans prefer -- prefer complete coverage over the lowest price option. Would that be fair?

MR. LUKE JOHNSTON: I see that, yes.

DR. BYRON WILLIAMS: Mr. Johnston, I think it's covered in the undertakings, but -- so I'm not asking for an undertaking but -- and recognizing the market dominance of Manitoba Public Insurance in Extension, for that small portion of the 14 percent who do not currently buy MPI deductible products from Extension but who buy from the competitors, what if any special communications efforts will Manitoba Public Insurance be making to them and I guess to their competitors?

MR. LUKE JOHNSTON: I do think that that should fall within the existing undertakings. Actually, I believe it's a PUB undertaking.

But to your point that particular group is an important point of focus for that communication, for sure, yeah.

DR. BYRON WILLIAMS: Okay. Thank you, and -- and thank you to MPI and to the PUB for this opportunity.

THE PANEL CHAIRPERSON: Thank you, Mr. Williams.

Yeah, my understanding from Ms. McCandless is that CMMG will not be crossing this panel. Thank you. So what we'd like to do right now then is take a break and then we'll come back with re-examination and questions from the Panel.

--- Upon recessing at 10:33 a.m.

--- Upon resuming at 10:50 a.m.

THE PANEL CHAIRPERSON: Okay. Thank you. Mr. Gabor, questions?

THE CHAIRPERSON: I have a few questions for Mr. Johnston, and then a few questions for Mr. Giesbrecht. Mr. Johnston, a last point. Two percent inflation being rate shock; that's the position of MPI now?

MR. LUKE JOHNSTON: The -- we haven't formally defined 'rate shock' in our application and -- but we have defined it pretty clearly in the enterprise risk management as anything more than 2 percent's undesirable.

And at 5 percent, we're applying caps in our Capital Management Plan, so that -- that would be what we'd consider rate shock to be, in that range. The -- over 2 would be considered action required. Over 5 would be rate shock.

THE CHAIRPERSON: Would you agree that in previous GRAs MPI has picked different numbers than 2 percent?

MR. LUKE JOHNSTON: Agree. It's very difficult to define that threshold. As soon as we provide any sort of target, obviously, anybody that has a rate change over 2 or 5 is immediately crying foul, that MPI didn't follow their own rules.

So, we can't -- we'd never be able to move rates to where they need to go if we had a rule where no one could more than 2 percent in a year. It would take the rest of our life.

So, these are overall targets, but it's more to signal that there's critical issues of rising costs that need to be addressed.

THE CHAIRPERSON: Okay. So, to test my memory, rather than use these fancy pills that apparently help your memory, do you remember a hearing, I guess, about three (3) years ago where it was -- 3 percent rate shock was rate shock and prior to that, it was 5 percent was rate shock?

Those are the two (2) numbers I

remember as rate shock put forward by MPI.

MR. LUKE JOHNSTON: Yeah, it has -- it's been a bit of a journey, I can -- I can tell you. In the Capital Management Plan itself, we saw ICBC. And as soon as things went really sour, they just stopped following their plan because it would have meant massive rate increases, so why create a plan where you're never going to do it.

And we asked ourselves, well, what -- you know, what would we consider reasonable and that number was 5 percent.

So, for all intents and purposes, we've -- we've laid that out in our Capital Management Plan as our -- as our point where it's too much, I guess.

THE CHAIRPERSON: Right.

MR. LUKE JOHNSTON: Yeah.

THE CHAIRPERSON: Would it be correct to suggest that the situation with ICBC is somewhat different in that they were facing governments that imposed rate increases?

MR. LUKE JOHNSTON: Yeah. There's -- there's a lot of other things that play, not just --

THE CHAIRPERSON: Yeah.

MR. LUKE JOHNSTON: -- here, but -- but there. We're trying to set up a framework that, whoever's in charge in the future needs to follow these rules.

THE CHAIRPERSON: Yeah.

MR. LUKE JOHNSTON: Yeah.

THE CHAIRPERSON: One (1) question in relation to the rebate. And I'm sure it's in your materials, but I don't remember. How much did the rebate process cost MPI, including the mailing, Mr. Giesbrecht?

MR. MARK GIESBRECHT: Yes, I believe that was around seven hundred and eighty thousand dollars ($780,000), with the bulk of that being postage, some cheque printing. And I believe there's an undertaking that will have that -- the details laid out coming soon.

THE CHAIRPERSON: Thank you. Mr. Giesbrecht, my -- my next question is to you.

From your evidence yesterday afternoon and this morning, would -- would I be correct in saying that the position of MPI has changed from last year, where it proposed that transfers from Extension -- from Extension to Basic would be compulsory or nondiscretionary to a position now, this year, that MPI's position is that the transfer is discretionary?

MR. MARK GIESBRECHT: I don't believe

there is a change. The Capital Management Plan lays out that any excess capital above the threshold being 200 percent for the Extension line of business will be transferred. There -- so there's no change in that regard.

The -- the question posed in that IR is, prior to any transfer taking place, can the Corporation utilize the funds for any other purpose. And so, that is a possibility. However, any remaining funds will be always be transferred as per the Capital Management Plan.

And, also, then to reiterate a discussion that we had, there are no plans for other purposes of the -- the profits generated within Extension.

But to answer that question that is there a possibility that that could take place? It is possible, but -- but, again --

THE CHAIRPERSON: Okay.

MR. MARK GIESBRECHT: -- it's -- it's in our best estimate forecast that those profits will be fully utilized and transferred for the benefit of Basic.

THE CHAIRPERSON: Okay. If -- if I could go back to last year's transcript, I've got a few passages. And this was -- actually, when you said it yesterday, this was my memory test.

So, Kristen, if you could go to page 194. Okay, right there.

This is Mr. Graham, who was then the President and CEO.

"We also have a Capital Management Plan that -- Plan that is extremely transparent. I don't see -- I can't see any area we're considering. There is a compulsory transfer of excess capital in Extension to base -- I -- [assuming they meant Basic, not bases] -- that there are any questions about the level of capital that we currently hold, or any questions about the amount that could be potentially transferred over to Basic. Every -- everyone will see everything."

So, he's talking about a compulsory transfer. I don't see any qualifications for any business decisions or anything like that, do you, in this statement?

MR. MARK GIESBRECHT: No. I mean, I

think that refers to a compulsory transfer when the year-end calculations are completed on the -- the capital positions, on the various lines of business.

And -- and, at that point in time, all excess capital will be transferred. And -- and, again, in the interest of transparency, that's exactly where we're going to ensure that this Board sees exactly, you know, what is available and what is to be transferred.

To -- again, back to the -- the IR posed. You know, subject to our shareholder and our board of directors, there -- there could conceivably arise a situation where funds may be needed for some reason; however, it would be similar to the -- the pandemic that we're currently in, where it would be an extreme circumstance or some, you know, great need where it would make sense to do so.

THE CHAIRPERSON: Well, I -- I guess the question is: How do you know that, or is it simply that the board of directors make a decision and use some of the money from the Extension reserves to pay for something?

You don't know what that would be. I'm -- I'm sorry, right now, you can't say they wouldn't do that. Based on your comment yesterday:

"So another use for funds could be deemed by a management business case, for example?"

You said:

"Possibly, or a direction from the board of directors; that's correct."

So, if -- as I take it from yesterday, a business decision could be made by management or the board of directors which would use those funds before -- to reduce the excess before there's a transfer from Extension. Isn't that correct?

MR. MARK GIESBRECHT: That is a possibility. That is -- with our current management ream and our current board direction, that is nowhere contemplated.

THE CHAIRPERSON: Right.

MR. MARK GIESBRECHT: However, it is conceivable in the future that that could take place.

THE CHAIRPERSON: Okay. If that took place, if there was a decision, the suggestion was -- sorry. I believe that Mr. -- Mr. Johnston raised the enhance driver licence initiative, which was before, something like that.

If that took place, can you advise me where the transparency is? Because there's a decision made out of Extension for which this Board does not have jurisdiction, and we see it after the fact.

Isn't that correct?

MR. MARK GIESBRECHT: Where the transparency would be is we would -- again, this is -- this is theoretical and --

THE CHAIRPERSON: Yeah.

MR. MARK GIESBRECHT: -- and nowhere being discussed or contemplated today; however, if there were plans in the future to utilize funds in the manner that you described, they would be forecasted, they would be put into our phantom projections, and there would be full transparency to this Board on how those transfers would then be effected and -- and then flow into Basic in subsequent years.

THE CHAIRPERSON: Okay.

MR. STEVE SCARFONE: So, if I could, Mr. Gabor, I want -- maybe another way of stating it is if, for example, we had forecasted transfers in this General Rate Application, as we have, and then a month after the hearing ended, a decision was made, as you've indicated -- and, again, Mr. Giesbrecht has said that's not contemplated -- but a decision was made to transfer or to use some of those monies, certainly, the Board would have questions in the next

General Rate Application, Well, what happened to the forecasted amount, and why is it different than the amount that was -- that was transferred at fiscal year end?

THE CHAIRPERSON: Okay. Is there anything, Mr. Giesbrecht, if -- if the -- if management or the board decided at any point to transfer funds -- and this is purely hypothetical, okay; I've got to come up with a hypothetical, so -- that your major computer project is over budget and it wants to transfer funds from Extension reserve to that, is there anything barring management or the board from doing that before transferring funds from Extension?

MR. MARK GIESBRECHT: In the example that you raise around -- I -- I imagine Project Nova and --

THE CHAIRPERSON: Yes.

MR. MARK GIESBRECHT: -- the transformation is what you're referring to, with respect to that program, each line of business will bear its -- its fair share of that cost. So in that example, there -- there is no intention to have Extension pay for Basic or DBA or a different line of business.

But to the hypothetical that you pose, I -- I suppose that a decision could be made to utilize Extension to -- to pay for certain things in -- in the way we've just discussed. You know, if -- at the discretion of, again, the shareholder and -- and the board of MPI -- if they decided that that was in the best interest or the best use of those funds, that's possible. But in that specific example, we will follow our cost methodology as approved by this Board to allocate those costs.

THE CHAIRPERSON: Okay. Kristen, lastly, page 2685.

And Mr. Scarfone, in the submission last year, said -- very eloquently, I might say:

> "The transfers have moved from being discretionary to non-discretionary, and they're automatic. So to the extent that the threshold in this Extension line of business exceeds 200 percent, there will be an automatic transfer every year, and I'll show you a slide to that effect later."

And he did. So I would again suggest to you that the suggestion last year was this was compulsory non-discretionary.

What I'm hearing from you is right now, there is no plan but MPI has the discretion to use those funds -- or, to use a portion of those funds as it deems appropriate from a business case or board of directors prior to the transfer from Extension to Basic. Is that correct?

MR. MARK GIESBRECHT: That's a fair characterization. If -- with respect to this transcript, this wording holds true today that, to the extent that the threshold in the Extension line of business exceeds 200 percent, those transfers will be non-discretionary and be automatic.

THE CHAIRPERSON: Yeah, okay. Thank you. Thank you, Madam Chair.

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

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

THE PANEL CHAIRPERSON: Thank you.

Mr. Scarfone, re-direct?

RE-DIRECT EXAMINATION BY MR. SCARFONE:

MR. STEVE SCARFONE: Yes, thank you, Madam Chair. Just a few questions for Mr. Johnston on re-direct.

Kristen, could you pull up the exhibit that Mr. Williams filed? I think it was CAC-7.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Thank you. Mr. Johnson, you recall Mr. Williams putting this document to you and asking questions about the various rate increases over the past few GRAs?

MR. LUKE JOHNSTON: I do.

MR. STEVE SCARFONE: And so I just want to clarify it before I begin. So for this GRA, which is the '20/'21 General Rate Application, the rate indication is for rates effective April 1, 2021. Is that correct?

MR. LUKE JOHNSTON: Correct.

MR. STEVE SCARFONE: And it's for policies that will be written in 2021/'22 and 2022/'23. Is that correct?

MR. LUKE JOHNSTON: The policies will be written from April 1st, 2021, to March 2022. They'll be earned over the -- the two (2) fiscal years that you mentioned.

MR. STEVE SCARFONE: And so, looking

at -- at the chart that Mr. Williams put to you, if we use the 2017 General Rate Application as an example, where the Basic rate change was 3.7 percent, it stands to reason that those monies were for policies written in 2016 and 2017, and again in 2017 and 2018. Is that fair?

MR. LUKE JOHNSTON: The -- the 2017 GRA should -- sorry, just looking at this chart. I might have missed this earlier, but the 2017 GRA should impact written premiums in the 2017/'18 fiscal year. I'm not sure if it's mislabeled from I'm just finding that now, but -- but that would be the case, yeah.

MR. STEVE SCARFONE: Okay, thank you. And you recall that Mr. Williams suggested to you that those additional monies or that revenue from the rate change are, essentially, used by the Corporation in perpetuity, meaning forever and ever.

MR. LUKE JOHNSTON: Yeah, and all that means is if -- if you start with a base rate of a thousand dollars and you have a 3.7 percent rate increase, you're now at $1,037. We're -- that's the new base rate for next year, and we're measuring our change from -- from that new number.

So, I think Mr. Williams's point was

just that it's not a one (1) time ask to -- for -- for an extra three point seven (3.7), then we -- we don't have it the following year. It stays in the base rate going forward.

MR. STEVE SCARFONE: Thank you. So if we're -- if we're looking back into history, which it appears we are, if we got back even further to the year before, the 2016 GRA, where the rate indication was approved at zero percent, would you agree that that, sir, was an opportunity to collect revenue in the form of a rate increase in perpetuity?

MR. LUKE JOHNSTON: That was an -- I guess, an opportunity -- I would say an opportunity to adjust rates to the requirement. Every -- every year presents that opportunity for us, yeah.

MR. STEVE SCARFONE: And similarly, for the 2013 GRA, when the rate indication was approved at zero, that too was an opportunity lost to collect revenue from the customers, correct?

MR. LUKE JOHNSTON: Correct.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: And just to be extra clear, Mr. Scarfone, as the Board's well aware, pretty much the entire Basic rate is -- is for claims, with a small amount for commissions and taxes and operating expenses.

Claims drive these -- these changes for the most part, so if -- if collision technology and -- or -- or frequency rises, rates are going to go up, and it's not because MPI, you know, doesn't know what they're doing all of a sudden, necessarily. It -- those are the drivers.

And similarly, as -- as you've seen those things go down, it doesn't necessarily mean that MPI's done, you know, an amazing job and everything's lower. Customers may just be having less crashes, and we're just passing along the reality of that experience in the rate.

MR. STEVE SCARFONE: And just one (1) more question on -- on the chart, because at least one (1) of those GRAs was before I was involved, but in the 2017 GRA, where we see the Basic rate change approved at 3.7 percent, do you see that?

MR. LUKE JOHNSTON: I do.

MR. STEVE SCARFONE: That year, of course, was before the Capital Management Plan was in place, correct?

MR. LUKE JOHNSTON: Correct.

MR. STEVE SCARFONE: And was that also the result of transfers of capital into Extension as a result of interest rates going down when Basic's forecast had them going up?

MR. LUKE JOHNSTON: There were -- sorry, maybe just repeat that to make sure I got it.

MR. STEVE SCARFONE: Yes. There were some years in and around 2017 and into 2018 where interest rates were forecast to go up and, in fact, went down.

MR. LUKE JOHNSTON: I can't recall the exact years, but there was definitely a stretch of time where the interest rates were falling pretty quickly and MPI was struggling to price accordingly and we took some -- some negative impacts because of that.

MR. STEVE SCARFONE: Mr. Johnston, do you recall some concerns raised at the Special Rebate Application in the spring about the return of the $58 million from Basic that might leave the Corporation with insufficient funds and result in a request for a rate increase here today, or perhaps in the 2022 GRA?

MR. LUKE JOHNSTON: I do, and again, we always have to remember when these estimates were being made at the time MPI was forecasting savings from COVID.

Today we -- we know what they are for those months and to pretend that -- that MPI knew at all that seven (7) months from now we'd be in code orange, maybe worse, wouldn't -- wouldn't be realistic.

So for sure it would be prudent for the Board to make sure that MPI wasn't just trying to be, you know, overstep and give a bunch of money away in a pandemic for any reasons other than that there was going to be money available to do so.

So that -- that's very reasonable that those concerns were raised.

MR. STEVE SCARFONE: The Capital Management Plan that is being implemented, we've heard is in year one of a two-year trial, correct?

MR. LUKE JOHNSTON: Correct.

MR. STEVE SCARFONE: Would it be fair to say that the Capital Management Plan is a pilot project?

MR. LUKE JOHNSTON: It's fair. My hope is that obviously -- obviously it's not. We designed this with the intentions of -- of improving rate stability over time.

But from the Board Order, I understand

that there's a -- we're not quite there yet.

MR. STEVE SCARFONE: And is it also fair to say that in year one of this two-year trial, that there may be some kinks to work out during the two-year trial period?

MR. LUKE JOHNSTON: I -- I agree that there would be.

Very interesting year for this to start and I don't think we should hold the extreme volatility of a pandemic as the fault of the Capital Management Plan in any way.

It -- we did what we had to do in the extreme parts of the COVID situation, but what you're seeing now, I believe, is a -- Capital Management Plan doing its job and I would continue -- I would believe that will continue to be the case if we maintain this methodology.

MR. STEVE SCARFONE: And you recall the questions Mr. Williams put to you about the timeliness of a rebate versus a capital release?

MR. LUKE JOHNSTON: I do.

MR. STEVE SCARFONE: So just disregarding the Special Rate Application that just occurred in the spring, you've been here long enough to recall the rebate that happened before that. I believe it was in the spring of April 2010.

MR. LUKE JOHNSTON: Yes.

MR. STEVE SCARFONE: And that particular rebate was for the accumulation of injury claim reserves, primarily?

MR. LUKE JOHNSTON: Yes.

MR. STEVE SCARFONE: How long, sir, did those reserves accumulate before the rebate occurred?

MR. LUKE JOHNSTON: It's tough to say, but reserves were -- we're essentially releasing reserves since the -- the start of the no fault program. At that time there was a reassessment, essentially, of the mortality assumptions.

But I guess, in theory, we've been accumulating reserve -- those reserves since the beginning of no fault.

MR. STEVE SCARFONE: Since 1994?

MR. LUKE JOHNSTON: Correct.

MR. STEVE SCARFONE: So, approximately fifteen (15) years before the rebate occurred?

MR. LUKE JOHNSTON: Yes, and to be fair, of course those reserves were in claims reserves, not necessarily showing up in the RSR, but that is the time period over which those reserves were accumulated.

MR. STEVE SCARFONE: And just a couple questions on the modernization of the Basic products.

Mr. Williams asked you about the five hundred dollar ($500) deductible?

MR. LUKE JOHNSTON: Yes.

MR. STEVE SCARFONE: Which of course has now been increased to seven hundred and fifty ($750), correct?

MR. LUKE JOHNSTON: The compulsory deductible, yeah. Yes, increasing from five hundred (500) to seven fifty (750).

MR. STEVE SCARFONE: And the Corporation decided that rather than automatically move customers up to the new Basic deductible, they will maintain them at the new Extension product of five hundred dollars ($500), is that right?

MR. LUKE JOHNSTON: That's true, and to -- to be completely, I guess, transparent here, it was never the thought that we were doing a disservice or -- or trying to force anyone to buy MPI Extension products.

We -- we're really just recognizing the fact that so many customers maintain the same coverage year to year and, as a starting point, wouldn't it make sense to present to them that same coverage and in this transition and -- and ask them to opt out of that if they wish.

But understand -- definitely understand the need to effectively communicate that piece of information, especially to customers that are currently at the $500 deductible.

MR. STEVE SCARFONE: So the last question then would be: What considerations, if any, did the Corporation have in mind when it decided against moving customers automatically or, as Mr. Williams says, assigning them to a seven hundred and fifty dollar ($750) deductible which is the new Basic deductible?

MR. LUKE JOHNSTON: There's -- there's probably more than -- than I'm going to list, but recognizing that a lot of customers do just -- do the same-as-last-year approach, it would be a potential unpleasant surprise to find out that MPI selected a different deductible level for you and have that claim and -- and be asked to pay seven hundred and fifty dollars ($750) when you assumed you still had the five hundred (500). That's -- that would be one.

And another consideration, again not -- this not being a complete list -- but the -- we wouldn't want to create a situation where literally the entire province had to go into a broker's office or an MPI service centre and reselect all of their coverages en masse.

So the transitioning to the current coverage level and asking to take action if you'd like to do something different was seen as a -- a reasonable approach.

But again, we know that this has to be very clearly communicated to customers so they understand what's -- what's taking place.

MR. STEVE SCARFONE: So up to your first point, it would mean for that customer that was in an accident, that the uninsured portion of that claim was higher, so in effect they'd be paying two hundred and fifty dollars ($250) more?

MR. LUKE JOHNSTON: Correct.

MR. STEVE SCARFONE: Perhaps unknowingly?

MR. LUKE JOHNSTON: That is the concern that we would make that choice for them, and they may just go pay the bill and not even think that there's any need to -- to change or confirm anything.

MR. STEVE SCARFONE: Those are my questions on re-direct, Madam Chair.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone.

We'll now move to the next item on the procedural outline, which is testimony with regard to MPI revenues, expenses, and pro formas. And I believe that we have the same panel.

So would you like to proceed, Mr. Scarfone?

MPI PANEL NO. 4 re: Revenues/Expenses/Pro Formas

LUKE JOHNSTON, previously Affirmed

MARK GIESBRECHT, previously Affirmed

EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Yes. So we do have before us on the screen the revenues, expenses, and pro formas. While I have it up, I should mark that as MPI Exhibit number 32, Madam Chair.

--- EXHIBIT NO. MPI-32: Presentation re revenues, expenses and pro formas

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: And just confirm

with Mr. Giesbrecht that the presentation that he's about to make will form part of his examination-in-chief and he adopts it as his evidence.

MR. MARK GIESBRECHT: I do.

MR. STEVE SCARFONE: Thank you.

MR. MARK GIESBRECHT: All right. Thank you. So we're now to talk about revenues, expenses and how these flow into our financial results and the pro formas.

So quickly, the next slide, just to review what we'll go over. Just a high level summary of revenue components and the trends. We've talked a bit about this through the -- the previous panel, but we'll -- we'll cover some of those -- those major trends.

On the expense side, we'll, again, review high level the adjustments for COVID in the current period; talk about our expenditures and how they are relatively holding flat through the forecast period; salary being the biggest impact and biggest cost driver in our Op. Ex. We'll look a bit at that particular cost line -- and have a brief update on our conciliation as it pertains to commissions.

So into revenues, on the next slide. Here, we see a pie chart. This just depicts Basic's earned revenues. You can see the lion share is comprised of motor vehicle premiums at 92 percent, followed by the driver premiums at 6 percent.

And so, this really is consistent with prior years. There's really no change and it's consistent with how we've seen revenues flow into Basic in the past.

Now, some of the factors impacting Basic premiums -- there's a couple main factors you see here, being rate changes, volume changes, upgrade, and, to a lesser extent, rebates on fleets and anti-theft discounts.

With respect to rates, we know, based on past orders, how those are flowing into these particular years. Of course, updated for '21/'22 is the eight-point-eight (8.8) overall Basic rate decrease.

On the volume front, you know, this is the amount of vehicles that we're seeing on our -- our roads. What we see in this year is a -- definitely an impact on that volume assumption. Where this had historically been, you know, in around 1 to 1 1/2 percent, you know, that assumption for the current year is now down to point-one-four (.14), again, based on reactions to the current realities of the -- the pandemic.

In the forecast, we have assumed that things will recover. And so, you see a one-point-seven-nine (1.79) next year. And that's on the assumption that the prior forecast holds true. But because the current year is lowered, that gives rise to that -- that bit of a -- a bump to one-point-seven-nine (1.79). And then, back to roughly just over 1 percent in the years thereafter.

On the upgrade front, that ranges at about 2 1/2 percent per year. And, again, that's consistent with our prior periods. And, as we've heard in the last couple days, our current revenue projections are really coming quite close to what we had forecasted, so we're -- we're confident that those levels are -- are reasonable.

The anti-theft discount, that has been discontinued, so it's not offered with new policies. And so, that will just slowly dwindle over time as those policies are -- are lapsed or cancelled. So it has a -- a small impact on revenues.

And fleet -- fleet rebates will continue, based on fleets that have ten (10) vehicles or greater.

Focusing on revenues from drivers'

premiums. Here, you see the make-up; the base forty-five dollar ($45) charge, as opposed to the DSR additional surcharges. The base charge represents about 36 percent. Last year, it was 34 percent. So there's been a slight movement there.

And as we have heard in previous panels, based on the lowering of claims through the pandemic, we could see this change in future years, where there will be a higher percentage moved to the base, as opposed to paying through the DSR demerit scale. But, generally speaking fairly consistent with what we've seen in prior periods.

With respect to reinsurance, we did change our program last year. And that was to move from the incident of single occurrences of -- of large events on a catastrophic basis; that's -- that's now moved to an aggregate type of program. There was no change this year or plan going forward.

The most typical type of storm or event that we're covering here is typically referred to, or thought to be, hail. However, it does cover other types of events that could take place.

And so, for events that will, in aggregate, cover $35 million, that's basically where we'll cap our losses, for losses that are at least a million dollars individually, but, in aggregate, total 35 million. And that coverage is in place up to $300 million.

And so, you know, we are covered in case of large, large losses that may occur in that regard.

The other component of reinsurance is on the -- the casualty front. And so, claims in excess of $10 million will be covered up to $40 million on a reinsurance basis. So we -- we do limit those significant losses that we do see, unfortunately, from time to time.

The small component of service fees and other revenue -- and that's primarily made up of premium financing and some interest revenue as we have customers that will choose to pay over time. There's a bit of interest that is associated with that -- that payment plan. But, generally speaking, a small proportion of the overall revenues.

There are some fees as well considered as part of a Basic line that do have a per-fee transaction. There's a number of them there. About twenty-five (25) to thirty (30).

One (1) thing to note that we have been in talks with -- with government for some time -- and we talked a little bit about it last year, I believe. But those talks are still ongoing in terms of what should the fees be?

As was the case with the -- the Basic deductible and other coverage levels, these fees have not changed, in many cases, for twenty (20) years or greater. So we are looking at those fees to ensure that they are commensurate with the costs to -- to administer those transactions. And that discussion continues to be underway with government.

Shifting gears to expenses. We continue to have a theme of prudent fiscal management. This has been at the forefront, you know, for our -- our management team for a number of years now.

You'll see, this year, that, as compared to last GRA, total expenses are less by about 1 percent. So we're happy on that front and -- and that excludes a transfer of classification of certain expenses. And we'll -- we'll talk on the -- the next slide about that. But even with that roughly $8 million transfer of classification and expenses, we're still seeing the total -- roughly the same as what it was last year.

So we continue to look at ways to gain efficiencies. We have invested in lean methodologies, utilizing value stream mapping exercises to ensure that we cut out any waste or non-necessary work that goes on in the Corporation. And so, we're -- we're going to continue down that track.

However, we do have a number of individuals with those certifications and we're finding that, you know, there's -- there's a lot of fruit to be found there and benefit to be gained by utilizing that type of a -- a methodology.

For 2020/21, we have seen savings, as discussed in prior panels, with respect to expenses as there have been some services either temporarily discontinued or postponed. Such as driver education, driver testing, those kind of things.

So we do have, in the current forecast, about $9.4 million in reductions that do stem from COVID in this fiscal year.

So this is a table here -- I spoke to that -- that change in classification and -- and There's was some questioning in various IRs on this. But what we did, in the course of last year's budget exercise, was determine that there were a number of cost lines that were previously included in claims incurred. We felt they were more appropriately classified as claims expenses.

So, on the financial statements, they will still be in the total line of claims costs. However, we've moved them from claims incurred into claims expenses.

And it's really for two (2) main reasons. One, so that we do present these costs as an expanse as these are costs that are necessary to adjudicate and to administer claims, as opposed to what is the actual cost that a customer sees in the repair of their -- their vehicles.

The secondary point was to ensure that the -- the budget and the responsibility and the ownership lied not within a claims number but within the bud -- the budget of the department responsible for administering this type of service -- so, example, investigations, for example.

The biggest one here is automated estimating, the Mitchell software; that's the largest component, but you see these about ten (10) items that we've moved. So there -- there's a shift on the -- on the Income Statement presentation, but there's no change in the cost or how it impacts the -- the rate setting.

Here's a chart that we'll look at what we call our combined expense ratio, and so this is our operating expenses. Now, this includes our claimed expenses, operating expenses, regulatory, and road safety, and this is a percentage expressed as compared to net premiums earned. And so it shows, you know, a productivity or an efficiency level of what are the costs to run the operation as compared to the revenue within Basic.

And you can see, since 2014/'15, a downward trend, and we continue to use this metric to assess how we're doing and trying to continue to -- to drive that down as best we can.

So you do see in 2020/'21 a bit of a bump over last year, and that really is stemming from the classification change that we just discussed, so that $8 million is about a .7 percent difference. So if that was factored out, you would see roughly the same or a slight drop in that ratio from '19/'20 versus the current year.

And then next year, you do see the impacts as we do start to expect to see rates declining based on our 8.8 percent rate decrease. It gets difficult to maintain that while we have inflationary costs to consider.

It does put pressure on the ratio, so there's a bit of a bump in 2021/'22, primarily due to the fact that we expect less premium to start coming in due to the rate request.

On to the next slide. So here you see our total Basic expenses, you know, based on the average of the rating years contemplated in -- in this GRA. So as compared to last year, that is a drop of 1.17 percent, so we're happy to see that.

You can -- you can see, based on the different breakouts, the claims expense, there's where we see an increase. And again, that's based on the fact that we have transferred that $8 million.

So you can see that there roughly is a -- that explains all that delta from year to year. If not for that transfer, it would be essentially flat or a small decrease in -- as compared to what we had forecasted last year.

And another way to look at costing and how it's progressed through our various forecasts, this chart will show for the presented fiscal years initial forecast early on and then what were either actuals or subsequent forecasts or reforecasted at.

And so you can see in all cases the earliest forecast, we came in a little bit under. So, for example, for the fiscal year '21/'22, initially, in the '18 and '19 GRAs, we'd estimated roughly $240 or just above $240 million; that is now coming in just about $230 million. So we have seen the benefit of expenses coming down a little bit over time, and that is consistent in all these different fiscal years.

Our largest expense line is our compensation, or salaries and benefits, and so it does comprise about 58 percent of our total Op. Ex. base, and so it is always a line that we pay close attention to. And -- and, you know, we have a lot of good discussion at these hearings.

We do see an annual growth rate slightly negative when we're comparing 2020/'21 to '24/'25. So we do expect over time to start to see some efficiencies gained in terms of different projects and initiatives as we've become a bit more efficient.

But that -- that shows that we are progressing moving forward, not -- not holding pat and -- and seeing wage increases and inflationary pressures, but, you know, we are taking action to where we can be more efficient, we are doing so.

Because the majority of our staff are unionized, a lot of these assumptions are -- are locked in based on what our agreements say. And so that forms the forecast moving forward.

Then looking at some of the numbers with respect to compensation and how it flows into Basic. So you'll see salaries, you know, starting in 2020/'21 at a forecast base of $103.8 million, and then a slow and steady uptick for a couple of years where we then see in the future years a slight decline.

So as -- as alluded to, you know, we do have general wage increases and merit increases. Then we look to see some efficiencies gained where staffing counts may be slightly declining in -- in future years.

The larger -- other large line there is benefits, of course, and that just tracks as a percentage essentially of salaries as it is, you know, based on the amount of staffing that we hold.

And very briefly, to conclude, an update on our -- our broker conciliation. At this point, there's really not much to report on. The -- it's still an ongoing process, you know, working with IBAM and the broker community with a conciliator.

There's still ongoing discussions and negotiations, and so we do not have anything conclusive that we can forecast based on today, and we will, of course, update this Board when that information becomes available. And Mr. Wennberg, our Chief Operating Officer, will be appearing next week and could answer some more questions should there be some on this topic.

That concludes our presentation.

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

MR. STEVE SCARFONE: I have nothing further for Mr. Giesbrecht.

THE PANEL CHAIRPERSON: Thank you. Ms. Hainsworth...?

MS. CAROL HAINSWORTH (by phone): No questions.

DR. BYRON WILLIAMS: All right. Madam Chair, before My Learned Friend begins, just for clarification and just to make sure we're all on the same page, in terms of questions regarding brokers as they relate to the -- or, sorry, in terms of commissions as they relate to the growth of commissions or as they relate to concerns expressed last year by MPI in terms of the Competition Act, is it the expectation of the Board and MPI that we would defer those for Mr. Wennberg, just to make sure we're all on the same page?

MR. STEVE SCARFONE: So the part of

your question about commissions, I would suggest, because there's an existing agreement, there's a broker accord that's in place right now that sets out the commissions, that those can probably be put to this panel.

To the extent that any -- you have any questions about what's on that last slide, then Mr. Wennberg will -- will address those questions 'cause I think what you're getting at is perhaps what the new schedule or the new commission schedule might be under any new agreement that's reached with the brokers.

Is that fair?

DR. BYRON WILLIAMS: Yeah. And I -- I know what I can ask this -- Mr. Giesbrecht, but there were concerns in terms of the -- the arrangement with brokers raised by MPI in terms of the Competition Act. And I'm getting the sense -- last year.

MR. STEVE SCARFONE: Yes.

DR. BYRON WILLIAMS: And I'm getting the sense that I should defer those questions --

MR. STEVE SCARFONE: Yes.

DR. BYRON WILLIAMS: -- to Mr. Wennberg.

MR. STEVE SCARFONE: Yes.

DR. BYRON WILLIAMS: Okay. And I

apologize for interrupting, Madam Chair.

THE PANEL CHAIRPERSON: No, that's fine. Thank you. Yes, Mr. Gabor?

THE CHAIRPERSON: So to follow up on that question, if we have questions in relation to how commissions affect the financial position, or changes in commissions affect the financial position of MPI, are we putting those to Mr. Giesbrecht, or are we putting those to Mr. Wennberg?

MR. STEVE SCARFONE: So the -- I guess what -- the difficulty that that question presents, Mr. Gabor, is you're -- are you discuss -- are you talking about commissions that might be paid under a new agreement that's reached with the brokers or under the existing --

THE CHAIRPERSON: Well, I don't know. He's got a number for commissions. I don't know if the commissions for Extension are based on the old system or the new system.

I don't know -- and part of the problem is -- and I guess we can talk to Mr. Wennberg -- I don't know if there's a discussion of an adjustment or whatever. All we have is -- are numbers.

MR. STEVE SCARFONE: Yes.

THE CHAIRPERSON: So we have to be

able to relate any discussions to what the impact is on numbers because the concern I have is that we're going to have this hearing, we're going to have some sort of announcement after the hearing, and then all of a sudden MPI's numbers change completely within a few weeks or a few months after the hearing, which has happened previously --

MR. STEVE SCARFONE: And -- and --

THE CHAIRPERSON: -- with this Board. And -- and that's -- you know, we need to be able to test the numbers. I'm trying to figure out -- I don't want to see Mr. Wennberg -- we put a question to Mr. Wennberg, and he said, I'm not a financial guy.

MR. STEVE SCARFONE: Right. Yeah. And -- and certainly, we appreciate those comments. And -- and the Corporation is -- is alive to that particular issue; that is that we don't want a situation where this Hearing ends and the numbers change.

And so, we're -- we're trying our best to address that in this manner by having -- Mr. Giesbrecht is going to provide a response to that momentarily. And then Mr. Wennberg's going to be here, as you know, on -- on Monday to -- to address it further.

THE CHAIRPERSON: Yeah. I mean, part of the problem, Mr. Scarfone, is that there's so much that was brought forward in last year's Hearing in relation to the impact and importance of the commissions.

So, for example, we will hear evidence later about Project Nova. Well, Project Nova, we were told, is premised upon certain business being done online which relates to savings from the commissions.

We have no idea what's going on. And we're -- we're -- I have a concern about making decisions in a vacuum to find out later that the facts on which those decisions were made were incorrect after the fact.

So, I don't -- you know, we may be in a situation, quite frankly, where we may have to bring Mr. Giesbrecht back, I'll -- I'll just warn you right now, if -- if we get to a position where people say I'm not the right person to answer this question.

MR. STEVE SCARFONE: Yes. Yeah, absolutely.

DR. BYRON WILLIAMS: And, Madam Chair, if I might, and I apologize, but just for clarity in the -- fairness to the Corporation, from our clients' perspective, we'll have some modest questions to Mr.

Giesbrecht today about the foundations for the estimates currently before us.

Certainly, we'll have some questions for Mr. Wennberg about some of the -- the policy issues raised by MPI. When it comes to Project Nova, both on the public record and the private record, we also anticipate questions that go to the -- the foundation of that business plan.

So, from our perspective, that's -- we -- we anticipate three (3) -- three (3) series of questions. And I just want to make sure the Corporation's aware that -- that the witnesses are available if -- if needed.

MR. STEVE SCARFONE: Yeah. Thank you.

MR. MARK GIESBRECHT: With respect to the -- what's in the foundation of our -- our forecast, based on what we know today, we've assumed a status quo because we don't know what the end result of that conciliation and that negotiation is going to be.

And so, we -- we fully appreciate the conundrum that we're in in that. Right now, we don't have anything else to go on because there's nothing concrete or agreed upon.

THE CHAIRPERSON: Okay. Here's --

here's my dilemma. So, as I understand it, the commission for Basic was 3 percent, the commission for Extension was 17 percent. If you have more people going onto Extension, I would assume that the commission will end up being higher.

I don't know how that relates to your number. Is your number based on 17 percent before the changes went in or is it on 17 percent based on what your projections are for people buying Extension?

That's -- you know -- and we'll -- we'll get into that after counsel -- you know, our counsel and Mr. Williams does the cross-examination.

But, for example, that's -- that's an area -- I -- I'm looking at a number, and I don't know what that number reflects, so we're -- we're going to have to get into that in a little more detail during the -- during the cross.

MR. LUKE JOHNSTON: Absolutely. Anything filed on the record we -- we should be able to explain to you in detail. But as per Mr. Giesbrecht's comments, we -- we don't know the outcome of the -- the current process, so there's -- it's status quo commission levels in the current forecast.

But in terms of how much -- what's changed in Extension and why the numbers have gone up, down in the -- in the Extension filing, for example, we -- we're -- we could definitely explain those pieces.

THE CHAIRPERSON: Okay. So, Mr. Johnston, then, as I understand it, the number you've given for commissions is a flat number. It has nothing to do with the negotiations, it has nothing to do with the projections based on the changes in the programs?

MR. LUKE JOHNSTON: So, we can go into more detail. But in product changes, for example, that would send more premium dollars to Extension and raise commissions. It would be -- expect that.

We -- we decreased Extension rates 7 1/2 percent before we did that change, essentially. creating no impact to commissions, which is why they're flat. But, of course, we'll have -- we can go into that, yeah.

THE PANEL CHAIRPERSON: Excuse me. Thank you. And just to confirm, Mr. Giesbrecht will be available on Monday, if required?

MR. STEVE SCARFONE: Mr. Giesbrecht...?

MR. MARK GIESBRECHT: I don't see why not. It's pending on my calendar, but I'm -- I'm -- I pretty sure I can make that work, yes.

THE PANEL CHAIRPERSON: Thank you. Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you.

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: And my questions with respect to broker commissions will be towards the end of my cross-examination, so I don't expect to get to those questions before lunch.

First, I'm going to run through some of the pro formas, but prior to doing so, just a quick question with respect to MPI Exhibit Number 32 and slide 8.

Mr. Giesbrecht, you had mentioned that a service fee pricing is currently under review?

MR. MARK GIESBRECHT: That is correct.

MS. KATHLEEN MCCANDLESS: And is that with respect to all service fees, specific ones, or...?

MR. MARK GIESBRECHT: Yeah. So, we have looked at all the service fees; however, we have targeted certain ones that we think are most appropriate that should have a change to the current fee. And there is a proposal that we have before government.

MS. KATHLEEN MCCANDLESS: And do you have any sense as to when that review will be complete?

MR. MARK GIESBRECHT: It's hard to say. We have had ongoing discussion without coming to, you know, an outcome as of now, so I -- I really couldn't say when I would expect that to -- to be completed.

We -- we are hoping sooner than later, but I don't have a date to give you.

MS. KATHLEEN MCCANDLESS: For the next GRA?

MR. MARK GIESBRECHT: I would definitely hope so.

MS. KATHLEEN MCCANDLESS: Thank you. Kristen, could we go to pro forma 1 from the GRA as filed?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. And the years affected by this Application are 2022 and 2023 due to the staggered renewals?

MR. MARK GIESBRECHT: As well as '21.

MS. KATHLEEN MCCANDLESS: And based on the initial forecast as set out in the Application as filed which indicated a 10.5 percent rate decrease, at line 34, MPI was forecasting...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Pardon me. I just need to find my place here.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: There. Okay, the third column from the left, at line 34, we see that MPI was forecasting initially a $1.2 million net loss and a $45.2 million net loss in -- for 2022, and 2023 was a $45.2 million net loss, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And at line 32, MPI's initial budget for 2021, forecast budget, was for a net income of $78.6 million, and that's line 32?

MR. MARK GIESBRECHT: Yes. That's the amount prior to the -- the premium rebate.

MS. KATHLEEN MCCANDLESS: Yes. And

then if we go to the revisions filed in October, so that's book of documents tab 2 -- pardon me, not tab 2, at page 29 of Exhibit Number 27.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: We see at line 32 for 2021 forecast budget that has now been revised to net income of 105.4 million, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And the Corporation also provides some outlook beyond 2023, which is an indication of what the model shows but does not include any assumptions on rate changes, correct?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And so, the only changes reflected are assumptions on upgrade and volume factors?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Sorry, that question was what's changed in the forecast update.

And I think you said only upgrade in volume factors?

MS. KATHLEEN MCCANDLESS: In the outlook period. Not -- not with respect to as filed in October 9th. Just with respect to what we have on the screen here, which is the update pro forma.

MR. LUKE JOHNSTON: For the ratin -- rating period and -- and beyond -- yeah.

MR. MARK GIESBRECHT: Yeah, that -- that is true, yes.

MS. KATHLEEN MCCANDLESS: And then as part of the update filed in October, the Board asked the Corporation to file a -- a comparative pro forma, and that's found at page 27 of Exhibit Number 27. It's also at tab 8 of the book of documents.

And so what this pro forma shows is the difference between the forecast budget in the GRA as filed with the update provided in October, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And at line 31, for the revision, we see that MPI is now forecasting net income of $105.4 million for '20/'21?

MR. MARK GIESBRECHT: That's correct.

MS. KATHLEEN MCCANDLESS: And the third column in, we see at -- again at line 31 that that's a difference from the GRAs filed of twenty-six point -- point eight million dollars ($26.8 million), yes?

MR. MARK GIESBRECHT: Yes, and that's essentially shown on line 14. The primary driver is -- is the -- the difference in claims, as we have more information based on the actual results in 2020.

MS. KATHLEEN MCCANDLESS: So the COVID impacts, primarily.

MR. MARK GIESBRECHT: That would be primarily the impact. That's fair.

MS. KATHLEEN MCCANDLESS: Thank you. If we could go to now Pro Forma 6.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Kristen.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So this pro forma shows the comparative statement of operations for 2021/'22 forecast in last year's GRA as compared to this year's GRA, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And we see at line 3 that the overall net premiums written is now at $145.7 million lower than it was last year?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And that's due to the applied-for rate change at the time of a decrease of 10.5 percent?

MR. MARK GIESBRECHT: Correct. That'd be the primary driver.

MS. KATHLEEN MCCANDLESS: And just over half of the applied-for rate change reduction is reflected in the earned premiums reduction for the year due to the staggered renewals?

MR. MARK GIESBRECHT: True.

MS. KATHLEEN MCCANDLESS: If we go to the second page of Pro Forma 6, this provides some of the detail for the variances, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And we see first the applied-for rate change at line 2 that we just discussed. Another driver of that variation is at line 3, so lower-than-expected vehicle premiums of $29.2 million?

MR. MARK GIESBRECHT: I see that, yes.

MS. KATHLEEN MCCANDLESS: Lower-than-expected driver premiums, at line 4, of $6 million?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And if we just jump back to the previous page and line 14, we see a variation in net claims incurred of $64.3 million from last year's GRA?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And the total claims costs at line 20 are $66.6 million lower than forecast last year, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And if we could please go to the next page again for some more of that detail.

We see that at line 12, MPI is forecasting lower collision and comprehensive claims by $36.2 million from last year?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And the CERP impact is at line 13, so the product changes resulting in the shift to Extension costs show that variation of $15 million, yes?

MR. MARK GIESBRECHT: That's right.

MS. KATHLEEN MCCANDLESS: There are also lower unallocated loss adjustment expenses at line 14 of $12.2 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And that's, as I understand it, due to the reclassification of certain expense items that you spoke about in your presentation?

MR. MARK GIESBRECHT: It would be tied to that, yes.

MS. KATHLEEN MCCANDLESS: Now, if we could please go to Po -- Pro Forma 3 from the Application. And I will have some qua -- questions about the changes in equity.

So this pro forma provides the forecast for the Corporation's Basic retained earnings and total equity and provides the calculated MCT ratio as well, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And at line 7, under 2021 FB, we see that the premium rebate of $58 million is noted?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And line 8 shows the transfers from Extension retained earnings to Basic?

MR. MARK GIESBRECHT: Yes, it does.

MS. KATHLEEN MCCANDLESS: And for 2019/'20, we see that no transfer was done in that fiscal year?

MR. MARK GIESBRECHT: Not within the fiscal year. That is correct.

MS. KATHLEEN MCCANDLESS: And total retained earnings for 2020 actual after reporting net income of a hundred and twenty-si -- $120.6 million last year at line 6, the retained earnings at line 9 are $440.5 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: At line 13, we see the total accumulated other comprehensive income is at a $34.3 million deficit, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And the total equity balance actual as at year end 2019/'20 was $406.2 million?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And based on the 100 percent MCT ratio, line -- line 19 shows that in order to achieve that 100 percent MCT ratio, Basic would require $350.8 million in total equity?

MR. MARK GIESBRECHT: In -- in total capital, which has some adjustments from total equity, yes.

MS. KATHLEEN MCCANDLESS: Capital, pardon me. And then at that amount of capital, the MCT ratio is 105.8 percent, yes?

MR. MARK GIESBRECHT: Yes.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And if we look to the forecast of retained earnings, we see that MPI is forecasting at line 6, under 2021 forecast budget, $78.6 million in net income for the current fiscal year?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And then the rebate of $58 million, at line 7?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Plus a $64.7 million transfer from Extension, at line 8?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And that brings the retained earnings at line 9 to $525.8 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And

so after total accumulated other comprehensive income, that shows a total equity balance for Basic of $499.3 million, yes?

MR. MARK GIESBRECHT: That's correct.

MS. KATHLEEN MCCANDLESS: And that amounts to an MCT ratio of 119.2 percent.

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: At the end of 2022, the Corporation is forecasting to have total equity of $529.5 million, per line 14?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And five hundred and twenty-three point five (523.5) in 2023?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Five hundred and five point nine (505.9) in 2024?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And so this total equity is predicated on an assumption of a transfer of an additional sixty toint -- point two million (60.2 million) from Extension for the next two (2) years, so that's at line 8. We see 24.9 million in '20/'21 and 35.2 million in 2022/'23?

MR. MARK GIESBRECHT: Yes, the total equity balance is comprised of the -- the retained earnings within Extension transfers, as well as what Basic had accumulated and -- and moving towards that target of 100 percent MCT.

MS. KATHLEEN MCCANDLESS: If we compare to last year, and that would be at the compliance filing from the 2020 GRA and the pro forma that was filed.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Kristen.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: I don't think we need to do side-by-side, you can probably just put the whole document on the screen, I'm just going to go there briefly.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. So this is the compliance filing that was filed with the Board after its Order 176/'19, following the 2020

GRA.

Are you familiar with this document?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And so we were just looking at the forecast transfers in our -- in the previous screen.

The compliance filing contemplated a total transfer of $86.9 million over the two (2) years. So, if we look to 2021 forecast, we had a transfer at line 7 of $42.5 million.

And then for 2022 forecast, there was a $44.5 million of transfer, yes?

MR. MARK GIESBRECHT: Yes, I see that.

MS. KATHLEEN MCCANDLESS: So as compared to the 60.2 million that we saw in the previous pro forma, which is now being forecast, that's a difference of $26.7 million, roughly?

MR. MARK GIESBRECHT: Sounds about right, yes.

MS. KATHLEEN MCCANDLESS: And can you explain the factors behind that variance?

MR. MARK GIESBRECHT: There -- it would have been a number of year-end factors that related to the -- the pandemic and some of the impacts on investment income.

So there -- there was an impairment charge, as equities -- as well as other securities had a decline in -- in their balance at -- at March. So there would be -- that -- that would be one (1) of the big drivers.

We also, due to movements in interest rates and spreads within corporate provincial bonds as opposed to government bonds, has had an impact on how we value our pension liability.

That liability is not fully hedged and so interest rates have an impact on that -- that liability and that would fall between lines of business, but partially to Extension.

So those would probably be the main drivers of that difference from back to prior to, you know, the new year in 2020.

MS. KATHLEEN MCCANDLESS: Would the CERP increase in claims costs that are transferred to Extension, which then lowers its profit -- profitability also factor into that?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah, rel -- I can't remember if it was yesterday or the day before, but Extension profitability has been adjusted down from over 30 percent to around 20 percent profit now.

So that's from a 7 1/2 percent rate decrease, one -- one piece of that. And then the rate neutral adjustment, because of CERP brought their profitability down further. So it's a -- it's -- it is quite a bit lower than -- than it was at this time.

MS. KATHLEEN MCCANDLESS: And would the assumption of the capital release factor into that as well?

MR. LUKE JOHNSTON: Into -- into which piece; the Extension transfers?

MS. KATHLEEN MCCANDLESS: Yeah, the reason for the variance in the Extension transfers that were forecast last year in the compliance filing, as compared to this year.

MR. LUKE JOHNSTON: Extension transfers should just be any amounts in -- yeah, in excess of the 200 percent, but to the extent there was Extension funds withdrawn for a rebate, that would take some of that money out of there, if that's the question. Yeah.

MS. KATHLEEN MCCANDLESS: If we jump back to pro forma 3 that we were just looking at.

We see that based on the Corporation's

projections, as at the time of filing, it's MCT ratio was forecast to be just slightly over 100 percent MCT as at 2024 at 105 percent -- 100.5 percent?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And total equity of 505.9 million --

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: -- after the capital release.

Madam Chair, I'm going to be roughly forty-five (45) minutes, so this may be an appropriate time to break for lunch.

THE PANEL CHAIRPERSON: Let's break for lunch now and we'll come back at 5 after 1:00, please.

--- Upon recessing at 12:05 p.m.

--- Upon resuming at 1:05 p.m.

THE PANEL CHAIRPERSON: Good afternoon, everyone. Ms. McCandless, would you like to carry on.

MS. KATHLEEN MCCANDLESS: Yes, thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: I'm going to continue with some questions about the Extension forecast changes. And so, Kristen, could we please go to EPF-1 from the GRA.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And so what we're looking at, on the screen here, is forecasts from the Extension operations as filed in the Application?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And these forecasts are from the same financial model that's used for Basic?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Historically, Extension has always been profitable. You would agree with that?

MR. MARK GIESBRECHT: I would agree.

MS. KATHLEEN MCCANDLESS: And looking to line 31, there were successive increases in profitability from 2016 through to 2019. Yes?

MR. MARK GIESBRECHT: Yes. From 26

million to 56 million, yes.

MS. KATHLEEN MCCANDLESS: And then, for profitably for 2020, it looks to have declined. So just past the -- the vertical line in the table there, we see that there's a decline in profitability from 2019 actual to 56.7 million to 37.9 million in 2020.

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Can you explain the reason for the major drop in profitability from 2019 to 2020?

MR. MARK GIESBRECHT: Yeah. The -- the biggest drop -- you'll see on line 25 -- you'll see the year prior investment income, prior to interest rate impacts of 11.3 million, as compared to a seven hundred and twenty-three thousand dollar ($723,000) loss.

So that -- that will be the -- the -- one of the single biggest changes year over year. And that's based on some of the impacts felt at the onset of the pandemic.

MS. KATHLEEN MCCANDLESS: Now, if we go to Exhibit 19, which is the annual report for 2019/'20 in page 20 of the PDF. At the top of the page here, we see Extension five (5) year statistics.

And I'm just looking at the first column for March 31, 2020.

We can see that net income -- the bottom line in the table -- for Extension for 2020 was $43.7 million reported here.

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: If we go back to EPF-1 that we were just looking at, that shows a net income for the same year of 37.9 million.

So can you explain the difference between the two (2)?

MR. MARK GIESBRECHT: Yeah. So there's -- there's three (3) kind of moving parts. The first one is, in 2019/'20, we had a year-end change. And so, anything -- if you're looking at any externally reported financial results, audited numbers are on a thirteen (13) month basis.

Some of the numbers, depending what tables we're looking at, may be normalized for twelve (12) months, as well as some numbers -- again, I'd have to reference or look back into the details of what's behind some tables -- but there are some forecasted actual that may have been updated or tweaked after year-end.

So those would be -- if there are

differences, those would be the two (2) main differences. Either it's a forecasted actual versus a acuate finalized number, or it's a normalized twelve (12) month as opposed to a thirteen (13) month for fiscal reporting.

MS. KATHLEEN MCCANDLESS: Thank you. And then, to look to the year we're currently in, which is 2021 FB. Yes?

MR. MARK GIESBRECHT: Okay.

MS. KATHLEEN MCCANDLESS: We see that MPI for Extension has a earned revenue, at line 11, of $166.9 million?

MR. MARK GIESBRECHT: I see that, yes.

MS. KATHLEEN MCCANDLESS: And total claims costs, at line 17, of $77.8 million.

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And total expenses, at line 23, of $46.1 million. Yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And Extension realized -- is realizing an underwriting income of 43.1 million, at line 24?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And then, we add in the net investment income of approximately 8.7

million, at line 27?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And that's to realize a net income from Extension of 51.8 million?

MR. MARK GIESBRECHT: Yes, that is the amount forecasted there. Yes.

MS. KATHLEEN MCCANDLESS: And then, we see the premium rebate of $52 million that occurred earlier this year.

MR. MARK GIESBRECHT: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And for last fiscal year, we see that motor vehicle premiums, at line 7 -- so 2020 actual -- were 157.8 million.

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And they're forecast to be 156.6 million in this current year. Yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And we see that, historically -- so going back to 2017 -- that the level of motor vehicle premium is relatively stable, historically and through 2021?

MR. MARK GIESBRECHT: Stable and have

been growing in past years.

MS. KATHLEEN MCCANDLESS: And then the material increase we see, starting in 2022 through to the outlook period, that would be attributable to CERP changes?

MR. MARK GIESBRECHT: Yes. So there is -- there is a couple components as we discussed earlier.

There's the coverage change and how that reacts between Basic and Extension through CERP. There are some pricing changes in there as well.

But -- but, yes, the -- the volume change that pertains to the additional coverage in CERP would be the driver.

MS. KATHLEEN MCCANDLESS: Thank you. And then, with respect to net claims incurred, at line 12, we also see that, historically, they have been relatively stable up until the end of this fiscal year.

And then, there's a significant increase, starting in 2022 forecast and through the outlook period. Yes?

MR. MARK GIESBRECHT: Yes. To be relative and commensurate to the -- the premium growth.

MS. KATHLEEN MCCANDLESS: And then, at line 23, with respect to total expenses, again, we see a relatively stable trend from 2016 through to the current year. And then, they start to increase in 2022 and through the forecast period again. Yes?

MR. MARK GIESBRECHT: Right. Based on the allocation factors, some of which are based on premium levels and -- and claims levels, that will have some impact on some of those allocations and the resulting expenses.

MS. KATHLEEN MCCANDLESS: Now, with respect to the profit targets for Extension in the next few years, we see that the profits are going to go down in 2023 from previous years.

And so, will the Corporation be looking to revise its future profit targets once the CERP transition is fully implemented?

MR. MARK GIESBRECHT: I'll start and then maybe let Mr. Johnston add.

But as of right now, I'm not aware of any plans to make further changes to the commission targets. However, they -- they would be continually reviewed and -- and -- for reasonableness.

MR. LUKE JOHNSTON: The -- as I mentioned earlier, the -- the Board has definitely pushed to have more comparable profitability levels for similar products offered in the private sector. So that's one (1) piece we'll be looking at.

The -- the other kind of, I guess, piece of context that is -- it's helpful to look at the history. You'll notice, on the line 12 net claims incurred, that claims incurred has basically stayed the same, 65 million a year, despite volume growth, upgrade.

For the most part, over that -- that period, Extension rates were allowed to naturally grow and there was no -- no change in the claims. So that, obviously, generates additional profits. Some of that was -- was allowed to happen, so we weren't putting through rate decreases.

But the other piece of that was that the significant drops in collision frequency that you've seen in the Basic side are even more pronounced in Extension because Extension is really a frequency business. Just deductible buydowns. There's not, you know, big PIPP severity-type events. So that is why those profits increased.

As -- as discussed already, the Board wanted to bring that profit level down through a 7 1/2 percent rate decrease, which is why you see motor vehicle premiums fall in the 2020 year as -- and then, after that, in the '21/'22 year, you're seeing the -- the impact of the CERP transition.

Beyond that, though, very -- very similar to the Basic Rate Application, we don't forecast rate changes beyond the test year. So it'd be reasonable to assume that Extension rates will also be assessed at the same time we're assessing Basic.

Sorry, long-winded answer here. The Board is, obviously, very much aware that the decisions made on Extension feed into this Application, so we need to decide our Extension profitability and rate adjustments prior to filing this Application. If we do it after, obviously we've -- we've changed the Basic Rate Application.

MS. KATHLEEN MCCANDLESS: Thank you. Now, with respect to operating expenses, Corporate to Basic, if we could go to EXP-4 from the Application, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And this table provides the detail of the total Corporate expenditures for 2019/'20 through to 2024/'25 forecast?

MR. MARK GIESBRECHT: That's correct.

MS. KATHLEEN MCCANDLESS: And for 2919/'20 actuals, total expenses were $288.8 million?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And are forecast to increase to $306.1 million in '20/'21, $310.1 million in '21/'22, and three hundred and nineteen point seven (319.7) in '22/'23?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And you had mentioned, Mr. Giesbrecht, in your presentation before lunch, that compensation represents the largest expenditure of the Corporation?

MR. MARK GIESBRECHT: That is true.

MS. KATHLEEN MCCANDLESS: I think the number you gave was 58 percent roughly?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Now, we -- we will discuss staffing changes a little bit later. Just wanted to touch on something briefly. We see at line 4 of EXP-4 -- line 7, pardon me -- a percentage increase of compensation expense.

From -- from last year, there's an increase of 5.1 percent, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And is that increase of 5.1 percent generally related to a budgeted increase in full-time equivalent staff in this current fiscal year?

MR. MARK GIESBRECHT: It'd be a culmination of a couple of different things. The -- the budgeted staff levels for the most part are fairly flat. There -- there's no major change anticipated, but there is different levels of vacancy that would factor in there.

So there would be a higher number of filled positions, and then you'd have your typical merit and general wage inflationary-type assumptions built in as well. So not so much new FTE, but filled FT on a different basis than what we saw in 1920.

MS. KATHLEEN MCCANDLESS: And then we see -- back down to line 29 for 2023/'24 forecast, there's a major increase in overall expenses from the previous year to $340.5 million?

MR. MARK GIESBRECHT: Yes, I see that, yes.

MS. KATHLEEN MCCANDLESS: And the vast majority of this increase relates to higher data processing costs. Is that right? Line 8.

MR. MARK GIESBRECHT: That'd be a driver, as well as amortization on row 26.

MS. KATHLEEN MCCANDLESS: Yes. And would these increases relate to the completion -- the forecasted completion of Project Nova?

MR. MARK GIESBRECHT: I wouldn't say completion, but there would be at that point more substantial execution and -- and starting to deploy certain aspects, and -- and that would be part of that, yes, I believe so.

MS. KATHLEEN MCCANDLESS: And so this line 26 assumes the amortization of Project Nova development costs?

MR. MARK GIESBRECHT: Yes. That would be -- that would fall into that -- that line, yes.

MS. KATHLEEN MCCANDLESS: And we do know that MPI is looking at a -- a re-baseline of that project?

MR. MARK GIESBRECHT: That is true.

MS. KATHLEEN MCCANDLESS: And that could include the timing of future project spending?

MR. MARK GIESBRECHT: That timing would be included in that re-baselining, yes.

MS. KATHLEEN MCCANDLESS: And so there could be, obviously, changes to the timing and budget of that project?

MR. MARK GIESBRECHT: There certainly could be, yes, yeah.

MS. KATHLEEN MCCANDLESS: Now, if we could please go to EXP-2. Thank you. And this schedule provides total Corporate expenditures of what we just reviewed in EXP-4?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And the total Corporate expenses are allocated to Basic through the integrated cost allocation and methodology?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And there were no changes in the methodology that materially changed the allocation of costs from Corporate to Basic -- Basic since the last GRA. Is that right?

MR. MARK GIESBRECHT: That -- that is true. The methodology remains the same. So the allocators may change as the -- the actual numbers as far as, again, claims, premiums, call centre data, all these different factors. So the actual metrics change, but within the same framework, the methodology remains constant.

MS. KATHLEEN MCCANDLESS: And for

2020/'21 forecast budget at line 8, we see that the total expenses allocated to Basic are forecast at $231.7 million?

MR. MARK GIESBRECHT: Yes, that's -- that's correct.

MS. KATHLEEN MCCANDLESS: And then they increase slightly for next year to 234.1 million?

MR. MARK GIESBRECHT: For '21/'22, yes.

MS. KATHLEEN MCCANDLESS: And then for 2022/'23, up to 241.4 million?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And MPI has allocated, as you can see at line 9, approximately 76 percent of overall Corporate expenses?

MR. MARK GIESBRECHT: Correct. It remains fairly consistent, but there is some slight variation from year to year.

MS. KATHLEEN MCCANDLESS: And the vast majority of those expenses are -- are related to commissions -- pardon me. The vast majority are allocated through the interest rate and the cost allocation methodology that we just discussed, yes?

MR. MARK GIESBRECHT: Yes. They are all allocated through that methodology.

MS. KATHLEEN MCCANDLESS: And there is a major reduction looks like in -- actually, no, there's no reduction here that I can see. You can disregard that question.

But if we go now to the Appendix 2 from the expenses section, this represents the detail of Basic expenses that we just reviewed in EXP-2?

MR. MARK GIESBRECHT: Yes, I believe so, on a normal operations basis, yes.

MS. KATHLEEN MCCANDLESS: And then --

MR. MARK GIESBRECHT: Oh, and, sorry, here it is split between claims, operating, road safety, and I believe the next page may have the -- the grand totals. Yeah, there it is.

MS. KATHLEEN MCCANDLESS: So MPI separates its expenses by category and whether it is normal operations or related to improvement initiatives?

MR. MARK GIESBRECHT: We do, yes.

MS. KATHLEEN MCCANDLESS: And with respect to improvement initiatives, these costs will be considered normal once the IT projects are completed?

MR. MARK GIESBRECHT: That's a fair statement.

MS. KATHLEEN MCCANDLESS: Then if we review the detail of the Basic claims expenses, so the first column on the left, data processing costs for normal operations are forecast at line 7 to increase from 13.4 million from last year actual to 19.5 million for 2020 forecast budget?

MR. MARK GIESBRECHT: Yes, yeah. The main jump -- so 2019/'20, you'll see in the middle there it's 13.4 million. And then there's quite a big jump year over year, and that's related to the classification of some of that software we discussed. So there -- that's the -- the big point-in-time jump to get to that $19 million figure.

MS. KATHLEEN MCCANDLESS: Right. And in your presentation, you had mentioned the reclassification of automated estimating.

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And that would be what factored into that increase there?

MR. MARK GIESBRECHT: True.

MS. KATHLEEN MCCANDLESS: Special services costs also increased at line 8 from 2019/'20 actual to 2020/'21 FB from 1.9 million to 3.4 million?

MR. MARK GIESBRECHT: Yes, I see that.

MS. KATHLEEN MCCANDLESS: And is that

also due to the reclassification of various costs?

MR. MARK GIESBRECHT: I believe there are a few that may be in there, to a lesser extent, of data processing, but -- but, yes, there would be some impact there.

MS. KATHLEEN MCCANDLESS: With respect to the reclassification, were there any other accounting changes made as a result of that review?

MR. MARK GIESBRECHT: No.

MS. KATHLEEN MCCANDLESS: And a hundred percent of these costs were previously assigned to Basic as claims occurred unallocated loss adjustment expenses?

MR. MARK GIESBRECHT: They -- they would have been assigned in the same methodology. I can't say they were a hundred percent necessarily to Basic, but I would have expected the majority would have been to Basic, yes.

MS. KATHLEEN MCCANDLESS: And so just as an example, with respect to the automated estimating cost, it was a claims incurred cost, and now it's an operational data processing cost.

And that's because it had to do with Mitchell software, correct, so it's more appropriately a data processing issue?

MR. MARK GIESBRECHT: Correct. Yeah. I mean, within the P&C industry, there -- there's different thoughts or methodologies on -- on how to process or to account for some of these costs.

So, we felt it was more indicative of, you know, a claims expense as -- as opposed to claims incurred, and so we made that change.

MS. KATHLEEN MCCANDLESS: Thank you. Kristen, could we go back to the pro forma comparative that we were looking at before the break? And that's page 27 of MPI Exhibit Number 27.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And just to summarize some of the changes for MPI's expenses between what was filed in June and what's been updated as of August 31.

So, if we look at the left-hand column, so the GRA filing, based on the Application, MPI was forecasting total Basic allocated Corporate expenses of $231 million, and that's the claims expense at line 18 of 143.5 million, plus road safety at line 19 of 11.2 million, operating costs of 71.9 million, regulatory and appeal costs of 5.1 million.

And that would total 23.7, subject to check?

MR. MARK GIESBRECHT: Yes, that sounds reasonable, subject to check.

MS. KATHLEEN MCCANDLESS: And then if we add up, based on the update, those same expenses, they would now be reduced to 222.5 million in total?

MR. MARK GIESBRECHT: That sounds reasonable.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And does MPI attribute the majority of those cost savings to lower than forecast salaries?

MR. MARK GIESBRECHT: Salary would be a large component, but there's a number of other components also in there. Salaries would be the number 1 contributor, though.

MS. KATHLEEN MCCANDLESS: Of roughly $7 million?

MR. MARK GIESBRECHT: I mean, that -- that's a reasonable number. I don't have the exact number in front of me, but that sounds --

MS. KATHLEEN MCCANDLESS: Subject to

check?

MR. MARK GIESBRECHT: -- subject to check, reasonable.

MS. KATHLEEN MCCANDLESS: And the realized savings, I had said it was August 31, but was that correct or is -- are these savings as of a later date?

MR. MARK GIESBRECHT: No, these would not be beyond August 31.

MS. KATHLEEN MCCANDLESS: Thank you. Now some questions on staffing levels. Kristen, could we please go to figure EXP-4?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So, as we saw earlier at line 7, compensation is expected to increase 5.1 percent in this year, and then continue to increase at a lower rate than that, 1.7 percent next year, 1.8 percent in 2022/'23?

MR. MARK GIESBRECHT: Yes.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And if we go

to EXP-9, please. Thank you. And this schedule shows the forecast of economic increases for in scope staff. Is that right?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And 'in-scope' means unionized staff?

MR. MARK GIESBRECHT: That's correct.

MS. KATHLEEN MCCANDLESS: Roughly what proportion of the staff compliment is in scope?

MR. MARK GIESBRECHT: Oh, the vast majority on a straight head count basis, roughly speaking, greater than 70 percent, I believe.

MS. KATHLEEN MCCANDLESS: And the 5.1 percent increase in compensation expense that we just looked at, how does that factor into lines 6 and 7 in this schedule that show no increase in -- in their compensation for those two (2) years?

MR. MARK GIESBRECHT: So, looking at this schedule, this schedule is what we refer to as a general wage increase. So, there you see the -- the zeros -- so starting in September 26th, 2020, 00.75 and 1.

There would be what we call the -- the merit or step in scale that -- that would apply. So, there's the two (2) components. There is the general wage increase. And then there is a merit. So, there's two (2) different components of the salary changes.

MS. KATHLEEN MCCANDLESS: Okay. So, perhaps I'm not fully understanding.

So, notwithstanding that there's an increase of 5.1 percent this year from last year in terms of compensation expense, this isn't showing an increase, and that's because those staff aren't scheduled for any steps in scale that would increase in --

MR. MARK GIESBRECHT: But so -- and the -- the 5.1 is also based on filled positions. So, that would be probably the significant driver there. The -- the budgeted numbers, which is on the -- the next page, EXP-10, you'll see are -- are fairly constant, so there's some slight change there.

However, the level of vacancy or level of filled positions does vary.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: And just to your previous question about the percentage of unionized staff, I've just been told 85 is a more precise figure.

MS. KATHLEEN MCCANDLESS: Thank you. Just below figure EXP-9, MPI notes that it continues to assume that 50 percent of the in scope staff will move up a scale that provides a 3.5 percent incremental increase so that there's a forecast increase in payroll of 1.75 percent?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: Now, if we could go to PUB-MPI-1-54 and figure 2.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. And this represents the total corporate operating staff actual level and forecast for 2015 through to 2020/'21?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And can you explain the reason for the growth in average vacant positions since 2015/'16?

MR. MARK GIESBRECHT: I'd say there's probably two (2) main reasons for that. The -- the first reason is having higher levels of staff reaching retirement age.

We do have a number of long tenured staff that have been with the Corporation for a long time, and as they reach that retirement age, obviously move on to that -- that phase of life. So, we have seen some growth in that regard.

And then, as -- as industry has seen, there seems to be more of a tendency for individuals to stay in roles for shorter periods of time. So, we have seen higher turnover as people leave the organization for other opportunities.

So, those would be the two (2) -- two (2) main reasons for that -- that shift upward.

MS. KATHLEEN MCCANDLESS: Okay. And -- and so, as people are leaving those positions, they're not being refilled at the same rate?

MR. MARK GIESBRECHT: Well, they're being refilled; it just takes time. And so, factored in here would be how long roles take to recruit for. But just a general reason for there being more open roles is more people are vacating the roles in the first place.

MS. KATHLEEN MCCANDLESS: And for the current year, the total Corporate budget for full-time equivalence is set at one thousand nine hundred (1,900)?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And the staff count as at June is one thousand seven hundred and seventy-one (1,771)?

MR. MARK GIESBRECHT: Correct. That was the average between April and June, yes.

MS. KATHLEEN MCCANDLESS: Is the -- the vacancy level currently at the 128.1 level that we see here on figure 2?

MR. MARK GIESBRECHT: I'll look that up.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: It's quite close to that figure. The most recent I have available is approximately 131 at the -- near the end of September.

MS. KATHLEEN MCCANDLESS: Now, if we go to PUB-MPI 1-53, and the response here from MPI was that the 2020/'21 budgeted number of full-time equivalent staff is 1,954.

So how does that reconcile with the Corporate budget that we just saw of 1,900?

MR. MARK GIESBRECHT: The -- this figure before us is the all-in number, including proven initiatives. The other basis was on a normal operations basis.

MS. KATHLEEN MCCANDLESS: Okay, thank you. Could we please go to expenses, appendix 11, figure EXP-1. 11-1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And this schedule, I understand, represents the total Corporate staffing level detail for 2020/21?

MR. MARK GIESBRECHT: That's correct, it's broken up by the different components.

MS. KATHLEEN MCCANDLESS: Right. And so that's where we see the breakdown and how we get from that number of 1,900 to roughly 1,954 at line 38?

MR. MARK GIESBRECHT: That's right.

MS. KATHLEEN MCCANDLESS: So we have eleven (11) under specialty programs, and forty-two and a half (42 1/2) at improvement initiatives?

MR. MARK GIESBRECHT: Correct.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So the

vacancy allowance that we saw in PUB-MPI-1-54 figure 2 of a hundred and twenty-eight (128) full-time equivalent, that represents the vacancies for normal operations only?

MR. MARK GIESBRECHT: Yes, I believe so.

MS. KATHLEEN MCCANDLESS: Do you have a current vacancy level for overall Corporate?

MR. MARK GIESBRECHT: Not at my fingertips.

MS. KATHLEEN MCCANDLESS: Is that something you could provide?

MR. MARK GIESBRECHT: Yes, we could.

MS. KATHLEEN MCCANDLESS: So, by way of undertaking, please provide the current Corporate vacancy level.

MR. STEVE SCARFONE: Yes.

MR. MARK GIESBRECHT: For a total all-in basis including --

MS. KATHLEEN MCCANDLESS: Yes.

MR. MARK GIESBRECHT: -- improvement initiatives.

MS. KATHLEEN MCCANDLESS: Correct. Thank you.

--- UNDERTAKING NO. 20: MPI to provide the current Corporate vacancy level for a total all-in basis including improvement initiatives.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Then if we go to EXP appendix 10, and page 2. Thank you.

So these are staffing levels by category for -- at the Corporate level for 2019/20.

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And at line 24 for total Corporate staffing levels on the right-hand side of the schedule, we see that the Corporation had actual total staffing levels of one thousand eight hundred and twenty-six (1,826) full-time equivalents, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: So we have an increase of a hundred and twenty-eight (128) full-time equivalents from the actual level last year now, for 2020/21?

MR. MARK GIESBRECHT: Actual to actual, you're comparing?

MS. KATHLEEN MCCANDLESS: Well, so we

have one thousand nine hundred and fifty-four (1,954) full-time equivalents for --

MR. MARK GIESBRECHT: Budgeted. Budgeted, yes.

MS. KATHLEEN MCCANDLESS: Yes. And one thousand eight hundred and twenty-six (1,826) from last year, so that's a difference of a hundred and twenty-eight (128).

MR. MARK GIESBRECHT: Yes. So one is on an actual basis and -- and -- yeah, be careful if we're talking about actual versus budgeted, but yes.

MS. KATHLEEN MCCANDLESS: And so I understand that MPI is forecasting to increase HR and Corporate services from the 169.5 from last year, so that's at line 24, to 226.4 full-time equivalents, and that's at figure EXP 11-1, line 38.

MR. MARK GIESBRECHT: So we do have, from time to time, some re-organization and some shifting. So I believe that would be not actual new FT positions, but shifting from one (1) directorate or division to another.

MS. KATHLEEN MCCANDLESS: So there was a change in name, there was community engagement, previously, and now there HR and corporate services. So is it as a result of that change?

MR. MARK GIESBRECHT: That's exactly right, yes.

MS. KATHLEEN MCCANDLESS: And so we're currently through 2020/21, fiscal?

MR. MARK GIESBRECHT: We're about half-way through, yes.

MS. KATHLEEN MCCANDLESS: And the Corporation is still budgeting an increase in staffing levels to that one thousand nine hundred and fifty-four (1,954) full-time equivalents?

MR. MARK GIESBRECHT: That is still the budgeted level, yes.

MS. KATHLEEN MCCANDLESS: Kristen, could we please go to PUB-MPI-2-25.

And the question here was asked that the Corporation provide a revised corporate salary analysis based on a vacancy allowance of a hundred (100) full-time equivalents and the current a hundred and twenty-eight (128) full-time equivalents for 2020/'21 and '21/'22.

And so if we go to figure 1, we can see that the vacancy allowance used by the Corporation, so at lines 2 and 3 under Budgeted Vacancy Amount at figure 1, that allowance is budgeted at $6.2 million?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And that's based on seventy-eight (78) full-time equivalents?

MR. MARK GIESBRECHT: Right.

MS. KATHLEEN MCCANDLESS: If we use the current vacancy allowance of a hundred and twenty-eight (128) full-time equivalents, so on the second column in from the right, and the vacancy allowance would be $10.2 million, yes?

MR. MARK GIESBRECHT: That's right. Yes.

MS. KATHLEEN MCCANDLESS: Roughly $4 million higher than the current level?

MR. MARK GIESBRECHT: Than the current level, yes. Yeah. The higher the assumed vacancy amount, on an FT basis, the higher the dollar savings would be.

MS. KATHLEEN MCCANDLESS: Okay. To what, if any, extent is the vacancy rate related to COVID-19 payroll savings at September 30th?

MR. MARK GIESBRECHT: Generally speaking, what we've done on initial stages of the pandemic is we -- we did, you know, given the uncertainty of the pandemic and some of the changes in the work flows, as there were vacancies that -- that arose, we were not quick to fill a number of those positions through the early stages of the pandemic.

As of right now we are filling any roles that are budgeted. They are being recruited for actively.

And so there -- there was a higher level of vacancy earlier in the pandemic, and now we're starting to see that come back down to a lower level.

MS. KATHLEEN MCCANDLESS: And perhaps just directionally or generally, how does the detail of compensation expense change given what we know from this year's COVID-19 experience, if you could speak to that.

MR. MARK GIESBRECHT: For -- for this year we do expect that we will have a -- our actual expense come in under budget because of the level of vacancy that has been in excess of the budgeted amount.

MS. KATHLEEN MCCANDLESS: Is MPI subject to any government direction with respect to maintaining a certain vacancy rate?

MR. MARK GIESBRECHT: No, there's no specific direction to maintain a certain vacancy rate.

In the early part of the pandemic, we had committed to doing our part to manage the business as best as possible but there is no mandate to specifically target a certain number.

MS. KATHLEEN MCCANDLESS: Thank you.

Now, with respect to broker commissions, and I appreciate, Mr. Giesbrecht, that there are some questions I'll be asking today that this issue touches on what we will be speaking about with respect to Project Nova, and next week as well when Mr. Wennberg testifies.

So, I will be getting into it in not any great detail today. And as I believe the Chair mentioned, we may have to have you back next week if Mr. Wennberg provides some evidence that needs follow-up from you so.

So Kristen, could you please go to PUB MPI 1-56, and Figure 2.

And this schedule shows the commissions and fees paid to brokers based on the existing agreement between MPI and the brokers for 2015/'16 through to what's projected for 2024/'25 as of right now, yes?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And so the current rate for writing an Extension policy, at line 10, is 19.75 percent.

MR. MARK GIESBRECHT: That's correct.
MS. KATHLEEN MCCANDLESS: And 3 percent for Basic.
MR. MARK GIESBRECHT: Yes.
MS. KATHLEEN MCCANDLESS: And at the last GRA, we heard that the broker commission arrangement was to expire in February of 2021.
MR. MARK GIESBRECHT: That's correct.
MS. KATHLEEN MCCANDLESS: And as of today, you're not able to say what, if any, changes there are to this current commission structure.
MR. MARK GIESBRECHT: That is a true statement.
MS. KATHLEEN MCCANDLESS: And if we go up to Figure 1 -- thank you -- this schedule reflects total commissions to Basic and Extension, yes?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: Yes, there's two (2) separate lines. Yes.
MS. KATHLEEN MCCANDLESS: And at line 11, we can see that last year, so 2019/'20 actual, MPI incurred $42.3 million in commissions for Basic?
MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And based on what we know currently, commissions are expected to increase somewhat in the current fiscal year to $43.8 million?

MR. MARK GIESBRECHT: Yes. It's purely a function based on premium changes.

MS. KATHLEEN MCCANDLESS: And does this represent commissions for all writing -- writing all policies, as well as transaction-based fees?

MR. MARK GIESBRECHT: Yes, yeah, I believe so.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And if we go down to Figure 2 again.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: We see that Basic commissions remain roughly the same for 2021/'22, and then increase in 2023/'24 and '24/'25, yes?

MR. MARK GIESBRECHT: Yes. That would follow the similar trend to the written premiums.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And do we see anything here that would represent the expected shift in premium to Extension from implementing CERP?

MR. MARK GIESBRECHT: Yes, that is all modelled in these figures.

MS. KATHLEEN MCCANDLESS: So that would explain, then, the increase from 2021/'22 in Extension at line 3 --

MR. MARK GIESBRECHT: Yes, that's factored in.

MS. KATHLEEN MCCANDLESS: -- through the -- '22/'23 through to '24/'25?

MR. MARK GIESBRECHT: Correct.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And so, Mr. Giesbrecht, those are my questions on commissions, but there will be more going forward, and I believe Mr. Williams will have some -- an item to give by way of undertaking as well that we will be asking about later.

So I'd like to jump now, just briefly,

to regulatory and ex -- appeal expenses, and that would be at PUB-MPI Figure 1-57 -- or 1-57, Figure 1, please.

And this schedule shows regulatory and appeal expenses?

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: And at line 4, we see that regulatory costs for 2019/'20 actual were $4.7 million?

MR. MARK GIESBRECHT: I see the total on line 4 for 2019/'20 at $4.46 million.

MS. KATHLEEN MCCANDLESS: Pardon me. Four point five -- yeah, four point six. Pardon me. And then 2020/'21, the forecast is four point six seven (4.67), yes?

MR. MARK GIESBRECHT: Right, yeah. Modest increased year over year after '19/'20.

MS. KATHLEEN MCCANDLESS: Thank you. And then the detail. Can you explain what AICAC and CAO are?

MR. MARK GIESBRECHT: Yeah, that's AICAC and the -- the Claimant Advisory Office. So these are appeals mechanisms. So they're not around rate setting, but around claimant appeals to different aspects of -- of their -- their premium or their --

their claims.

MR. STEVE SCARFONE: Ms. McCandless, the AICAC is the Automobile Insurance Compensation Appeals Commission. So what -- that's where an injured claimant goes for their appeal.

MS. KATHLEEN MCCANDLESS: Thank you. And so the very bottom of Figure 1 shows the comparison between the forecast as set out in the 2020 GRA compared to this GRA, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And can you explain the variation at line 21 for the forecast for AICAC and CAO?

MR. MARK GIESBRECHT: Yeah, there's a -- a slight decrease in that amount. I may need to get some back-row support to determine -- the thing that's coming to -- to mind, exactly what's driving that, it's a relatively small decrease, but I'm not -- not sure. So I can get back to you on that one.

MS. KATHLEEN MCCANDLESS: Okay. Perhaps if you find that over the course of your testimony. I'm not sure we need an undertaking for that information.

And does this amount represent both internal and external costs to MPI?

MR. MARK GIESBRECHT: That amount would be, I believe, primarily external to MPI, if not all.

MS. KATHLEEN MCCANDLESS: And then with respect to the PUB expenses, so first at line 2 for the 2021 GRA forecast, we see the forecast base of 1.8 million, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And last year's actual was 1.6 million?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And this cost, does this include both internal and external costs for MPI?

MR. MARK GIESBRECHT: It does.

MS. KATHLEEN MCCANDLESS: Okay. And, roughly, do you know what the proportion is of external versus internal cost?

MR. MARK GIESBRECHT: Yeah, I -- I would rather not hazard a guess on that. It'd be -- it'd be more so on the external side, but I don't have that at my fingertips, the exact split.

MS. KATHLEEN MCCANDLESS: Would it be possible to provide the detail of that so --

MR. MARK GIESBRECHT: It would be easy

to do so, yes.

MS. KATHLEEN MCCANDLESS: Okay. So the undertaking would be to provide the proportion of internal versus external costs for regulatory appeal expenses for the Public Utilities Board as set out in Figure 1 of PUB-MPI-1-57, and we would say for 2019 actual, 2021 -- 2020/'21, and 2021/'22.

MR. MARK GIESBRECHT: We will undertake to do that.

--- UNDERTAKING NO. 21: MPI to provide the proportion of internal versus external costs for regulatory appeal expenses for the Public Utilities Board as set out in Figure 1 of PUB-MPI-1-57 for 2019 actual, 2020/'21, and 2021/'22.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. With respect to the internal costs, can you explain what the nature of the internal costs would be for the PUB regulatory process?

MR. MARK GIESBRECHT: Yes. We have a regulatory affairs department made up of a few personnel, so it would be primarily salary costs for individuals who are solely focussed on the delivery of the -- of the GRA.

I -- I should add that we also have a number of staff that aren't dedicated but they do a lot of work that is -- a lot of hours dedicated to the process. But we do have a -- a small staff of a handful that -- that that is all that -- that they do is focus on the General Rate Application process.

MS. KATHLEEN MCCANDLESS: Thank you. And then looking to the bottom of the schedule, the difference between the 2021 GRA and the 2020 GRA in terms of the PUB costs, we see that there -- MPI is now forecasting a decrease in those costs from 2021 through to the outlook period, yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Can you explain the reason for that variation?

MR. MARK GIESBRECHT: The primary reason would be the actual result in 2019/'20 as compared to the initial estimate. It came in lower, and then that lower amount then trended out through the forecast period.

MS. KATHLEEN MCCANDLESS: Thank you, Mr. Giesbrecht, Mr. Johnston. Those are my questions on expenses.

MR. MARK GIESBRECHT: Thank you.

THE PANEL CHAIRPERSON: Thank you, Ms. McCandless.

Mr. Williams...?

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Yes. Thank you, Madam Chair. And I do have the pleasurable duty of reporting that between things that we are deferring to Mr. Wennberg and then the many things I've stroked off my list from My Learned Friend's previous cross-examination, I expect to be mercifully short.

I do want to start with a proposed undertaking to Manitoba Public Insurance and it's based upon conversations with -- between legal counsel who are in the room right now.

And I'll note that this relates to an undertaking we would expect to be filed in confidence, but this is what I can share about the undertaking for the public record.

And we're requesting that Manitoba Public Insurance undertake to provide a comparison between the brokers commission, estimated for Project

Nova, as found in the Legacy system modernization business case, a CSI document PUB 1-73 at page 18. And as compared to the broker commission estimates found in the current General Rate Application and is exemplified in PUB-MPI-1-56.

And so, that's the basic request. And I'll just say, from our clients' perspective, ideally it would be adjusted as necessary for the CERP, its implications, as well as any timing changes given the fact that the estimates were prepared at two (2) different points in time. One for '18/'19, one for the current year.

And to the extent there are -- that there are any methodological or revisions, that there be a narrative explaining them.

--- UNDERTAKING NO. 22: MPI to provide a comparison between the brokers commission, estimated for Project Nova, as found in the Legacy system modernization business case, a CSI document PUB 1-73 at page 18. And as compared to the broker commission estimates found in the current General Rate Application and is exemplified in

PUB-MPI-1-56.

DR. BYRON WILLIAMS: Do you want me to repeat that, Mr. Scarfone? I'm --

MR. STEVE SCARFONE: No, I don't think so. I -- I've made a note and it's on the record. And it's as per our discussion.

I do wonder, perhaps, what the response to that undertaking would look like; whether you would want it in a -- in a narrative format, whereby there's an explanation provided to the extent there's a difference in -- in PUB-173 and one-five-six (156).

But I got your point about adjusting it, as necessary, for CERP and then the timing. But how do you want that comparison to look, I guess, is the question?

DR. BYRON WILLIAMS: I think we would want it numerically portrayed as a table. But if there's a narrative that goes with it -- like, there are -- the numbers are -- if we went to -- you know, if we went to PUB-1-56 or if we went to the CSI, you would see an -- an estimate of the -- of the broker commissions provided.

And I -- maybe this can go offline. I guess, the question I'm struggling with is to the --

actually, I'd better go offline. I'm just thinking of how the CSI appears. So -- but that's the general undertaking I'm asking for.

I think we should discuss it offline because I'm afraid I'm going to say something I'm not --

MR. STEVE SCARFONE: Yeah.

DR. BYRON WILLIAMS: -- allowed to.

MR. STEVE SCARFONE: That's fine. But I understand the essence of the undertaking and --

DR. BYRON WILLIAMS: And -- and MPI is prepared to accept that subject to modifications we may make in the --

MR. STEVE SCARFONE: Yes.

CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Okay. If we could turn to CAC-MPI-1-8. And Perhaps we can start with the -- the initial question, Ms. Schubert. Go back up to the preamble. And then, we'll -- we're going to then turn our attention to Appendix 2. But just -- we'll stay here.

Mr. Giesbrecht, earlier, you talked to My Learned Friend about the automobile insurance appeal commission under the acronym of AIAC.

You'll recall that, sir?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And there was a review of its operations and its relationship both with the claims advisory offices and MPI, with one (1) of the objectives being an expedited independent appeal process. Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And if we could go to Appendix 2, page 1 of 12, under 'Current state of the target'. Just one (1) second.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Giesbrecht, would we be understanding this correctly that, at the time the review was initiated, the -- the estimated average length of time from the notice of appeal through the -- the conclusion on the process was between five hundred and ninety-five (595) days and -- and six hundred and fifteen (615) days.

That was the starting point of when you started on the exercise?

MR. MARK GIESBRECHT: Yes. I am not directly involved or aware of all this information.

But based on the report, that's what's stated there, yes.

DR. BYRON WILLIAMS: And if we can go the next -- top of the next page.

In essence, what it's telling us that -- at the time the review was undertaken, once they did all the adjustments, the combined duration for our customer, going through all three (3) steps of the review and appeal process, could be thirty-two (32) months. Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And then, if we can go to page 5 of 12 to the 'Conclusion'.

And it's suggesting that under the improved process, the process -- if one went through the three (3) steps, being IRO, mediation, and the appeals commission, would total twenty-six (26) months. Is that what that's suggesting to us there?

MR. MARK GIESBRECHT: Yes, I believe so.

DR. BYRON WILLIAMS: Okay. And if this is on the record, Mr. Giesbrecht, and I've missed it, I apologize for that. Or perhaps it's too soon.

Is -- is -- is the process tracking to that -- that metric of twenty-six (26) months? Or are you aware?

MR. MARK GIESBRECHT: I am not aware. It may be too soon to --

DR. BYRON WILLIAMS: Yeah.

MR. MARK GIESBRECHT: -- to state that at this point.

DR. BYRON WILLIAMS: And, Mr. Giesbrecht, just on this point, does the Corporation -- would it consider this amount of time, being a twenty-six (26) month start to finish process, recognizing the steps to improve it, would it consider that to be acceptable for -- for claimants? Or -- or is there still significant room and need for improvement?

MR. MARK GIESBRECHT: I don't think I'm in a position to comment on what would be a reasonable time frame. Generally speaking, the shorter the better. We would like to see that to be a shorter -- but I -- I couldn't comment on what it should be or what a target should be. That -- that may be more of an operational question.

DR. BYRON WILLIAMS: Okay.

MR. STEVE SCARFONE: Yes. I think Mr. Wennberg will be able to respond --

DR. BYRON WILLIAMS: He'll be able to

speak to that?

MR. STEVE SCARFONE: -- more properly when he's here, I think on Monday, for PIPP.

But it's -- it's -- it's worth noting that this -- this process is essentially the old personal injury lawsuits that used to happen at York and Kennedy. So the -- they take some time.

DR. BYRON WILLIAMS: Yes. We'll -- We'll debate that, I guess, with Mr. -- Mr. Wennberg.

Madam Chair, I was busily stroking off questions as we went through. And that's it. My Learned Friend for the PUB has canvassed the rest of the issues I intended to canvass.

THE PANEL CHAIRPERSON: Thank you, Mr. Williams.

Mr. Gabor, do you have any questions? Ms. Hainsworth, do you have any questions?

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

THE PANEL CHAIRPERSON: Mr. Scarfone, any re-direct?

MR. STEVE SCARFONE: No. If I was even half as able as My Learned Friend in reading these financial statements, I might have a question. But I do not.

THE PANEL CHAIRPERSON: Okay. Thank you. Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Yes. Madam Chair, just an update on progress. We are actually making good progress on the schedule.

And so, as discussed at the break with counsel, tomorrow not only will we have the Project Nova panel, but after lunch we will have the IT/Value Management panel attend. They were initially scheduled to attend on Friday.

So we will still hold the in-camera session on Friday, but we can probably get through the public IT panels tomorrow.

And then, We'll resume on Friday morning at 9:00 with the in-camera session for commercially sensitive Information.

MR. STEVE SCARFONE: And one (1) further thing, Madam Chair, before we break. I did promise to Ms. McCandless a response on an undertaking yesterday that she asked related to CERP and how much monies are transferred from property damage to collision under the new -- under the new system.

So we did advise in a response to PUB 2-4 that we didn't calculate it at that amount that was so transferred because it wasn't -- it had no net affect on the overall loss costs.

But I'm told that it would be an onerous undertaking to calculate that. So what the Corporation is proposing is that we provide a high level estimate by assuming that the amounts transferred will increase by two hundred and fifty dollars ($250) for all situations where there was a transfer of five hundred dollars ($500), if that helps.

MS. KATHLEEN MCCANDLESS: Well, that's probably something I'll need to talk about offline and get back --

MR. STEVE SCARFONE: Okay.

MS. KATHLEEN MCCANDLESS: -- to MPI about.

MR. STEVE SCARFONE: Okay.

MS. KATHLEEN MCCANDLESS: I'm not able to say right now.

MR. STEVE SCARFONE: The -- the difficulty as I understand it -- and I don't pretend to -- to know about all this -- but the transfers aren't explicitly captured on the claim that receives the transfer because it's a -- it's a -- it's the driver that wasn't at fault. So getting that Information with that kind of detail is not possible.

MS. KATHLEEN MCCANDLESS: I have an update for you. What MPI proposes is acceptable.

MR. STEVE SCARFONE: Oh, excellent. And then, so on -- on the second one that we took under advisement for Mr. Williams, we're happy to report that we can provide that mobility data.

DR. BYRON WILLIAMS: I can update that that also is acceptable.

MR. STEVE SCARFONE: Okay. Good.

THE PANEL CHAIRPERSON: Wonderful. We're making great progress.

And there's nothing further for this afternoon, Ms. McCandless?

MS. KATHLEEN MCCANDLESS: This is it for the afternoon.

THE PANEL CHAIRPERSON: Okay. Thank you. We'll adjourn until 9:00 tomorrow morning. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

MR. STEVE SCARFONE: Thank you.

--- Upon recessing at 2:07 p.m.

Certified Correct

____

Donna Whitehouse, Ms.