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

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Pages 1163 to 1381

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	) CMMG
Antoine Hacault (by phone)	) Taxicab Coalition

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

THE PANEL CHAIRPERSON: Carol, are you on the line?

MS. CAROL HAINSWORTH (by phone): Yes, I am.

THE PANEL CHAIRPERSON: Great. Thank you.

Okay. Good morning, everyone. I believe that we are going to start this morning with questions for Mr. Giesbrecht from Mr. Williams that the Panel on Friday was unable to answer. So please proceed.

RESUMED:

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

LUKE JOHNSTON, previously Affirmed

MARK GIESBRECHT, previously Affirmed

CONTINUED CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Yes, and we're going to start with some questions which probably should have been directed to Mr. Giesbrecht last week, so it was my fault on Thursday when I -- I directed them to the wrong panel. So, Mr. Giesbrecht, I appreciate your courtesy in -- in coming back.

And -- and perhaps Ms. Schubert can pull up CAC-2-20, and you can just leave it on the -- the first page for right now.

Mr. Giesbrecht, generally speaking and currently, Manitoba Public Insurance does not debt finance any of its project initiatives, correct?

MR. MARK GIESBRECHT: That is correct.

DR. BYRON WILLIAMS: In essence, its capital projects currently are financed through cash generated from operations, agreed?

MR. MARK GIESBRECHT: That is correct. We will have the amortization of our capital projects flow into the -- the future forecast. They will then flow into the rate-making process and -- and are generated through cash and operations.

DR. BYRON WILLIAMS: Thank you. And then just to make sure I understand that, in the context of Basic capital expenditures, ultimate project costs are recovered by insurance ratepayers as the programs are amortized over time and included in future years' Basic expenses for the purpose of rate setting. Is that right?

MR. MARK GIESBRECHT: Sounds about

right, yes.

DR. BYRON WILLIAMS: And when we look -- just jumping to the minimum capital test just for one (1) second and we look at the estimate of capital available under the minimal capital test calculation, cash accounts would be considered in that estimate, sir?

MR. MARK GIESBRECHT: It is. However, they have typically a zero charge for -- for capital but yes.

DR. BYRON WILLIAMS: If we just go to the CAC-2-20, Attachment A.

Sir, this shows the -- the interest rates on fixed-term loans made by the Province of Manitoba to the Crown Corporation and government agencies, effective September 1st, 2020.

Would that be fair?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And if we focussed on the -- the second column, being Principle to be Repaid at End of Term, and went down to the twenty (20) year term, does that suggest that payments of loans on fixed-term loans from the province of Manitoba for a twenty (20) year term, it's costing MPI about 2.65 percent?

MR. MARK GIESBRECHT: If we were to access through this lending program --

DR. BYRON WILLIAMS: Yeah.

MR. MARK GIESBRECHT: -- yes.

DR. BYRON WILLIAMS: Exactly. Sorry. And that's for refining that question.

And to your knowledge, sir, that would reflect nearly all-time lows in terms of long-term debt?

MR. MARK GIESBRECHT: At twenty (20) years, I would expect that would be near or at all-time lows.

DR. BYRON WILLIAMS: And, Mr. Giesbrecht, let me assure you our client is agnostic on the issue, but presumably, as compared to purely cash financing its capital projects, one (1) other option for Manitoba Public Insurance would be to finance them through debt financing or some mixture of debt financing and cash?

MR. MARK GIESBRECHT: That would be an option.

DR. BYRON WILLIAMS: Yeah. And a third way presumably to finance its capital projects might be to pre-collect the capital from prior ratepayers and draw down retained earnings from ratepayers to finance a project as well?

MR. MARK GIESBRECHT: Possibly. I'm not sure how that would be reflected in the rate-making process. It's a possibility, but I couldn't speak specifically if that was a true option or not.

DR. BYRON WILLIAMS: We did speak last week, though, about a couple of circumstances where Manitoba Public Insurance in the past financed capital projects through the pre-collection and the draw down of Extension, agreed?

MR. MARK GIESBRECHT: I don't recall being a part of that conversation, so I'll take your word for it.

DR. BYRON WILLIAMS: Okay. Would it be accurate to say that Manitoba Public Insurance, in terms of the implications for the Corporation, its ratepayers, or the Capital Management Plan, has not reviewed the comparative strengths and weaknesses of cash financing versus debt financing versus pre-collecting to finance capital projects or combinations of that? You haven't done a critical assessment of that, sir, or -- or have you?

MR. MARK GIESBRECHT: Only very high level. I wouldn't say we've gone through a -- a thorough -- as you've described, a critical

assessment, no.
DR. BYRON WILLIAMS: And it would be fair to say that MPI has not considered the implications of debt financing on the Capital Management Plan or the overall capital structure of the Corporation?
MR. MARK GIESBRECHT: Not to the length that you describe.
DR. BYRON WILLIAMS: Okay. And just if we can turn your attention to the Corporation's response to CAC/MPI 2-2(b) and (c).

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Sir, you -- you see a reference suggesting that MPI is currently examining a strategic alliance -- alignment of its Cap. Ex. capital structure? You see that, sir?
MR. MARK GIESBRECHT: I do.
DR. BYRON WILLIAMS: And that that management review will be completed in late 2021, correct?
MR. MARK GIESBRECHT: Yes.
DR. BYRON WILLIAMS: And also a statement near the -- the end that the risk-reward

tradeoff will be considered in the -- in the Management Review. You see that reference, sir?

MR. MARK GIESBRECHT: I do.

DR. BYRON WILLIAMS: Just -- I wonder if you can at a high level just elaborate on -- on what's contemplated or what's being assessed in terms of the strategic alignment of its Cap. Ex. capital structure, sir.

MR. MARK GIESBRECHT: Certainly. So currently, we do not debt finance because we have the -- the cash means to -- to pay for our various projects. And so if we were to borrow funds through the government lending program, that would be additional cash that we would have at our disposal which could be then invested to -- to gain a return.

And so the whole premise of this -- I believe that what your client is getting at is there could be a spread gain between the low cost of borrowing, that two point six (2.6) that was referenced in that provincial schedule. And if we could then over that time period earn a return greater than that, then that could be to the benefit of Manitobans.

And so we will look at, you know, what are the spreads, what are the investment options, what are the risks associated with those different investments? You'd have to look at all those factors to consider is it worthwhile to go down that path.

So right now, if we look at the current spreads, while the cost of borrowing for the province is at near all-time lows, the investment options, if we're looking at fixed income, are also at all-time near lows. And so there's -- there's -- little reward in that regard.

So, you'd want to then consider growth assets, equities, as an example, but then, of course, you're taking the risk of would you actually have those funds available when it came time to repay that -- that debt. So, those are the factors that would be considered.

DR. BYRON WILLIAMS: Thank you for that. And when one's looking at the -- the costs and the benefits, would one be looking at that exclusively through the eye of the financial position of Manitoba Public Insurance or would one also be considering the -- the value for ratepayers, their -- their value in terms of the various options?

MR. MARK GIESBRECHT: Ultimately, it all would come through the eyes of the ratepayer. There's -- there's really two (2) aspects to it.

There's the immediate impact to current rate setting, and then what is the ultimate impact on the capital position of the Corporation, or for Basic, that would have a future benefit, as well.

So -- but it's all about what is the -- the end result to ratepayers.

DR. BYRON WILLIAMS: Yeah. And the point I was trying to get at very inelegantly, sir, is that Manitoba Public Insurance has a certain cost of capital. Ratepayers may, indeed, have a very different cost of capital if -- if they're looking at lower rates that enable them, for example, to pay off credit card debt or something like that.

Do you understand my point, sir?

MR. MARK GIESBRECHT: It would be very different for sure, individual versus corporate.

DR. BYRON WILLIAMS: And so, my question is: When -- when MPI does that assessment, does it look exclusively at the value financially for Manitoba Public Insurance or does it go that extra step and look at the -- you know, some notional social discount rate for consumers?

MR. MARK GIESBRECHT: Interesting question. I -- I'm not sure I have the answer. That could be contemplated. But at first thought, I would think we look at how does it impact the financials of MPI, and then ultimately back to rate setting, which is what a customer will pay as opposed to using some sort of notional cost of capital.

We should also note that, if we were to borrow funds, utilize those funds to pay for projects, and then invest excess operating cash, there would be a capital required on that investment, as well, so there could be short-term requirements or implications as opposed to the long-term benefits in the rate setting process.

DR. BYRON WILLIAMS: Okay. Just my last question. In terms of this review, and if you can speak to this, what, if any, implications would it have for the financing of Project Nova, for example?

MR. MARK GIESBRECHT: We're early in the Project Nova, so we have not yet spent much of the anticipated budget.

If we were to determine that this was a viable option and made sense to do so, I would expect that we would know soon enough to deploy or to -- to fund the majority of Project Nova if it made sense to do so.

And just to give a bit of context to the potential impacts that we're looking at, and this is just kind of early rough math, but, you know, if we look at corporate bonds, whether they be single rated 'A' or BBB, those kind of spreads as they stand today would yield roughly, we're -- we're talking pennies to the -- the rate-setting process.

On the equity side where there could be a greater return derived, if we had returned, roughly speaking, 6 1/2 percent return on average over that period, you know, we're talking less than a dollar impact on the rate-setting process, so it -- it's not a material difference to -- to rate setting.

DR. BYRON WILLIAMS: Okay. Thank you. I appreciate those answers. And you're excused, from our clients' perspective.

THE PANEL CHAIRPERSON: Mr. Gabor...?

THE CHAIRPERSON: Mr. Giesbrecht, I've got a few questions. Just on this page where it says:

"MPI anticipates a management review will be completed in late 2021."

Can you give me a month or months? What do you mean by, "late 2021"? What's --

MR. MARK GIESBRECHT: I'd say Q4 of -- of the year. It is on our controller's to-do list, so to speak, amongst other priorities. So, what we committed to in this answer was late in the fiscal year of 2021, so that would be sometime probably in -- between January and March of 2021.

THE CHAIRPERSON: Right. So, we're talking next spring --

MR. MARK GIESBRECHT: Yes.

THE CHAIRPERSON: -- something like that?

MR. MARK GIESBRECHT: Yes.

THE CHAIRPERSON: Okay. Secondly, further to Mr. Williams's comment where he put the hypothetical to you of come up with more cash, and then you can invest, you're in a position -- part of the management review is we -- we've generated more cash, however you've done it, and then we can invest it to see what the reta -- return is.

We've heard that MPI has a very specific investment strategy based on allocating funds to different things. If you were going to invest, would it follow that strategy or do you think that there would be potentially a different strategy that would take into account higher rates of return for these funds?

MR. MARK GIESBRECHT: It's possible that we could look at something unique given this could be over a specific time period for a specific purpose to be determined.

THE CHAIRPERSON: Yeah.

MR. MARK GIESBRECHT: It -- it may fall into RSR and a surplus of Extension SRE on a pro rata basis, for example, but it -- it could be on a standalone basis, but we'd have to go through that full analysis to make that determination.

THE CHAIRPERSON: Thank you. Those are my questions. Thanks.

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

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

THE PANEL CHAIRPERSON: Thank you. Mr. Scarfone, any redirect?

MR. STEVE SCARFONE: Sorry about that. No, Madam -- or, no, Madam Chairperson, there's -- I have no redirect.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone. And thank you, Mr. Giesbrecht.

(PANEL STANDS DOWN)

THE PANEL CHAIRPERSON: So, we will now proceed with the next panel. Mr. Wennberg is here and has not been sworn. I'm not sure where our secretary is. If she's listening, perhaps she could come. Here we go.

MPI PANEL NO. 7 re Benchmarking/PIPP/Claims Incurred:

LUKE JOHNSTON, Previously Affirmed
CURTIS WENNBERG, Affirmed
MARK GIESBRECHT, Previously Affirmed

THE PANEL CHAIRPERSON: Mr. Scarfone...?

MR. STEVE SCARFONE: Thank you, Madam Chair. I'm just trying to sort out what's happening. So, I can -- I -- I can tell you that we have this presentation before you on benchmarking and claims forecast.

I've just been asked by Mr. Giesbrecht that he's going to speak to the first few slides on operational benchmarking. And if the -- the questions arising from that -- if there are questions arising from that, then Mr. Giesbrecht can -- can also stick around and answer those questions from My Learned Friends.

But we have that in front of us, and

that's up next. Just before we begin though, perhaps I should mark it as an exhibit. It's not the next exhibit though. MPIC will mark as its next Exhibit number 41, which is the highly anticipated response to Undertaking number 22. And I -- I have it here before me on hard copy. It's on blue paper, which tells me it's top secret. But I can circulate those to everyone if they want a copy.

--- EXHIBIT NO. MPI-41: Response to Undertaking number 22

MR. STEVE SCARFONE: It might be a useful time, if I might, to remind -- a gentle reminder that this particular undertaking was on broker commissions, and it asked for an update to some commissions that were estimated for the original business case for Legacy systems modernization and -- and compare those against the estimated commissions in the 2021 GRA.

So, a lot of work went into providing the new information that's in this response. It's adjusted for CERP, as we know.

And so, we're just reminding everyone that, if we can get these earlier -- so this probably could have been asked in the Second Round, I would expect. There's nothing new that prevented the undertaking from being asked last week. But we do have an updated version of the chart that's in PUB-173.

The second exhibit is the benchmarking and claims forecast presentation that's before you.

Exhibit number 43 is undertaking number 2. And Exhibit number 43 is MPI response to undertaking number 3.

--- EXHIBIT NO. MPI-43: Benchmarking and Claims forecast presentation.

--- EXHIBIT NO. MPI-41: Response to Undertaking number 3

DR. BYRON WILLIAMS: Madam chair, if I can assist My Learned Friend from MPI. I can indicate that in terms of benchmarking, our client does not anticipate any questions.

THE PANEL CHAIRPERSON: Thank you, Mr. Williams.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone. Just one (1) question.

With regard to undertaking number 22, is there information in there that is -- where questions are best answered by Mr. Giesbrecht?

MR. STEVE SCARFONE: Probably to some extent Mr. Giesbrecht. And I expect that Mr. Wennberg may be able to respond to some of those questions as well. So as --

THE PANEL CHAIRPERSON: Okay.

MR. STEVE SCARFONE: -- Madam Chairperson is suggesting that he just stay for -- for the day, essentially, if there's questions that -- because I spoke with My Learned Friend, Board Counsel, sounds as though we're probably going camera later today --

THE PANEL CHAIRPERSON: Yes.

MR. STEVE SCARFONE: -- to deal with that undertaking. And Mr. Wennberg is available also to be in camera for other issues that we may have questions on, including the -- the broker update that the Mr. Giesbrecht provided last week, to the extent that there is one.

THE PANEL CHAIRPERSON: I think that it's -- it's really up to you, Mr. Scarfone, in consultation with Mr. Giesbrecht. But if he can do the benchmarking position of this panel's information, and then, you know, subject to how long the balance of the presentation and questions are likely to take, he could come back for the CSI. And so, that he doesn't's have to stay for the entire morning, if it's easier to --

MR. STEVE SCARFONE: Yes.

THE PANEL CHAIRPERSON: -- deal with benchmarking, go back to the office, and then come back.

MR. STEVE SCARFONE: Very good. That Sounds like a plan. And I see him shaking his head 'yes'.

So if there's nothing further, I'm just -- I was trying to -- I thought there was one (1) further undertaking that we had, but I can do that after the morning break. And then we can begin with the presentation. I provided Kristen with a copy for Mr. Gabor, a hard copy that he should have.

THE PANEL CHAIRPERSON: Yeah. Thank you. Please proceed.

EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

MR. MARK GIESBRECHT: All right. I'll

begin with a brief discussion on benchmark before passing to Mr. Johnston and Mr. Wennberg to speak to the other issues for the panel.

So with respect to operational benchmarking, there are -- there's different facets of benchmarking that we historically have undertaken. One (1) report that we had relied on -- on in past was through a consultant group called the Ward Group. And this was a benchmarking exercise that had a number of metrics compared to the North American market, the Canadian marketplace, for P&C insurance and auto insurance.

And we had participated in this for a number of years, however, last year, our executive committee had made the decision to not continue with that exercise. And, instead, to pursue a collaboration with our -- our Crown peers to the west.

So we have been in talks with those Crowns and we are close to complete a high level benchmarking exercise that would, in a way, reproduce some of the main metrics that were included in that Ward Group report.

We have encountered a few difficulties in wrapping this up and bringing it to a point where it would be ready to be made public, just due to some various issues with some personnel at the various corporations, as well as the pandemic has caused some -- some changing of priorities. So that -- we do expect to complete that, hopefully, some time in the next couple of months. And it would be made available at future GRAs. But as right now, we do not have a report from, you know, that -- that exercise with SGI and ICBC.

On to the next slide. Speaking to information technology, we do also do a thorough benchmarking exercise which, in the past, had been led by Gartner, who is an industry leader in that space.

Last year, we had undertaken to -- to re-issue an RFP to -- to, again, conclude who would be the best suited to continue on that basis. And it turned out that -- that Gartner did win that process. And so, they continued to provide benchmarking from an IT perspective to MPI.

We also do a number of benchmarking to other jurisdictions in terms of rates that ratepayers set and see. And MPI does continue to perform favourably when comparing to other jurisdictions. And then, that is seen in the reports that we file based on a number of the most common vehicles that we find here in the province.

So what we see there is, since the beginning of the year 2000, we have had roughly a 1.76 percent increase year-over-year on our rates. So less than 2 percent. And that -- that does place us very favourably as compared to other jurisdictions where we've seen headlines of late where there's caps being removed in terms of the regulatory landscape, whether it be Ontario or Alberta. And -- or -- or the east coast, where we're seeing double-digit rate increases.

And so, you know, it's always a very interesting exercise to compare against other jurisdictions and we do -- it shows the value of the -- the public model.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: So I'll pass it over, I believe, to Mr. Johnston to talk about claims.

THE PANEL CHAIRPERSON: Excuse me for one (1) moment. Do you want to deal with the rate-making process now, so that Mr. Giesbrecht can be excused? And then, we'll go on to Mr. Johnston? I'm sorry, benchmarking. Yeah.

MR. STEVE SCARFONE: Yes. So what we envisioned was having Mr. Johnston just carry on with the presentation and then, at the conclusion of it, have both gentlemen here to answer any questions.

THE PANEL CHAIRPERSON: Thank you.

MR. LUKE JOHNSTON: Good morning. So the -- going into the claims forecast, the agenda you see here is really hitting the -- the highlights. There's, obviously, a lot going on in the collision side, but the big items would be, I guess, the first pretty significant -- volatility in our claims forecast. COVID is an obvious reason, but we've also seen -- the second bullet point -- pretty big changes in collision frequency in recent years.

Third bullet point related to centralized reserving, I'll talk about that. Just how we manage and reserve PIPP claims. And then, COVID. And the last bullet point on CERP.

Maybe it's best to maybe just jump to slide 9 and I'll go back.

So this slide just shows the total losses for Basic over the stretch since 2004/'05 to our forecast. Despite a lot of noise, year-to-year, that you see in forecasting and -- and such, for the most part it's a very stable experience. We have had a few ups and downs in there. Sometimes we have a hailstorm or something like that. But for the most part, Manitobans have driven pretty consistently over -- over time.

Average annual growth in claims over this -- over the historical stretch shown here has been 3.71 percent. And that -- if you look at our historical upgrade factors, a little over 2 percent. Volume growth is about 1 1/2 percent.

By staying in a growth environment of about this magnitude, we're -- we're able to keep rates -- rate changes close to zero (0), which is what -- what we've done.

If you can go back to slide 7, please.

So in terms of our ultimate losses -- so ultimate losses would be accidents that occur in a particular accident year, and the "ultimate" meaning that the actuary's estimate of the final settlement value of all -- all the claims that happened in that particular year.

If you look at the chart here, a couple of notable items. Twenty nineteen twenty (2019/'20) is a thirteen (13) month year. So we grew 2 percent over the previous year, but there's an extra month in there, so in reality, we were pretty favourably under budget.

2020/'21 includes adjustments for

COVID, so that -- that's why that number is -- is going down. And then '21/'22, we've essentially reverted back to the -- more of the historical trend line that you would have seen in that earlier graph.

Going far to the right column, you'll see some pretty dramatic reductions in the forecast. The '20/'21 year, of course, has adjustments for -- for COVID, but also some collision frequency reductions. '21/'22 and after reflects collision frequency and adjustments for the new products changes, and I'll run through those.

So this slide talks about the -- the rating year impact, so '21/'22. As mentioned, collision frequency, we've seen very favourable experience, and we continue to reflect that as we see it. So that was a $26 million adjustment to the forecast.

Collision severity has also performed better than -- than anticipated. As -- as you're aware, there was pressure on severity for a number of years. We saw some year-over-year increases in the 7, 8, 9 percent range, which was very unusual. That was a key driver in some of the rate increases that we needed a -- a few years ago. That is now -- appears to be under control or at least better understood in terms of the -- the annual growth.

The product changes amount to about 30 million a year. In the first year, only about half of those -- due to staggered renewals, we'll see about half of that impact. The remaining impacts, I would say, are minor, just updating the forecast based on observed results. Property damage is a pretty -- is a pretty significant decline relative to the size of that category, but that is simply a reflection of reduced collision frequency.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'm going to jump -- maybe just -- probably should have put these slides in a better order, but let's maybe jump to twelve (12), and I'll use the same approach.

We talked a bit about collision frequency reductions, and this slide is great in -- in, I guess, showing everybody what, you know, we've been faced with in terms of dec -- decision making on the forecasting.

So if you look at the history, you can see the grey line vol -- like, fluctuating in about the point one three (.13), point one four (.14) range, so thirteen (13) to fourteen (14) claims per hundred vehicles. And that was really the longer-term norm.

2013, we had that really bad winter, and so, you know, coming off of that, we definitely weren't expecting what we saw the next year, where 2014 just dramatically dropped to below -- below point one two (.12).

Since that time, we haven't come anywhere close to going back above point one three (.13), and if you look at the -- the orange line, that's the forecast we made at that time based on -- on the historical experience. So you can see pretty reasonable forecast at that time.

The previous few years were hovering around point one two (.12), but MPI still had to be cautious that we weren't just having a couple good winters and maybe we were going back to -- to, you know, his -- more historical norms.

A year later, you can see 2019 completely fell off the table in terms of frequency, and we're down to point one one (.11). It -- I wouldn't call the last winter a harsh winter by any means, but still, that's a pretty dramatic drop.

Our updated forecast, the grey line extending into the forecast period, you can see that we've definitely considered that drop in our forecast but not given it full weight, you know, based on one (1) year that -- that dropped to a record -- record low level.

So really, I think our point here is that MPI's -- you know, we don't feel like we're being conservative at all in this forecast. We're actually pretty aggressive if you look at the -- the recent history. But sure, could -- could collision be -- frequency be trending down even further? It's -- it's possible. Will it be easy to figure that out in a year with COVID impacting the frequency so dramatically? Probably not, but we'll have to deal with that one next year, yeah.

If you can go back two (2) slides.

So this is just the collision frequency and severity and ultimate in numerical form, basically what I talked about earlier on the frequency side. Severity, you can see we are at about forty-one (41), forty-two hundred (4,200) is the average collision severity for Basic, and the forecast variances including CERP are shown on the far right.

Next slide, please.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah, nothing really else to add on this slide except just to highlight the -- the COVID-19 adjustment in the '20/'21 year. So we've included an assumed $35 million benefit. And add a $25 million impact from '21 from frequency and about five (5) from severity, you get a total impact of about 61 million favourable in the '21 -- or, '20/'21.

Centralized reserving -- so moving on to injury claims. The -- you recall back in 2010, 2011, we talked about BI3 and some of the issues around that. The -- the biggest issue -- or, one (1) of the biggest issues involved reserving, and some difficulties with that system and other factors resulted in reserves not being put up appropriately in a lot of cases or -- or at least there was a lag.

The solution to that particular issue was to create a centralized reserving area that takes ownership of this particular issue and ensures consistent reserve-setting for all claims, particularly claims that reach about the twenty-four (24) month or later mark or serious claims that are quite obviously long-term claims when they happen, so like a major accident or such.

This process is working very well. The

main issue that we have from an actuarial standpoint is reserving patterns are changing. So what I mean by that is we created the centralized reserving area, put the rules in place. They're doing their job, but we're seeing reserves come in the system early, which is great because it -- it shows us exposure we have.

But the issue we're having on the actuary side is, okay, so what does that mean to future development? If we put more money in the early stages of the claim, will we see favourable development later on -- later on in -- in the cycle?

So for weekly indemnity -- this would be income replacement, lost income of claimants. We look -- it looks like we have a pretty good handle on this one. We've been, in a lot of ways, centralized reserving for -- for years.

We have seen a little bit earlier reserving but, for the most part, it's -- I would say it's stable. The big piece we're watching here is how quickly can we return claimants to work and preventing, I guess, non-serious claims from reaching that twenty-four (24) month period.

So, in previous hearings, we talked about more claims going lifetime than -- than normal and that that was putting a lot of pressure on -- on

PIPP.

We can't really see the full effects of that until, you know, we've run through this process. And -- and Mr. Wennberg can talk about that through questions, I guess.

If we get claimants back to work, we will see favourable development in later years and we would have reductions in the PIPP forecast, but until we see that it's pretty hard for me to change actuarial assumptions.

On the accident benefits other side, that would be other potential lifetime benefit streams, medical benefits, personal care expenses.

Historically, we did not centralize our lifetime reserve. A lot of these benefits were not to the same consistency as income replacement, so we've started doing that. This area's a bit new.

So, again, we're following the process, but on the actuarial side we're struggling a little bit to determine how development is coming in. And in our -- in our forecasts and our evidence, you'll see that we've lowered the estimates quite a bit for -- for this -- for these coverages.

We have seen favourable development come in in the years post the centralized reserves, so we started to adjust those numbers down.

Weekly indemnity. So just a couple highlights here. You'll note on the left second column claim counts have actually stayed pretty consistent over time, so that's really good news. As collision counts rise, injuries per collision are falling. So that's -- that's good news. We would be in a very different rate request situation if injuries were growing at the same pace as collisions over time. So that's really good new that those are stable.

In terms of ultimate costs and severity, so if you look at the 2010 year, you'll see that year costs, expected to cost, is about 91 million.

We are still in our forecast period kind of floating around the mid 90 million range. And we've only been able to -- to do that again because claim counts have stayed the same or even trending down over the forecast period.

You'll see severity, as well. We've peaked at around fifty thousand (50,000) or so, and we seem to be able to manage that at roughly inflationary levels or better.

Accident benefits other index, so, again, personal care, medical, rehab expenses, a similar story. Claim -- claim counts pretty stable or flat, which is great news.

Severity did have some growth in the 2010 to '14/'15 period. We seem to have that managed down to relatively inflationary levels.

If you look at the far right, you'll see variance to forecast. When I mentioned that we changed some of our development assumptions as a result of centralized reserving, those are the impacts there. So we -- we pretty significantly adjusted some of our numbers based on how claims were developing.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: COVID-19. I think we've discussed this quite a bit, so everyone's aware of the rebate and -- and how the capital -- where the capital came from.

As of August 31st, our -- our collision ultimate incurred is estimated to be about 13 million below what we forecasted in the GRA, so below -- in addition to the assumed COVID-19 savings that we included in the forecast.

So it has been a little better than -- than forecast. Can I say that the whole 13 million is

COVID? No, but probably most of it is. But just the -- I think the point here is that the difference is not really close to what it was in the early stages of -- of COVID. And we talked on the first day about how it's pretty difficult to predict what that'll be.

In terms of the additional scenarios MPI provided on COVID savings, so if we assume kind of a uniform returned forecast by December 31st, that would be an additional 15 million of savings. And if we assume the same uniform approach until the end of the fiscal year, March 31, 2021, that would be another 27 million.

So this graph just shows the frequency in the original filing and the different approaches to returning to the original forecast over time. So you can see the July/August, definitely a difference between what we forecasted, but nowhere close to the April/May type levels.

Product changes. We've talked about those a few times so I'm not going to go through the details again. This slide shows you how the approximately 30 million is broken down into the different coverages, a pretty equal split between collision and comprehensive. And then property damage just relates to the deductible transfer impact.

That's the last slide. Thank you.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Mr. Scarfone...?

MR. STEVE SCARFONE: Thank you, Madam Chair. Just a couple questions for Mr. Johnston and a few for Mr. Wennberg.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: So, Mr. Johnston, if Ms. Schubert can go to slide 12 of your presentation. Thank you. And we see there since in mid-2000s, it would appear, as the application indicates, that collision frequency is -- is -- has been showing a downward trend.

Is that -- is that fair to say?

MR. LUKE JOHNSTON: The first real evidence of any downward trend, I would say, was in 2014. And obviously, at that stage we would have looked back and said, well, this -- maybe this was a special year, right, it's so different. And then -- and then a few years after that, it hadn't really changed.

So I would say we -- we really stuck around that thirteen (13) -- or .13, .14 range for a while. And then we almost just stepped down, right down to .12 all of a sudden and -- and stayed there, and we might have had some good luck there.

But on an overall basis over, like, a longer term, it does appear that we are starting to -- to trend down on collision frequency.

MR. STEVE SCARFONE: And has the Corporation identified some reasons for staying down around that .12, even towards .11, frequency rate?

MR. LUKE JOHNSTON: One (1) reason that we believe it would be a driver safety rating, when we presented the initial DSR, driver safety rating program, we had expectations for accident frequency for demerit level drivers. Post-implementation of DSR, pretty much everyone on the scale stayed the same, except demerit drivers. So they -- they saw improved experience, so that's -- that's one (1) reason.

We have had a very good take-up of winter tires. And although we haven't had really bad winters since the winter tire program and the take-up took -- took place, we do have evidence that that has improved experience in the winter.

And another reason that we know but we're having trouble quantifying would be the technology side. And if you think about something like an air bag, I can't remember the exact year, but let's just say that -- that that became more prevalent in the early mid-2000s. It takes a while for the fleet to start having those -- you know, the whole -- like MPI's average vehicle is about ten (10) years old.

So when those first air bags were coming out, the vast majority of the fleet didn't have -- have that. But when we talked about the injury counts, no doubt the safety of vehicles and the -- kind of incorporating that into the fleet has -- has been a -- a factor in keeping the injury counts flat.

So frequency, I think we'll see the same thing. Some of these features in vehicles, whether it's collision avoidance or lane departure or back-up cameras, they're starting to become a bigger and bigger portion of the fleet.

MR. STEVE SCARFONE: Thank you for that. Just on that point on the technology aspect of it, does the Corporation currently track that information from its customers when they're making their insurance claims following an accident?

MR. LUKE JOHNSTON: We don't track it from customers. We do have information from Insurance Bureau of Canada through their CLEAR Rating System. However, to the extent that there's favourable frequency reduction in our severity reduction impacts from that technology, that should be reflected in the vehicle rate groups that we get from the Insurance Bureau of Canada.

So if -- you know, if we have all the safety features and -- and such, we would expect a lower rate group, all else equal, at least through to frequency.

Saying that, I had to be cautious, though, because those vehicles also cost a lot more to fix if you can imagine once -- you know, if you hit a vehicle with all the gizmos, it's going to be more expensive.

So there -- there's two (2) -- several things at play, and you're seeing that in our results: the frequency going down and the severity going up. So that's going to -- that's going to continue.

MR. STEVE SCARFONE: And lastly, on frequency, Mr. Johnston, can you explain why it is that the Corporation places more weight on the driving habits of its customers during the summertime when forecasting frequency than it does for the winter driving?

MR. LUKE JOHNSTON: Yeah. The -- the main reason would be just -- just the level of confidence we have in the -- in the summer data. As you can appreciate, without winter, the results are much more consistent and -- and a very tight bell curve, so to speak, around the average.

So if you see changes there, you know things are really happening. So we have -- that is -- that's one (1) of the ways that we -- we're confident that DSR had actually made a dent in experience because we were seeing changes in those -- in those summer months, and they were coming from demerit drivers, for example.

Winter -- yeah. If we have a few weeks of snowstorms and -- and such, that could essentially ruin a whole year in terms of frequency, so you need to isolate the -- the different times of year to do an analysis.

MR. STEVE SCARFONE: Thank you. And on your COVID slide, you indicated there that frequency is increasing. And I expect that what you mean by that is it's increasing from those days back in the spring when claims were down by 50 percent.

MR. LUKE JOHNSTON: Yeah. I guess another way to say it is the -- the decreases are less than they were, yeah.

MR. STEVE SCARFONE: Yes.

MR. LUKE JOHNSTON: So, yeah, that's right.

MR. STEVE SCARFONE: And a question for Mr. Wennberg. So Mr. Wennberg of course was just sworn, but I didn't -- I neglected to -- to introduce him. Just for the record, Mr. Wennberg, of course, is Vice-President of Customer Service and MPIC's Chief Operating Officer.

Kristen, on Mr. Johnston's presentation at slide 13, there was a discussion there, Mr. Wennberg, about centralized reserving. Couple questions on that.

We heard Mr. Johnston say that the PIPP case managers, the Personal Injury Protection Plan case managers, are returning claimants to work sooner. Do you recall that -- that, sir?

MR. CURTIS WENNBERG: Yes, I do.

MR. STEVE SCARFONE: And -- and just briefly, can you -- if you can, describe for the -- the Panel the efforts that the case managers are -- are making in getting that result.

MR. CURTIS WENNBERG: Yes, happy to. So it was very early in 2018, actually after our results at the end of fiscal '16/'17, we did a -- a very large internal strategy piece of work around our PIPP product or injury customers and how we get them back to work, and then also the internal processes. Reserving was one (1) of them.

But reserving doesn't change the actual outcomes, and so what changes the outcomes is how we work with claimants and -- and especially get them back to work.

And on the slide that Luke was talking about, the weekly indemnity, those are roughly the seventeen hundred (1,700) or eighteen hundred (1,800) customers of ours that are off work. That's how we categorize the weekly indemnity, and they are the main drivers of our injury ultimate incurred.

And what we'd been finding is that, after we put in the Fineos system -- or BI3 we called it -- we did let go of a number of our capacity of case management. And so aside from fixing up how we do the reserve processes, we hired thirteen (13) more people in to the Injury Department. It's really one (1) of the only major areas that we -- we really looked at staffing and added resources.

And then we also did a lot of training, and we got case managers to -- to adopt a lot more of the return-to-work types of processes and real specific expectations of productivity of -- of having a claimant come into their area, particularly the weekly indemnity or the off-work claims, and work with those customers to get them back to work as fast as possible, as much for the client's own benefit as -- as ours.

And so we've made some good inroads in that area. We've been tracking the 2018 series of claims, and we like to track them. Luke and I will look at them after twelve (12) months, eighteen (18) months, twenty-four (24) months, and what we're finding is their ability to go back to work is a little bit better than what it was post-FINEOS implementation. So we like -- we like where those -- those long-term metrics are trending.

MR. STEVE SCARFONE: Thank you for that. And we've -- we've heard that the Corporation is seeing lower-than-budgeted costs for individual claims this year.

I'm wondering if you can, Mr. Wennberg, just speak to some of the other efforts being undertaken by the Corporation to realize those reduced costs including fraud prevention and some of those other campaigns.

MR. CURTIS WENNBERG: Sure. Well, the -- in -- in spending some time -- and I'll -- I'll talk a little bit about the PIPP book or the injury book, but then there's also a lot of the lower severity on the LVA side, or the repairing of the vehicles.

So on the PIPP side, that's where a lot of our additional fraud pieces have come to play. So as we moved our fraud needle from getting about 6 to 8 million a year, which is about half and half repair fraud and half and half of it was injury fraud, we -- we started seeing the injury needle move up. So we're getting 8 to 10 million a year on the injury fraud side. The repair side is about the same amount, so we're seeing about 14 million a year, and as some of you may have seen, some of the advertisements out there on -- on different news networks.

And -- and it -- and it's really interesting. I -- I think it's also helped our employees, as much as other Manitobans out in the marketplace, realize that we're -- we're not just here to pay claims and -- and, you know, not work to help people go back to work.

When we perform at our best at MPI, it's -- it's protecting all of our claimants or potential claimants or customers by making sure that if you are injured, then -- then we'll give you the -- the help that you need.

But if you aren't or you -- you know, in a worse case, you're in one (1) of these fraudulent situations, we will actively work to -- to move you off the book and in the last year and a half actually press charges and work with the Crown prosecutor to do so. So that's introduced a lot of nice disciplines within the firm. And I believe there was a question around the appeal process, an AICAC process, but I can address that later, as well.

On the LVA side, we have seen recently a return to about a 5 percent increase in the average repair severity that we see per car.

The industry average over the last eight (8) years has been roughly been 4 to 6 percent year-on-year increases in the amount of costs it takes to repair a vehicle, and we've been fairly lumpy as we've moved through our last six (6) years particularly. As a reminder, I've been working for MPI for about four (4) of those years.

And when we first put in the Mitchell

system, Mitchell allowed the repair shops to add a lot of different parts to a repair or get reminded about not using certain Estimatics pieces they could charge MPI for.

And so we saw over the first two (2) years, as my colleague was describing, a higher than industry severity increase to the -- to the 8 percent, 9 percent marks for a couple of years.

And then, in mid-2016, we really -- we really started stemming that. We started to understand how Mitchell is being used. We also shared a lot more of our Estimatics. We did a lot of internal and shop training. And we saw, over the intervening years, low single-digit severity growth, which we were very happy with. And -- and recently, it's -- it's come back up to industry standards.

So that's probably where we should remain as we don't want to underpay for repairs, we don't want to overpay. We want to be roughly around the industry. So I hope that answers your question.

MR. STEVE SCARFONE: Thank you. And just briefly, because it was addressed last week by Mr. Giesbrecht in his presentation, was there anything further since that time concerning the conciliation and the ongoing negotiations with the -- the broker network?

MR. CURTIS WENNBERG: There's no further progress that I can report today.

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

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

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you.

With respect to benchmarking, I just have two questions for Mr. Giesbrecht. Ms. Meek has emailed to advise that she has none, so perhaps I'll just ask these briefly and then Mr. Giesbrecht could be released.

THE PANEL CHAIRPERSON: Yes, that would be fine. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

So Kristen, can you please go to PUB-MPI 1-90.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And perhaps

while we're waiting for the IR, Mr. Giesbrecht, you said in your presentation that the updated completion -- or the -- the benchmarking report is delayed and that it may be available for future GRAs, I believe is to paraphrase what you said.

I'm just -- for purposes of clarification, does MPI anticipate having that benchmarking report complete for the 2022 GRA?

MR. MARK GIESBRECHT: Yes, I would expect so. I don't have a definitive timeline from my peers as to when they can complete their end of this. I did just hear back from -- from one Corporation last week and the issue around the delay was a departure earlier this year of one of their key personnel, and that just made this drop on their priority list, given their -- their staff issue.

So we're going to follow up, but right now I don't have a definitive -- I mean, I -- I've stated earlier, I expect the next few months. But I don't have an exact timeline, but I would say after this hearing concluded at some point.

MS. KATHLEEN MCCANDLESS: And now that we've got the Information Request up, the question at (a) was for MPI to indicate which of the corporate and operational benchmark measures provided last year were to be incorporated in the new comparison. And if we scroll to the response, there are a number of metrics there.

And just by way of follow-up, does MPI still anticipate that the report, when it's provided, will contain all of these metrics?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. Those are my questions for Mr. Giesbrecht.

THE PANEL CHAIRPERSON: Mr. Gabor?

Okay, thank you.

Thank you very much, Mr. Giesbrecht. We'll see you soon.

MR. MARK GIESBRECHT: Thank you.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you.

I'm going to start with questions for Mr. Johnston on claims incurred, and then move into some questions for Mr. Wennberg after.

Just starting out, if we could have a look at pro forma 6, and page 2, these are the explanation of variances from the 2022/'21 comparative.

And with respect to the explanations for changes in net claims incurred for 2021, we see that, at line 16 -- pardon me. Just to -- to start, is the difference in the estimates provided relative to the changes in forecast claims incurred shown in the claims incurred section?

MR. LUKE JOHNSTON: Yes. In the -- in the claims in -- I believe you're referencing the claims incurred document in the GRA, so...

MS. KATHLEEN MCCANDLESS: Yes.

MR. LUKE JOHNSTON: In -- on the first day, we had a little bit of confusion around actuarial ultimates and then -- and net claims incurred. In that document, we used to only show the actuarial side and then we realized that most people were interested in the accounting side and not interested in the actuaries, which is nothing new. So we started showing both.

So the -- the financial view, how everything flows through the financial statements, will always be a little bit different than the -- like, the policy or type of view. But what you see here is the -- like, the view that you would see from the accounting side of the financial statements.

MS. KATHLEEN MCCANDLESS: So then just to summarize, the difference in the estimates provided relative to the changes in forecast claims incurred shown in the claims incurred section, they're due to the accounting versus actuarial presentation?

MR. LUKE JOHNSTON: That's right. And the -- the reason that we have to have the actuarial one is because that's how the rates are set in terms of how impacts affect particular accident years. If the actuary makes incorrect forecasts and gets those wrong, of course, it will roll through accounting, but it's -- you know, the initial pricing, if it's wrong, we just have to eat -- eat that through the RSR. Yeah.

MS. KATHLEEN MCCANDLESS: Thank you.

Now just to recap the overall change in forecasted claims in the test years, if we look to figure CI-72, which is also found at tab 18 of the book of documents, we saw that 2021/'22 had decreased by 53 million, at line 7?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Of which roughly 15.1 million was due to CERP changes, so coverage changes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And 2022/'23 had a decrease of $77 million, of which 30 million was due to coverage changes, yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: I'm now going to have a look at the coverage level changes in forecasted claims.

If we could go to weekly indemnity ultimate losses, and that's figure CI-13.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And scroll down. Thank you.

On the far right-hand column, "Variance to Forecast," we see the bottom of the schedule that weekly indemnity ultimate losses have increased from the 2020 GRA estimates by about $10 million per year for 2021/'22 and 2022/'23?

MR. LUKE JOHNSTON: That's correct.

MS. KATHLEEN MCCANDLESS: Would you agree that is being driven mainly by increases in average claim severity?

MR. LUKE JOHNSTON: Agreed. There's a

-- you can see that '18/'19, '19/'20 had a little bit higher claim counts than -- than some of the more recent years, but the severity is higher and that, in turn, is -- is driven by, I guess, both the injury types fo the claimants, but also the actuarial assumptions and the actuarial valuation. Yeah.

MS. KATHLEEN MCCANDLESS: There's -- there are significant adverse developments on recent accident years contributing to the variance, as well?

MR. LUKE JOHNSTON: We have increased ultimates on the weekly indemnity side, as we -- we moved to centralized reserving and -- so the -- the first step, obviously, was to get a better approach around reserving consistently. As mentioned, that pushed a lot of reserves early on in the process.

Unlike accident benefits index other -- which we'll talk about, I'm sure -- we haven't seen a favourable flow through to any major extent on weekly indemnity.

And what I mean by that is if, historically, reserving was more gradual and -- and spread out over long periods of time, and you change that and you reserve everything up front better, it would be reasonable to think that those numbers were probably right and you won't see that development in the future years.

So far, we haven't had any great evidence that that's happening, but as Mr. Wennberg discussed, we're confident we're going to see that, but it's really hard for me to make an assumption that it's going to happen before we have any evidence of it happening. So that's where we're at right now, if that makes sense.

MS. KATHLEEN MCCANDLESS: And your observations, are they, for this year, are they a continuation of similar observations you made in the prior GRA with respect to trends?

MR. LUKE JOHNSTON: We -- so the question is, is -- are my actuarial valuation observations consistent with previous years? Yeah. The only piece I'd add is we -- we are watching the development assumptions really closely, as -- as we always do. We're optimistic that we'll see some changes in how claims develop, but nothing I can really hang my hat on yet.

So what I mean by that is pre some of the BI3 issues and policy coverage changes that were made in that period, we had about fifty (50) claims become lifetime, and in -- in post-2010, that number climbed to eighty (80), ninety (90), a hundred (100) claims going -- going lifetime. With all those claims being life, they're worth about four (4) or five hundred thousand dollars ($500,000) each. You can see then why ultimate costs would go up if that -- if that happened.

If we turn that trend to any extent, we'll get essentially a one-to-one drop for any claim that doesn't go life. We just haven't -- given that I have to wait years to see that out -- outcome, we haven't had enough evidence to -- to book it essentially.

MS. KATHLEEN MCCANDLESS: So far for 2020, have you seen favourable or adverse development on prior years for this coverage, and to what magnitude?

MR. LUKE JOHNSTON: I don't have anything to point directly, but I do have my -- my own numbers here. To date, weekly indemnity has, so for prior years, been pretty close to budget. We are about 1.7 million under budget as at September. That's about 3 percent.

So when I mentioned earlier that we seem to be getting a much better handle on the development of weekly indemnity and -- and all the new reserving processes, that's what I meant. We -- our budget is starting to perform better to actual.

In the current-year claims for weekly indemnity, we are about 19 percent under budget, but that is -- a lot of that's due to the lower collision. So -- so pri -- so in -- in a nutshell, prior years is very close to budget.

MS. KATHLEEN MCCANDLESS: Thank you. At figure CI-13, we have the indexed ultimate losses for accident benefits other?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And again, if we look at the variance to forecast on the right-hand side of the schedule, at the bottom, we see that accident benefits indexed ultimate losses have decreased from the 2020 GRA estimates by about --

MR. LUKE JOHNSTON: I think we just have to change the table. I don't know if they're -- I -- I didn't hear the --

MS. KATHLEEN MCCANDLESS: Seventeen (17), Figure CI-17, yeah.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you.

So same area on the schedule, right-hand column, variance to forecast, towards the very bottom, we see that the GR -- there's a decrease from the GRA estimates from last year by about $6 million per year?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Would you agree that this is driven by a combination of a lower assumed claims frequency as well as a reduced average claim severity?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And is that with significant favourable reserve development on recent accident years contributing?

MR. LUKE JOHNSTON: Yes. This is what I spoke of briefly during the opening presentation. Centralized reserving is a newer process for this group of coverages, and unlike weekly indemnity, where we haven't really seen much favourable development subsequent centralized reserving, we are seeing it on this -- on this line. So most of this reduction can be credited to the -- the valuation recognizing that -- that favourable experience.

MS. KATHLEEN MCCANDLESS: Is this a

reversal of the adverse development observed last year?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I didn't -- like, I'm trying to remember what we had for development last year, but my recollection of the history would have been that centralized reserving, obviously, put a lot of pressure on reserves, and you can -- you can see from this -- this table, 2016, '17, '18 would have -- would be the higher ultimate relative to some of the previous years. And we discussed that quite a bit internally in -- in terms of, you know, is that -- is that real or, you know, just reflect what it should have been all along? Or, you know, is there a chance that we've overbaked some of the initial reserves?

As we learn, you know, what an appropriate centralized reserve is, we'll continue to tweak that, obviously. But as of this year, it looks like those initial reserves were maybe a little bit high, and we've drawn them down. So I -- subject to check, last year or the year before, we would have had adverse development on this.

MS. KATHLEEN MCCANDLESS: So far in

2020, have you seen favourable or adverse development on prior years for this coverage and to what magnitude?

MR. LUKE JOHNSTON: So I'll answer the question, and then I may ask Mr. Wennberg for -- for some assistance. The -- for ABO indexed incurred through September, I'm seeing roughly 7 million favourable relative to a budget of 7 million in 2019, so just give you -- so -- or the reason I mention Mr. Wennberg is there -- not just for current-year COVID impacts, current loss year, anyone that was getting rehabilitation treatments, like physio or other things, if those operations were shut down and they weren't able to go, MPI wouldn't have had to pay anything on -- you know, during that stretch where those -- those services were unavailable.

So unlike collision, where prior years shouldn't be affected by COVID, PIPP benefits will have some impact on prior years to the extent that people didn't go for their treatments or weren't able to. That's -- obviously lowers our numbers relative to budget, but it creates other concerning scenarios such as people not getting the treatment they need and getting back to work as quickly as -- as they -- they need to be. So that -- that we won't see till farther down the road if there's negative impacts.

So I'll let -- I'll let Mr. Wennberg jump in, but I'll -- I'll finish the -- prior years total, we're seeing about 5.8, 5.9 million under budget relative to a budget of 16 million, which -- with most of that coming in the 2019 year. And the current year is close to 40 percent under budget, so a larger extent than weekly indemnity. Again, I think -- if you think about income replacement, there shouldn't be any reason why MPI wouldn't continue to pay that, but for other benefit types where you maybe didn't have access to that for a period of time, that's -- that's the other reason.

MS. KATHLEEN MCCANDLESS: Collision ultimate losses are at Figure CI-37.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Thank you, Kristen.

And so again we're looking at the variance to the forecast from last year, and again the right-hand side of the schedule towards the bottom, we see that collision ultimate losses have decreased from last year's GRA estimates by, at line 15, approximately $40 million?

MR. LUKE JOHNSTON: Forty (40)

million? Sorry, I think it's the thirty (30) --

MS. KATHLEEN MCCANDLESS: Thirty-nine point six (39.6).

MR. LUKE JOHNSTON: Yeah, sorry.

MS. KATHLEEN MCCANDLESS: Yeah.

MR. LUKE JOHNSTON: Yeah, thirty (30) -- 39.6, yes, yeah.

MS. KATHLEEN MCCANDLESS: And at line 16, for 2022/'23, there's a variance of $54.2 million?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And again we see the CERP impact at lines 15 and 16. Respectively, we have about $7.8 million and $15.6 million in variances attributed to the changes in coverage, yes?

MR. LUKE JOHNSTON: To -- yeah, to collision specifically, that -- yeah, that's right.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So, that leaves about then $32 million and $38 million respectively for '21 and '22 due to reduce projections of claims costs?

MR. LUKE JOHNSTON: Correct. And that -- I'll say correct, yeah.

MS. KATHLEEN MCCANDLESS: And, as you've discussed, that's driven pretty much entirely by reduced claims frequency?

MR. LUKE JOHNSTON: Yeah, there was a -- there's -- there was a small severity benefit relative to last year. But as we -- we went through on that slide, we're really trying to find a balance between some of the big drops in frequency we've seen and making a best estimate appropriate forecast, but it's -- frequency forecast is going down.

MS. KATHLEEN MCCANDLESS: Thank you. Could we go to the presentation from this morning, which is MPI Exhibit Number 42, page 11?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So, if we look at the accident year 2020/'21 and the third column in from the left, the COVID-19 adjustment, there's an adjustment of $35.3 million there?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: If we go to figure CI-10.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And these are the forecasted impacts to ultimates related to COVID-19, yes?

MR. LUKE JOHNSTON: I see this, yes.

MS. KATHLEEN MCCANDLESS: If we look at collision, so the third column in from the right, for 2020/'21, MPI's showing $26.5 for the same period for collision.

Can you explain the discrepancy there between slide 11 and figure CI-10?

MR. LUKE JOHNSTON: Can you flip back to the previous one?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Yeah, I'll have to take that one away, sorry, yeah.

MS. KATHLEEN MCCANDLESS: So, the undertaking would be to advise us to the variance in the COVID-19 adjustment for the 2020/'21 accident year between MPI Exhibit Number 42, page 11, and figure CI-10.

MR. STEVE SCARFONE: We will provide that undertaking, Ms. McCandless.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 26: MPI to advise as to the variance in the COVID-19 adjustment for the 2020/'21 accident year between MPI Exhibit number 42, page 11, and figure CI-10

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now, could we please go to PUB MPI-1-10, and the preamble which is just taken from the application?

It's written here that MPI stated in the 2020/'21 GRA for collision repair frequency that relative to the long-term average, the last six (6) accident years have had below average collision frequency and that some of the reduction from the past six (6) years was related to mild winters.

However, there's also been a reduction

in -- in summer collision frequency over the past seven (7) years. And you --

MR. LUKE JOHNSTON: I see that, yes.

MS. KATHLEEN MCCANDLESS: -- would adopt that?

MR. LUKE JOHNSTON: That's true. Yes. Yeah.

MS. KATHLEEN MCCANDLESS: If we proceed to Figure 1, line 15, we have the collision repair frequency for accident years 2005 through to 2019?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Yes. And so, when we're looking at February on the second column from the right at line 15, for 2019, we're really talking about February 2020.

Is that right?

MR. LUKE JOHNSTON: Yes, sorry, it would be in our -- our insurance year, which is, well, at that time, March to February, yeah.

MS. KATHLEEN MCCANDLESS: I just wanted to make that clear. Can you explain why February 2020 might have had such a low collision repair frequency?

Likely, March was due to COVID impacts,

but...

MR. LUKE JOHNSTON: No special explanation. There could be some development delayed in there or -- or perhaps more than we're expecting. The -- I can't recall off the top of my head how -- how good weather -- how good the weather was in that month.

If you look at the history, there is some evidence of -- well, there's actually a lot of evidence of extreme fluctuation in this num -- in this number, so some .10s in the past, but I can't offer much more than that.

I'm assuming it's volatility around a now lower trending average frequency. So, if it was in the neighbourhood of, you know, .15 or .16 before, if you look at some of the earlier averages, if overall frequency's gone down, this may just be a good winter month, yeah.

MS. KATHLEEN MCCANDLESS: Thank you. You were speaking about winter collisions and summer collisions in your presentation.

And so just somewhat further on that, has MPI considered comparing the average monthly temperature for, for example, Winnipeg to monthly claims frequency to see if temperature might be an accurate predictor of the collision claims frequency?

MR. LUKE JOHNSTON: We've done some of that. Snowfall is probably more useful than -- than temperature. Even rain is -- you know, like -- like, the amount of rain in the summer is actually a decent predictor of motorcycle crashes and -- and such.

So, the -- we have done that type of analysis for -- try and explain certain differences on, you know, a one-off basis or situational basis. We don't do anything as part of our monthly reviews on that though, yeah.

MS. KATHLEEN MCCANDLESS: And so, I take it then -- does MPI use that information in assisting for its estimation of future collision frequency or is it just a retroactive look -- or retrospective look, pardon me?

MR. LUKE JOHNSTON: Nothing long-term. Mr. Wennberg could comment if there's anything, like, if -- you know, if the weather forecast for the next week looks bad, if we adjust our staffing levels.

But I -- outside of that, we don't -- we don't do anything on a grand scale. But, like, for example, if -- you know, if we thought global warming was making the winters shorter, we would start seeing those impacts on the -- the side months, but we don't do anything formally.

MR. CURTIS WENNBERG: I can confirm, as well, that these are longer term impacts and what we do see is clear roads.

So, if you have a temperature of 10 degrees in May but the roads are clear, you're going to have the same accident frequency as if it's plus 30 in July.

Where we do have some problems is on long weekends. And there's some pretty serious accidents that happen in those time frames in the summertime, and it's a known issue.

And in winter, with other winter jurisdictions, we notice the ice forming. So, it may not even be a large snow event because that keeps people actually at home and they drive a little more cautiously. But it's when you get that 2 inches and it turns into some icy pieces on bridges and, you know, that kind of stuff.

But, again, from -- from either a staffing perspective or budgeting perspective, these are longer term trend line things that we look at.

MS. KATHLEEN MCCANDLESS: Now, if we could have a look at comprehensive ultimate losses. And that's Figure CI-64.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Kristen. Again, we're looking at the variance. So, on the right-hand side of the schedule, again towards the bottom, we see that comprehensive ultimate losses have decreased by 12.7 million and 22.3 million respectively for 2021/'22 and 2022/'23 at lines 15 and 16?

MR. LUKE JOHNSTON: That's right, with most being from the CERP impact, or more than half, I guess.

MS. KATHLEEN MCCANDLESS: Right. And so, that's where we see the middle column at lines 15 and 16, 7.9 or roughly $8 million for '21/'22 and 16.3 for '22/'23?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And so, that leaves roughly 5 million and $6 million due to reduced projections of claims costs when you take away the CERP impact?

MR. LUKE JOHNSTON: Yeah. And I think, if you scroll down a little farther, it will give some of the breakdown, but it's quite a mixed bag of items that we update, you know, based on the latest information. But, as you can see, there's -- yeah, it's minor changes to the current forecast.

MS. KATHLEEN MCCANDLESS: And this variance then is driven mainly by a reduced claims frequency with a small offset due to a slightly high claim severity?

MR. LUKE JOHNSTON: In a nutshell, yeah.

MS. KATHLEEN MCCANDLESS: Okay. With respect to Comprehensive, if we go to Figure CI-37 of the 2020 GRA, so this was the Comprehensive claim count for last year's GRA?

MR. LUKE JOHNSTON: I'm not sure for -- this one is hail.

MS. KATHLEEN MCCANDLESS: Hail, yes.

MR. LUKE JOHNSTON: Do you want to look at hail or -- or Comp -- Comprehensive total? I can do either, obviously.

MS. KATHLEEN MCCANDLESS: Comprehensive hail first, yeah. So if we -- and -- and the Corporation uses a ten (10) year average for its hail forecast, yes?

MR. LUKE JOHNSTON: That's right. It's pretty much always going to be wrong, this forecast, but consistently wrong, I guess. And -- and then we buy a large amount of hail, catastrophe insurance.

MS. KATHLEEN MCCANDLESS: And so we see the ten (10) year average there from last year's GRA was seven thousand five hundred and ninety-eight (7,598)?

MR. LUKE JOHNSTON: Sorry, total claim count on the second-most right column, yes, seven five nine eight (7,598), yes.

MS. KATHLEEN MCCANDLESS: And then if we go to Figure CI-40 from this year, this is the Comprehensive hail claim count excluding zero dollar claims for this GRA?

MR. LUKE JOHNSTON: The -- sorry, what was the question? What's this year's number?

MS. KATHLEEN MCCANDLESS: Yes.

MR. LUKE JOHNSTON: Oh, six (6) -- so six seven one five (6,715). It's declined. I'm -- I'm assuming the -- the year we added to the history was smaller than the year we dropped off, so you can see the -- the latest year is only twenty-six hundred (2,600) claims, which would have been one (1) of the better hail years ever, so no surprise that it went down.

MS. KATHLEEN MCCANDLESS: You're

anticipating my next question, so --

MR. LUKE JOHNSTON: Yeah.

MS. KATHLEEN MCCANDLESS: -- in the previous schedule we were looking at from last year's GRA, 2009/'10 had a total claim count on hail of ten thousand nine hundred and fifty-seven (10,957)?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And so that's the year that's dropped off then?

MR. LUKE JOHNSTON: Yeah. It's -- it really is hit or miss. Even hailstorms themselves, if you look at a map of Manitoba, you know, 99 percent of hail storms will hit nothing but a field. But if they just happen to run over a -- a Dauphin or something, all of a sudden it's a $50, $60 million impact.

We are watching hail really closely. There was a pretty big hail in Alberta, and they were talking numbers like in the billion. You know, all our modelling and the modelling of other external providers has said, you know, our one (1) in a hundred (100) is kind of around 300 million or so.

But if it's cheap to buy a little bit more than that, I think it might -- we might start considering that. But we have -- we have re-insurance up to 300 million.

MS. KATHLEEN MCCANDLESS: So if we look at Figure CI-40 from this GRA which we just had on the screen -- thanks -- we see significant volatility in the year-to-year hail claims with a range of a low of two thousand four (2,004) at line 8 for 2017/'18 --

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: -- and a high of eleven thousand six hundred and six (11,606) at line 6 for 2015/'16.

MR. LUKE JOHNSTON: Yes, and even this is really a sample of -- of, you know, what potentially could happen. But that's -- those numbers are correct.

MS. KATHLEEN MCCANDLESS: And so given this volatility, how comfortable is MPI in its reduction of the expected hail claims count by 11.6 percent?

MR. LUKE JOHNSTON: Yeah. And -- and when -- I -- I was obviously joking when I said this forecast was already wrong, but -- always wrong, pardon me.

But it -- what we do here is we try to have a stable forecasting approach for rate setting with a longer-term outlook, and then recognize that we charge each customer a small amount for the catastrophe re-insurance that we buy.

So essentially, we're -- we're putting a consistent forecast, and then whatever the market is saying, you know, you need to pay for this extra protection. That's passed along to the customer, and from that standpoint, we believe we have a fair -- a fair charge to -- to all customers.

MS. KATHLEEN MCCANDLESS: Madam Chair, I probably have another forty-five (45) minutes of questions. We can break, or I can finish. I have maybe another five (5) to ten (10) on this particular area.

THE PANEL CHAIRPERSON: Sure. Why don't you finish the area that you're asking questions on now then we'll break for fifteen (15) minutes.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. For Comprehensive theft frequency -- and that's Figure CI-42, and we'll be looking also at Figure CI-39 from the 2020 GRA.

Starting at 42, and for theft frequency, the Corporation uses a three (3) year average?

MR. LUKE JOHNSTON: That sounds correct, subject to check. I -- I can't remember, but I'm sure it's within a page or two (2) of this table, but I'll accept that.

MS. KATHLEEN MCCANDLESS: I think it's just on the previous page if we scroll up.

MR. LUKE JOHNSTON: Thank you. Yes.

MS. KATHLEEN MCCANDLESS: Okay. Thanks. So we see at line 12, for frequency at three (3) year, we have .42 percent?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then for the 2020 GRA for the same period, we had a three (3) year average of .37 percent at line 12?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Does MPI have any understanding of why there was a significant increase in the theft frequency in 2019/'20 which resulted in that increase in the expected frequency from .37 to .42 percent?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So -- so we've seen a little bit of an uptick in, I guess I'd say, crime-related perils -- theft, vandalism -- which is obviously a bit concerning.

If you go to Figure CI-43, which should be somewhat nearby, that's what it looks like just from a graph -- graphical perspective. If you went farther back, you would see terrible theft frequency, right, like the -- the pre-Immobilizer years that were just off the charts.

So we're hoping that this is just a little blip and not some kind of major uptick, but we've used a three (3) year average for that reason. I was just -- I wasn't sure if Mr. Wennberg had any other insights, but I don't know that he does, but that's all I have.

MS. KATHLEEN MCCANDLESS: Thank you. And then for a Comprehensive rodent frequency -- this is Figure CI-49 from this GRA -- it shows a projected claims frequency of over .2 percent. Is that right?

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: And if we look at Figure CI-46 from the 2020 GRA.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: This was the

Comprehensive rodent frequency from the 2020 GRA. Last year, the projected frequency was about .15 percent?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Does MPI consider the rodent claims strategy to be less effective than it previously estimated?

MR. LUKE JOHNSTON: Well, maybe I'll let Mr. Wennberg answer that one. I think, as you can see, the final landing place of this strategy is -- will get a little easier to estimate as -- as we get more experience. But we're reflecting obviously the -- the relevant experience, not the -- the one that's off the page at the top. But I'll let Mr. Wennberg talk about that.

MR. CURTIS WENNBERG: What you probably saw in the -- in this chart, as we're looking at it, is an artificial increase in the amount of claims that were happening based on the methodology we use to repair vehicles. And it was an anomaly across North America in terms of what we were doing here.

We're -- in the last few years, we're probably finding a new normal in -- in what you would consider to be a more -- more appropriate level of the rodent frequency. And so it -- there might be little blips around where we are at -- at point zero zero one five (.0015) on a frequency level, but -- but we've -- I don't think there's any anomaly since we put it in place that's -- that's shaking what we do from that perspective.

MS. KATHLEEN MCCANDLESS: Thank you. And with respect to property damage ultimate losses -- and that's Figure CI-69.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And again, what we're focussing on is the variance to forecast on the right-hand side of the schedule beginning in the -- or looking at the bottom part of the schedule -- property damage ultimate losses have decreased by roughly $3 million per year?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Would you agree that this is driven by reduced claims frequency similar to collision offset by higher -- slightly higher claims severity?

MR. LUKE JOHNSTON: That's right. This frequency follows collision very closely, yes, yeah.

MS. KATHLEEN MCCANDLESS: Thank you. I'm going to be moving into severity trending analysis, so this is probably an appropriate time to break.

THE PANEL CHAIRPERSON: Okay. Thank you. Can we back, please, at five (5) to 11:00?

--- Upon recessing at 10:41 a.m.
--- Upon resuming at 10:58 a.m.

THE PANEL CHAIRPERSON: Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you, Madam Chair.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Mr. Johnston, I do have one follow-up to our discussion about comprehensive hail, before I move into severity trending analysis.

When MPI is projecting its hail ultimate losses, does it take into consideration its expected recoveries from the catastrophe treaty (sic)?

MR. LUKE JOHNSTON: We don't directly, but that's what we do with the -- yeah, in the rate-making calculation, by charging back the -- the cost of that coverage. It's a few dollars to each ratepayer. I can't remember the exact number.

But the -- our hail history itself doesn't have -- our forecasts would have to be above $35 million in total losses to trigger our hail coverage, which is anything above 35 million for the year. So the -- our forecast doesn't get close to that number. Yeah.

MS. KATHLEEN MCCANDLESS: Do you have the claims recoveries expected as well, as part of the forecast?

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

MS. KATHLEEN MCCANDLESS: The claims recoveries, are they taken into account?

MR. LUKE JOHNSTON: No, everything -- we assume any expectation for that is through the -- the re-insurance premium itself. So there's nothing -- nothing -- that's assumed to be zero (0) as well. Yeah.

MS. KATHLEEN MCCANDLESS: Thank you. Now on to severity trending analysis.

MR. STEVE SCARFONE: Ms. McCandless --

MS. KATHLEEN MCCANDLESS: Yes.

MR. STEVE SCARFONE: -- just before you begin that line of questioning, perhaps Mr. Johnston can respond to an undertaking given just before the break. He's able to do so. And that would avoid us having to circulate the response later.

It was the one there that you had him comparing slide 11 from his presentation with the figure in claims incurred ten (10).

MR. LUKE JOHNSTON: Yes. My -- I couldn't understand why those numbers were different.

The slide -- or sorry, the table in the claims incurred document only has the current fiscal year in those numbers. So there's two (2) weeks that fall into the previous year. So that's the difference between the 35 million and, I believe, the 27 million, approximately. Yeah.

MS. KATHLEEN MCCANDLESS: Thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Twenty-six-point-five (26.5), yes.

MR. LUKE JOHNSTON: Is that sufficient? We could -- we could definitely still break it down. But the -- as you know, middle of March, the impact hit. Two (2) of the weeks are in the last fiscal year, so the -- the total impact is the 36 million. The current actuarial impact is -- excludes those two (2) weeks.

MS. KATHLEEN MCCANDLESS: Thank you. So now moving to PUB-MPI-1-8, and it's actually Exhibit 11, because this was -- this IR was revised.

And if we scroll to the preamble, this IR was with respect to the use of severity groups for trending of weekly indemnity, accident benefits other indexed, accident benefits other non-indexed, and public liability bodily injury.

And that's where MPI splits claims into two (2) or three (3) severity groups and calculates trends for each group. And then, weights the indicated trend together, based on incurred claims in each severity group. Is that right?

MR. LUKE JOHNSTON: That's right. Just so -- just, basically, grouping claims into different sizes. Really smalls ones, medium size, and -- and the most severe claims. Yeah.

MS. KATHLEEN MCCANDLESS: Do you recall this subject being raised last year in the public hearings? And in particular, one (1) issue raised was the use of severity groups not considering any change in proportion of claims over time in each group?

MR. LUKE JOHNSTON: I do recall that, yes.

MS. KATHLEEN MCCANDLESS: And that would be a -- a fair assessment of how MPI deals with this?

So the use of severity groups does not consider any change in proportion of claims over time, the way that MPI --

MR. LUKE JOHNSTON: That's right.

MS. KATHLEEN MCCANDLESS: Okay.

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

MS. KATHLEEN MCCANDLESS: And then, at Exhibit 70 from the 2020 GRA, which was an answer to an undertaking. And I'm just going to paraphrase MPI's response here.

MPI had indicated it was not able to consider any change in proportion because it did not have claims development factors that were appropriate for each group. Would that be fair?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Does MPI still not have claims development factors that might be appropriate for each severity group for each coverage?

MR. LUKE JOHNSTON: That would still be true and the -- we haven't broken them down into small, medium, large. We have serious, non-serious buckets, but -- but we don't have the development factors at that detail for each coverage.

MS. KATHLEEN MCCANDLESS: Is it possible for MPI to provide the actual claims count within each severity grouping within each accident year for each coverage?

MR. LUKE JOHNSTON: Yes, it is. Yeah.

MS. KATHLEEN MCCANDLESS: And so, by way of undertaking, you would provide the -- MPI would provide the actual claims counts within each severity grouping within each accident year for each coverage?

MR. LUKE JOHNSTON: Just give me one (1) second to look at the claims incurred book. I'm sure you've already done it, but I'm kind of surprised we don't have the counts, but...

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Okay. So I believe it was -- I lost my page -- CI-14 -- just to make sure I understand.

So, essentially, you're asking for this table with claim counts instead of average severities. That would be what I think you're asking for. Yeah.

MS. KATHLEEN MCCANDLESS: Yes. But if there's any revisions to that, I think we can discuss offline and -- and correct the undertaking.

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

So if I was to -- if I think I know what you're asking, I would say MPI to update figure CI-14 to include claim counts by accident year and severity bucket, similar to CI-14.

MS. KATHLEEN MCCANDLESS: Yes. Thank you.

--- UNDERTAKING NO. 27: MPI to update figure CI-14 to include claim counts by accident year and severity bucket, similar to CI-14

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So jumping back to Exhibit Number 11, MPI was asked to provide claim severity trend indications without splitting by severity group. Yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then, at MPI -- PUB-MPI-2-6, MPI provided alternative claims severity trend indications weighting by claim count, instead of by incurred loss amount. Yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Now, if we compare trend indications split by weighted -- split weighted by incurred loss amount, split weighted by claim count versus no split -- I'm going to take you to some of these figures and -- and we'll walk through some of the comparisons.

MR. LUKE JOHNSTON: Okay.

MS. KATHLEEN MCCANDLESS: So --

MR. LUKE JOHNSTON: Can't wait.

MS. KATHLEEN MCCANDLESS: I'm sure --

MR. LUKE JOHNSTON: I probably created them or somebody in my area did.

MS. KATHLEEN MCCANDLESS: -- everyone's excited about this.

MR. LUKE JOHNSTON: Yeah. Okay.

MS. KATHLEEN MCCANDLESS: So first, if we go to CI-14.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And this is the weekly indemnity ultimate severity. At the very bottom, we see total severity growth is 1.5 percent.

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then, if we go to PUB-MPI-2-6, figure 1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And this is split by count. Yes?

MR. LUKE JOHNSTON: By claim count, yes.

MS. KATHLEEN MCCANDLESS: Yes. Weighted by claim count.

We see there that the total severity growth is 4.68 percent, at line 23?

MR. LUKE JOHNSTON: I do.

MS. KATHLEEN MCCANDLESS: And then, the non-split -- so that's Exhibit Number 11 -- we have the same figure.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you.

Figure 1 shows, at line 23 as well, total severity growth of 5.99 percent?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Then if we go to CI-18. And this is split accident benefits other indexed ultimate severity. And this is split weighted by loss. Yes?

MR. LUKE JOHNSTON: Agreed.

MS. KATHLEEN MCCANDLESS: Line 23 shows a severity growth of 1.53 percent?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then, if we go back to PUB-MPI-2-6. Figure 2 now would be accident benefits other indexed ultimate severity split weighted by claims count. Yes?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: And there, we see the total severity growth, at line 23, of 4.77 percent. Yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And then, the non-split, at MPI Exhibit Number 11, figure 2. Line 23 shows a total severity growth of 1.91 percent. Yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: We're halfway through this exercise.

So if we could go to CI-22. And here, we're looking at accident benefits other non-indexed ultimate severity?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Split weighted by loss. And line 23 shows a total severity growth of 1.22 percent?

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Then 2-6 -- thank you, Kristen -- figure 3. The same category, but now it's split weighted by claims count. We see, at line 23, total severity growth of 1.55 percent?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And non-split at Exhibit 11, figure 3, shows the total severity growth of 1.45 percent. Yes?

MR. LUKE JOHNSTON: One-point-four-five (1.45), yes.

MS. KATHLEEN MCCANDLESS: Finally, CI-29. This is public liability bodily injury. Line 23 shows the total severity growth for a split weighted by loss at 1.77 percent?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Split weighted by count at Figure 4 of PUB-MPI-2-6 shows a total severity growth of 3.79 percent?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: And the non-split at Figure 4 shows a total severity growth of 3.59 percent.

MR. LUKE JOHNSTON: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. Mr. Johnston, I believe last year your evidence was that you would have trouble supposing a four (4) plus trend for severity growth for weekly indemnity.

Would you agree?

MR. LUKE JOHNSTON: I believe I said that, yes.

MS. KATHLEEN MCCANDLESS: And if we go to page 2 of PUB-MPI-2-6, the response at (a), MPI was asked why MPI -- why it believes a negative trend was warranted, given the overall observed positive trend, and MPI replied that:

"Upon further review, MPI believes it is inappropriate to use the proportion of claims incurred between the three (3) different severity groups for weekly indemnity as the weights when calculating the weighted average severity growth. Instead, MPI believes it is more appropriate to use claim counts, as weighting by claims incurred allocated a larger proportion of the severity growth in higher-severity claims to the total. Splitting claim severities into different groups minimizes the impact of the variability of high-severity claims on an overall severity growth. Large annual swings in the severity of high-severity claims can mask underlying severity growth."

Yes?

MR. LUKE JOHNSTON: Yes.

MS. KATHLEEN MCCANDLESS: Can you explain why MPI believes that a large number of small claims, which make a small contribution to the overall cost of a given coverage, should be given more weight when selecting trends than a smaller number of large claims, which make a large contributions to the overall loss for a given coverage?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Maybe repeat that one one (1) more time? I know you probably were challenged to spit that out word for word, but I'll try to listen to it better this time.

MS. KATHLEEN MCCANDLESS: Can MPI -- or, Mr. Johnston, can you explain why MPI is of the view that a large number of small claims, which make a small contribution to the overall cost -- overall loss cost for a given coverage, should be given more weight when selecting trends than a smaller number of large claims, which make a large contribution to the overall loss cost for a given coverage?

MR. LUKE JOHNSTON: I'll take a -- take a shot at that. So I think you're really getting to the -- the point of the buckets.

We have a mix of claims that are a whole bunch of minor stuff that don't add up to much in terms of the overall incurred. And then we have a really critical category where even just adding another ten (10) or so claims to that, you're talking about $5 million of -- of incurred.

So the -- that is a reason for -- for splitting the buckets, and the idea behind the method is to get at exactly what you're getting at. If we -- if we look at the group in aggregate, we may not pick up the fact that there's just been a minor increase or increase in claim counts for small claims, and it could have a very immaterial impact to the overall estimate. But if we put them in buckets and forecast them separately, we'll hopefully pick up any -- any differences in the big claims and then -- versus small claims.

MS. KATHLEEN MCCANDLESS: Can you explain how either of the two (2) approaches -- so the approach for small claims versus larger claims -- is able to capture any change in proportion of claims in the different sever -- severity groupings?

MR. LUKE JOHNSTON: The claim-count approach is the most useful in terms of the proportion piece. I talked earlier about weekly indemnity, and the increases we've seen there really have nothing to do with the overall total claims. It has a -- has everything to with how many of those claims become lifetime and, essentially, go into that large bucket. So that -- that's the key driver.

MS. KATHLEEN MCCANDLESS: Has MPI performed any analysis that has determined there has not been any significant change in proportion of the claims in the different severity groupings?

MR. LUKE JOHNSTON: We -- we track the claims and the incurred and the severity in each of the buckets, so you'll -- you'll see the counts in the undertaking.

I think the view that we're taking from a forecasting perspective is really that we don't expect much change in those over the next few years, but I have already referenced -- for weekly indemnity, there's a very -- you know, well-known change post-BI3 where that did actually happen. So our forecast would reflect current state but not -- not rejecting the fact that those trends change over time and we should recognize them.

MS. KATHLEEN MCCANDLESS: Has MPI changed the severity trend assumptions from the GRA as filed to the values in PUB-MPI-2-6?

MR. LUKE JOHNSTON: We have not.

MS. KATHLEEN MCCANDLESS: And can you explain why that is the case, given MPI's response in 2-6 that it believed that the approached -- the approach used in this GRA was not appropriate?

MR. LUKE JOHNSTON: We're -- we're recognizing that this question was raised and saying that we did analysis and that we agree that we can improve this approach go -- going forward. But for this GRA, we maintained the existing approach to the -- for -- of the existing forecasting methodology.

MS. KATHLEEN MCCANDLESS: Does MPI have any intention to change its approach in the next GRA?

MR. LUKE JOHNSTON: Yes. Basically, we've admitted that the approach has merit and that that should become part of the methodology.

MS. KATHLEEN MCCANDLESS: With respect to the calculation of the interest rate impact on claims incurred in PUB-MPI-2-11, which we looked at a number of days ago now, and in the October update, which was MPI Number 27, what was the discount rate used for the calculation of the interest rate impact on claims incurred?

MR. LUKE JOHNSTON: Sorry, in the original and the updated filing?

MS. KATHLEEN MCCANDLESS: The -- the June 30th, so PUB-MPI-2-11, and then the October filing as well.

MR. LUKE JOHNSTON: I -- I'd have to look that up, unless you have a reference. Just too many interest rates jumping around. I can't remember, yeah.

MS. KATHLEEN MCCANDLESS: I can take you to the IR and the -- if that helps. PUB-MPI-2-11.

MR. LUKE JOHNSTON: That would be appreciated. Thank you.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So the -- obviously, if the question is what was the new-money yield on June 30th, 1.93 percent.

MS. KATHLEEN MCCANDLESS: The discount rate used for the calculation of the interest rate impact on claims incurred.

MR. LUKE JOHNSTON: Yeah, I'd have to -- I'd have to look that up, yeah.

MS. KATHLEEN MCCANDLESS: And similarly with respect to the October update, you would need -- so perhaps we could just do it by way of undertaking, then?

MR. STEVE SCARFONE: Yes, that's fine, counsel. We'll provide those two (2) discount rates for the GRA filing and for the October update.

MS. KATHLEEN MCCANDLESS: So, and just to be clear for the record, it would be MPI to provide the discount rate used for the calculation of the interest rate impact on claims incurred in PUB-MPI-2-11 and MPI Exhibit Number 27. And, if possible, as part of this, could MPI please include the calculations involved in the calculation of the discount rate as at June 30, 2020, and August 31, 2020?

MR. LUKE JOHNSTON: So I -- I think I heard, What were the discount rates used and how are they calculated? I'm assuming you mean the backing portfolio composition of that calculation. So I'm just going to guess that that's -- okay, okay.

--- UNDERTAKING NO. 28: MPI to provide the discount rate used for the calculation of the interest rate impact on claims incurred in PUB-MPI-2-11 and MPI Exhibit Number 27; and, if possible, include the calculations involved in the calculation of the discount rate as at June 30, 2020, and August 31, 2020

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Those are my questions on claims incurred. Thank you, Mr. Johnston.

Mr. Wennberg, for you, I am going to follow up on a presentation that was made before the Board last Monday by the Automotive Trades Association.

And if we could jump to slide 11.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So, this is part of a presentation PowerPoint that was made to the Board on October 19th by the Automotive Trades Association.

And first, looking at slide 11, what the Board was told was that Manitoba severity if 50 percent below the national average. And so, we see they provided an average Canadian appraisal value, the ultimate severity for MPI, and the difference.

Do you see that?

MR. CURTIS WENNBERG: Yes.

MS. KATHLEEN MCCANDLESS: Has MPI had an opportunity to look at the severity analysis between Manitoba and other jurisdictions?

MR. CURTIS WENNBERG: Not this specific analysis. And -- but we have seen some of the Mitchell reports over time.

MS. KATHLEEN MCCANDLESS: What was presented by the Automotive Trades Association indicates that severity -- MPI's severity is materially lower than national and western Canada averages.

Does MPI agree with this?

MR. CURTIS WENNBERG: There's always different perspectives when you look at severity. And so, in the Mitchell reports, for example, what they look at is just the average amount of cost to repair a vehicle, so the severity of -- of fixing it.

And we do know that Ontario, for example, there's a lot of Mitchell use being -- being done in Ontario, and their severity per repair car is a lot higher than -- than Manitoba's. And we also know that Saskatchewan's a little higher than ours, as well.

But what -- what we've tried to mention a few times to the auto trades here in Manitoba is that there's a lot of factors. And -- and I think -- I'm not sure if they -- if they presented all the different factors that go into repair severity, but you could have a situation where in Manitoba, for example, there's less implications on someone for making a claim on their vehicle.

Let's say it's on an eight hundred dollar ($800) claim or a twelve hundred dollar ($1,200) claim. And let's say that they have -- most of our customers have a two hundred dollar ($200) Extension deductible.

And so there's -- there's a lot of incentive of them to go ahead and make the claim, whereas if you have other environments, if they have a twelve hundred dollar ($1,200) claim, there's no way they'd be claiming that through their insurance, and they may just be handling those separately.

So, what that does is it takes a lot of the lower dollar claims out of the pool that's in the Mitchell data. And, you know, even though it may cost the same amount to repair the vehicles, in the end, their -- their data is skewed upwards on severity.

MS. KATHLEEN MCCANDLESS: How do MPI's labour rates compare with other jurisdictions?

MR. CURTIS WENNBERG: We took a look at labour rates and, actually, even Mitchell used to publish this in -- in a lot of their updates. And in Ontario and Quebec, they seem to have some of the lower body labour rates in Canada, and they are in and around the fifty dollar ($50) to sixty dollar ($60) range. And I've -- I've spoken with -- with other folks from those jurisdictions, and that seems to hold true.

You will get for profit insurance carriers that in the end actually do designated repair network groups, and they negotiate how much they will be paying for those folks to do the work on their behalf.

And -- and then we've also looked at across Canada, and in SGI, they pay higher than we do. And in BC, they -- they pay a little bit higher than we do. And -- and we had done a study in the past, too, to -- because it's more than just the labour rate.

And the ATA and the MMDA groups are correct to say that what you end up paying for a vehicle is a combination of how much you pay on the labour rate, and then what your Estimatics determine, so how many hours for this dent or do you allow OEM parts or recycled parts or after-market parts for a specific thing.

And all that in combination is what leads you to a severity for -- for repairing that car.

MS. KATHLEEN MCCANDLESS: If we move to the -- the next slide, the Automotive Trades

Association presented that there's excessive attention by MPI on rates and shifts the focus from the real issue of severity despite reported labour and material rates being in the top quartile.

How -- how is it possible that Manitoba's severity is consistently below national and western Canadian averages? Can you maybe just speak to this and explain? I mean, they're attributing some things here to how MPI does things.

And perhaps you could just speak to --

MR. CURTIS WENNBERG: Yeah.

MR. STEVE SCARFONE: I just -- I don't mean to interrupt My Learned Friend's line of questioning. I just want to caution the Board to remember that the evidence that's being put to Mr. Wennberg is, in fact, not evidence.

And so, MPIC hasn't had a real opportunity to examine and test the assertions being made by the Association in this presentation. But I know Mr. Wennberg's more than happy to address the questions, but it -- it needs to be remembered that the -- the information that's presented in this slide deck is not before this Board as evidence.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone. Yes, we're certainly aware of that.

MR. CURTIS WENNBERG: Thank you. So, they're -- they're correct in this slide in that we have had a lot more attention by MPI on -- on making sure our rates are -- are low and stable.

And when -- when I first came in four (4) years ago, we did see increase in severity to the tune of the 8 -- 9 percent, and that was much higher than the industry standard. And we wanted to get a handle on that very quickly. That was a -- that was very much a blur -- a burning platform.

And we've also done some things that are more made in Manitoba, if you will, like paying 85 -- or sorry, eighty-one dollars ($81) for direct repair when we were looking at rolling that out. And that just didn't seem to have a similar payment anywhere else in -- in North America that we could find.

And so, we -- we started to try and look at trying to go industry standard in every -- all ways that we pay for repairing vehicles.

In our last agreement with the ATA MMDA, we elected to stay at our seventy-four dollar ($74) body labour rate because it was high. We looked at it relative to other jurisdictions, and so we kept it that way.

And we also really worked with the -- the interest groups, the ATA and MMDA, around which Estimatics does MPI use that is outside of industry norm, and we reversed one (1), for example.

Like, for blend, when you're blending one (1) paint panel into another, we used to just pay a half an hour on -- on all jobs whether it needed it or not, and it was just an unusual thing, probably an accident of history.

And -- and now, since that last agreement, we've unwound that, so we go with, basically, industry standard. And we also unwound an -- an awful lot of other things, that we're trying to pay more of the what is normal out there in the -- in the marketplace.

And we -- we actually have -- have done a number of those last agreement. Some of those actually in sum total are going to be less than a hundred thousand dollars.

And so, we -- we've shared with the industry that, if there's others, like, what are your top three (3) or four (4) that you want to look at in next compensation review, and we're -- we're open to that.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. In terms of the Mitchell software that's used for processing a claim, how does it establish labour, time, or materials for a typical collision repair.

MR. CURTIS WENNBERG: Mitchell will review their labour times. It's a bit of a black box to us how they do this. They're -- they're domiciled in San -- San Diego, California.

They serve all sorts of both carriers and repair networks in -- in the environment, so they're -- they're almost neutral in terms of their interest group.

So, I serve on their customer advisory panel for insurance carriers. But then they also have a separate customer advisory panel for repair shops, so they -- they hear both sides. And they want to make sure that there's some -- some fairness in how they set these -- these average repair rates.

MS. KATHLEEN MCCANDLESS: Does the software establish the labour times and material that would be required for completing a particular repair?

MR. CURTIS WENNBERG: Yes. Now, the -- the material will depend on the Estimatics. So, our estimator will look at your car and we -- we will itemize some of the -- the procedures and the parts that might be needed. And then that goes to a repair group. And they will confirm that that estimate is correct, or they'll supplement it as need be. And then we'll agree with what requires on that car.

But they'll use the Mitchell software to, you know, determine the different parts, pieces for that actual repair. It makes it much easier than what we used to have where it was all paper based.

MS. KATHLEEN MCCANDLESS: And appreciating that this is not -- was not sworn testimony before the Board and not subject to cross-examination, but the ATA had indicated to the Board in its presentation that there's a loophole in the Mitchell alternate estimate platform that allows MPI to establish compliant rates.

Are you aware of that?

MR. CURTIS WENNBERG: I'm not sure 100 percent what they mean by said loophole or -- or compliant rates.

MS. KATHLEEN MCCANDLESS: I guess, put another way, does MPI have the ability to adjust or reduce labour time or materials for a claim?

MR. CURTIS WENNBERG: Well, yes. Our -- our estimators can determine what is specifically required by -- based on the size of the dent or other things like that.

And then so does the shop. The shop will also have the ability to determine -- they may -- they may look at a vehicle and say, no, this estimate isn't -- isn't accurate enough, and -- and so they supplement that estimate.

MS. KATHLEEN MCCANDLESS: And when you say, "this estimate," you mean the estimate that's produced by the software or --

MR. CURTIS WENNBERG: Well, it's -- behind the software has got to be an estimator, either on the MPI side or in the shop side. So the software only does certain amounts. It can't -- it can't determine the size of the dent or that -- the art and science, if you will, around determining how much it costs to repair a car.

MS. KATHLEEN MCCANDLESS: Thank you. So does MPI -- MPI's estimators override Mitchell?

MR. CURTIS WENNBERG: Well, the estimator will determine how much is -- like there's no specific grid that we have yet that says, well, this is exactly 24 centimetres long of a dent or those -- those types of specificities don't exist in Mitchell.

So what -- what I would do would be get our team together with the ATA, MMDA and determine which of the specifics -- what are the -- the loopholes they're referring to within Mitchell.

I can commit to this Board and -- and all of our partners that we're not here to underpay for any repair; that's not our nature.

And what we've told everybody, repair shops included, is that if it costs ten thousand (10,000) to repair a vehicle, that's what we want to pay is ten thousand (10,000). We don't want to pay fifteen thousand (15,000) and we don't want to pay eight thousand (8,000).

So we're -- we're open and we're interested in -- in just being roughly average in terms of how much it costs Manitobans to get their cars fixed.

MS. KATHLEEN MCCANDLESS: The ATA, if we move forward in its presentation, at slide 13 was indicating there's an issue with profitability for collision repair shops in Manitoba.

And at the next slide made mention of the Physical Damage Re-engineering Project which further eroded profitability and stated that excessive attention was paid by MPI on driving down its operational costs without due attention to the needs for a healthy and sustainable industry.

There are fewer shops, more consolidation, jeopardizing MPI's distribution channels as shops in some smaller markets to the north and remote communities cannot support the needed investments on low profit margins.

So has the Corporation undertaken any analysis of the relative profitability of rural collision repair facilities versus urban facilities?

MR. CURTIS WENNBERG: Not recently. There was a number of years ago -- and I -- I can't remember the specific year; it may have been 2012 to 2014, somewhere in that time period -- MPI did a study on the profitability of the repair trade and -- and used an external third party to do so.

In -- in reading through that, I found it to be a difficult study. Also, I -- I think -- I think the profit and loss statements for these types of businesses can be -- can be a little difficult to analyze.

Historically, within auto repair, too, there's been work that's done via cash and work that's done that's non-cash. And so it -- it can make it very difficult to determine profitability.

If we -- if we look at our labour rates and we look at what we pay, it seems to be -- it seems to be strong in terms of how much we pay relative to other jurisdictions. And so that's one (1) data point that -- that tells us that we're probably paying about right.

And we've been paying more if you look at some of the historicals of ten (10) years of the increased amounts of severity. Overall, we've been paying what you would see increasing amounts relative to the industry standard, you know, smoothing out some of the issues that I -- I described as we went through Mitchell.

From an anecdotal standpoint, in my four (4) years here, we have not had any exodus of repair shops that have been doing work for us or -- or not wanting to do any more work for us. So that's been interesting.

And as you've seen from my colleague in presenting a lower and lower frequency, that -- that frequency is not just a Manitoba phenomenon. And in the very long term, we're looking at lots of -- of less accidents in vehicles across the globe, basically, as we move to more -- different technologies.

And so that is something that people are predicting in the long term. In the -- in the existing term, we have seen lower frequency.

We also -- we did have an exodus of shops that worked for us a couple of years ago when we brought in direct repair. But the reason they -- they left us was more about the requirement for us to get them trained to what's called a gold -- gold level with ICAR. It's an independent firm that works across North America that determines the level of -- of training and -- and those sorts of things that are needed for shops.

And it was getting that level passed that shops decided to -- if they were nearing retirement or, you know, they were moving out, they chose that as the opportunity to stop work.

And that was roughly about twenty (20) shops, a few dozen shops, and in reality that was less than a couple of percent of our total repair capacity. So these were the smallest of the smalls.

That event is the only event when we actually saw anyone stopping work for MPI from a trade. So -- so there's the -- the data point you have around how we pay and our labour rates being relatively high.

You have our data point of our severity has gone up with the overall industry, and we pay a fair amount more now for repairs than we did five (5) years ago and -- and especially ten (10) years ago. And then you've got nobody leaving us in terms of doing the repairs.

And the -- the last data point I would say on this is that, interesting -- this COVID year is going to be a very interesting experiment for us, a natural experiment where you're taking, what, maybe 20 percent of the total repair frequency out of this year, and still to this date we don't see many repair shops that have told us that they're using this opportunity to close.

So that's interesting, too, that if that significant amount of volume leaves, that -- that, you know, there hasn't been a -- a corresponding impact on the -- on the competitive marketplace.

MS. KATHLEEN MCCANDLESS: The Automotive Trades Association made mention of the Physical Damage Re-engineering Project, and, Mr. Wennberg, I take it you're aware of the negative net present value of that project --

MR. CURTIS WENNBERG: Yes.

MS. KATHLEEN MCCANDLESS: -- which was

significant, I believe approximately $55 million as of the last analysis that --

MR. CURTIS WENNBERG: Yes.

MS. KATHLEEN MCCANDLESS: -- that the Board had seen.

And so because of the relatively unsuccessful launch of that program, is MPI focussed somehow on cutting costs related to reversing that -- that negative Net Present Value?

MR. CURTIS WENNBERG: Oh, I see. No. So if -- if the view here is that we lost money in that overall PDR Program and therefore we're going to extract it on either Estimatics or the repair shop network, that's -- that's absolutely not true and -- and is not -- it's not even our approach.

What we are trying to do is utilize the assets of what the PDR Project has provided us, and -- and what PDR brought was the Mitchell system. That -- that is bringing from paper-based estimating to a more normal industry-standard way of doing these things, and it also allowed us to do other things like direct repair.

We are seeing a number of FTE that we no longer need any more, and this is from the MPI side in terms of reducing our costs. And -- and so we're using all the tools that we have available to us to lower our costs at all times, but that's -- that's part of more the lean way that we look at all of the internal processes or external processes these days.

You know, similar to -- if you may think about the rodents and -- and what we did with them, that was just looking at industry standard practices and trying to just build the best case for what should we do here in Manitoba.

We've done a complete restructure of how we're doing the salvage, and we've gone on to total online instead of in the salvage auction site physically on Wednesdays, and we're finding great performance there, all kinds of other things that we're doing. And -- and some of that used the PDR pla -- platform and some didn't.

MS. KATHLEEN MCCANDLESS: In terms of profitability of shops in the north, there was mention on slide 15 of issues that have an impact on profitability, so lack of skilled labour, long waits for northerners due to short staffing, vehicles transported to -- to the south for repair on an annual basis.

Are there circumstances that warrant not processing vehicles in the north? For example, are there capacity considerations?

MR. CURTIS WENNBERG: Yeah. Yes. If you look at the amount of repair facilities we have, let's say, north of -- of Swan River or -- or, you know, pick a -- pick a location north of The Pas, there's both not a large population of Manitobans and a small number of repair facilities.

And so, we do want representation up there to repair their -- their vehicles and -- and have that -- have that service available for those Manitobans, and so it's definitely something we want to see long-term.

And it's not just there, too; it's anywhere in rural environments. We want to make sure that there's good -- good local access to being able to fix vehicles.

MS. KATHLEEN MCCANDLESS: And so, is MPI doing something to address capacity issues in the north in terms of training or support?

MR. CURTIS WENNBERG: Well, one (1) of -- one (1) of the things that we did is we agreed with -- with some of the shops in the north. I personally went up there for a visit in the winter of 2019 to hear some of their specific issues, heating costs.

And particularly, it's around skilled

labour, how do you attract and retain skilled labour up there.

And -- and, well, I think we generally across the entire auto repair trade in not just Manitoba, but elsewhere, we -- we need to partner up and -- and make sure that we have appropriate skilled trades that can work on these vehicles.

And -- and we've told the ATA and MMDA that we're -- we're interested within what capacity we have as a carrier to -- to assist with that.

One (1) of the best places to assist with that is making sure that what we pay is industry standard. We don't want to pay lower.

And potentially, because we have some of these northern communities that are different, we -- we might want to benchmark what we pay in the northern or remote areas to what other companies, like, in northern Ontario or northern Quebec also have to pay so that they have sustainable businesses.

And -- and that way, we let the competitive market do what the competitive market does best. And -- and we just want to pay around that average.

(BRIEF PAUSE)

THE CHAIRPERSON: Sorry, Ms. McCandless, can I just interrupt and ask a question just based on your last answer?

On -- on this issue of the -- the higher cost for shops in northern or remote areas, when you -- when you made your last comment about -- I'm just under -- I'm just trying to understand.

Are you saying that -- that MPI pays more or are you saying that this is an issue we should be looking at in the future?

MR. CURTIS WENNBERG: We made an agreement. There was an amendment to our last LVA agreement, and that was about a year ago now, where we increased the amount of payments for northern shops.

And it's -- I -- I can't remember the specific dollar, but it's roughly around ninety dollars ($90) an hour. So, by comparison, we're at seventy-four dollars ($74) in the south and almost ninety (90) in the north, so it is differential.

Now, we always had a differential --

THE CHAIRPERSON: Yeah.

MR. CURTIS WENNBERG: -- but we widened that based on the evidence that we heard.

THE CHAIRPERSON: Okay. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Jumping to slide 19, here the ATA made the point that MPI wages surpassed the national industrial wage average by 24 percent but that journey persons and shops earn less than the MPI equivalent position and fall below the national industrial wage average.

Is that -- from MPI's perspective, do you agree with the information that was presented?

MR. CURTIS WENNBERG: What I would provide would be a context to this by saying that often we will hire in the estimating group individuals that -- that might be -- might be near the end of their career from working on the bench.

It's less physical work as being an estimator. And we do want some of that skills and experience to recognize what this repair might take versus this other repair.

It's not always that case, but -- but often, it's true. So, we could have folks that we hire that do have a bit more experience than the average person in the shops. And that could be part of -- of the implications here.

The other thing that it misses from a

context perspective is that we have gone down in the number of estimators we use.

Some of this was because of the PDR project and the benefits of what we did get out of that and some of it is just additional lean methods of looking at how we estimate cars and how we work with shops to do that work.

MS. KATHLEEN MCCANDLESS: Now, with respect to the Light Vehicle Accreditation Agreement. And that's -- you can see a reference to it in the MPI draft Annual Business Plan, which is Exhibit 13 at page 12.

2.3.1 provides that the Corporation will begin early industry consultra -- consultation on a new agreement with Manitoba's collision repair industry with the current agreement set to expire April 15, 2021?

MR. CURTIS WENNBERG: Yes.

MS. KATHLEEN MCCANDLESS: And that over three hundred -- at over $380 million in repair claims per year, vehicle repair is a significant cost driver for MT -- MPI customers and is only set to be rising with increasing repair costs for vehicles?

MR. CURTIS WENNBERG: Yes.

MS. KATHLEEN MCCANDLESS: And that

through 2020/'21, MPI will be looking to other Crown best practices in how our rate cards get defined within all applicable laws for setting such rates?

MR. CURTIS WENNBERG: Yes.

MS. KATHLEEN MCCANDLESS: During 2020, MPI will be consulting with the industry regarding how parts are used in insurance repairs?

MR. CURTIS WENNBERG: M-hm. Yes.

MS. KATHLEEN MCCANDLESS: And this requires industry standard software and rules on new original equipment parts, after market or recycled, yes?

MR. CURTIS WENNBERG: That's right.

MS. KATHLEEN MCCANDLESS: It states here:

> "The effort to become more industry standard on parts has been delayed but is planned for launch in 2020."

Yes?

MR. CURTIS WENNBERG: That's right.

MS. KATHLEEN MCCANDLESS: What is the status of the -- of a revised Light Vehicle Accreditation Agreement?

MR. CURTIS WENNBERG: Well, there's -- there's two (2) items in this statement. One (1) is around our parts strategy, and the other one's around the LVA agreement.

In terms of the LVA agreement, it is coming due in April 15th, as it's -- as it's stated here. And we have yet to receive the industry's first presentation on what they would like to see changed or any suggestions for our -- our compensation.

And so, it just so happens it's this week we'll be meeting with them to sit down to -- to receive what they would like to see as -- as possible changes, and then determine how significant that difference is over what we pay today.

MS. KATHLEEN MCCANDLESS: So, in terms of status with -- or of industry consultations, it's just starting?

MR. CURTIS WENNBERG: That's correct.

MS. KATHLEEN MCCANDLESS: And does MPI expect that the new Light Vehicle Accreditation Agreement will address concerns that have been raised by the industry on the viability of the industry, in particular, in rural areas, including the north?

MR. CURTIS WENNBERG: Well, we -- we do seek to listen. And -- and we want industry feedback. And we want industry feedback from a variety of sources, too, and -- and so we -- we hope to receive that.

I think the challenges within the auto body world and -- and finding skilled technicians can survive regardless of what we negotiate in terms of the compensation agreement, so there's going to be some elements that'll be a challenge.

And I think with the redu -- reduced frequencies, both for -- specifically acute this year because of COVID, but then even the long-term trends that my colleague was sharing with the PUB, I think this will always be an industry that's going to have some challenges as we move through and have more autonomous vehicle or -- or real safety features like the Ford collision avoidance which seems to have a strong correlation to reduced repairs.

And as more and more of these cars have that technology in them, there's just going to be less frequency for some of these repair networks.

We are also seeing different elements where a car mark or a car brand is also really trying to encourage its customer base to stay within the brand or the dealership for repairs, and that -- that can alter who they want to go for in future.

And so, we have to -- we're just going to be live to -- there's going to be issues ongoing within repairing vehicles and how that shifts over time.

MS. KATHLEEN MCCANDLESS: Is MPI intending to establish a rate card as part of the new agreement?

MR. CURTIS WENNBERG: Yes. And I think by what you intend is that there's a negotiated agreement between a lobby group or a group of lobbies -- lobbyists like ATA and the MMDA and MPI.

Or do we go with what other Crown -- or at least one (1) other Crown has -- has tried, and that's to develop a rate card and maybe get a third party involved in the process?

And you may have heard the repair trade also talk about wanting to get a third party involved in the process. And -- and we're -- we're open to talk to them about that. We see merits in that, as well, you know, even particularly if you take a look at the severity and what was presented.

There can be very different points of perspective on that severity. And -- and therefore, if we adopt a -- a third party to assist in this process, we might even expand the amount of people that can give feedback within any compensation change. And then, MPI may just come out with a rate card based on recommendations, so that there's no, you know, agreement per se with an interest group of -- that's representing one (1) portion of the repair trade.

But we'll -- we'll be talking to them for sure over this year and next on how that can work for everybody's benefit.

MS. KATHLEEN MCCANDLESS: Thank you. Those are my questions for Mr. Wennberg and for the panel.

THE PANEL CHAIRPERSON: Thank you. Mr. Williams, do you want to start now or would you prefer to break and start this afternoon?

DR. BYRON WILLIAMS: What I -- I think what I might do is follow-up on just that last conversation, which might take us five (5) or six (6) minutes. And then -- then suggest that we break for lunch.

THE PANEL CHAIRPERSON: Sure. That's fine.

CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: But it's not on your -- Ms. Schubert, it's not on your list. But from last year's Information Request -- and I'm going from memory here -- but CAC-1-1(p). I think it's -- it's a lengthy response. I think page 10 of 11.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: I hope I'm not going to show my memory is really bad here. Well, let -- let's see how I do.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Page 10 of 11? Yeah.

Mr. Wennberg, in -- in our conversation with My Learned Friend, you were -- you were -- you recall discussing a rate card, sir? Agreed?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And -- and you were talking generally about the practice of, at least, one (1) other Crown insurer in that, it doesn't have a direct agreement with a trade association, but involves a third party and -- and undertakes certain activities. You'll recall that generally, sir?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And was that Crown insurer ICBC that you're referring to?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And generally, sir, is -- is the process from British Columbia known as the Messenger model?

MR. CURTIS WENNBERG: It adopts -- they don't necessarily use that specific term themselves. We -- we might use it to categorize -- essentially, what they do is hire a third-party consultant. That -- that consultant then goes and speaks to a broad category of -- of either individual businesses or their associations that may represent them for -- for the repair trade. So we can leave out others that we deal with.

But just for the repair trade, that might be the -- the focus that are -- are related to glass repair. We have a lot of work in glass repair. It could be the repair shops that are represented by the Auto Trades Association that are more independent shops or it could be the dealers or the branded shops. And it could even be those that do things like -- specific stuff, like hail or those types of things.

Including the rural, the remote versus the urban types of representation.

DR. BYRON WILLIAMS: And that third party would gather information, both from different associations as well as from Manitoba Public Insurance? And -- and then what, sir?

MR. CURTIS WENNBERG: So we don't adopt this today. But I -- I think the approach is generally to gain information from multiple sources, have some consultations even, on, you know, maybe some themes that -- that are -- are relevant. And then, produce a report at the end.

It would also include benchmarks, where there are other benchmarks from other jurisdictions. Because, of course, we're not setting policy in a vacuum of just Manitoba or just B.C. or just Ontario, whatever it might be.

DR. BYRON WILLIAMS: And the ultimate result, sir -- and -- and if I've mis-stated it, you'll -- you'll correct me -- but the ultimate results would not be a formal agreement between MPI and some representatives of a trade association which may or may not include all -- all members of the trade.

MR. CURTIS WENNBERG: Right.

DR. BYRON WILLIAMS: Like, the end result is not a negotiated agreement. So what is the end result? A -- if you can elaborate on that.

MR. CURTIS WENNBERG: Yeah. And --

and, again, it would be more predicting the -- a potential future for it.

But the end result would be a rate card that has the ability for multiple different groups to opine on it. And they still may disagree with the out -- the results at the end, but -- but it's a rate card that is then published by MPI and can be defended in, say, this forum or publically.

The other piece that we have, from a governance or documentation of our relationship with our repairers, is that we have a specific agreement for repair shop 'A' to sign -- which outlines what we expect from them and what they expect from us. And the rate card that we provide could be a schedule that's -- that's, you know, alluded to within that agreement.

But we don't have any -- there wouldn't be any -- any agreement per se between us and any association. It would be for those underlying shops.

And we do have that today. Like, we have the LVAA, the Light Vehicle Accreditation Agreement is signed by those two-hundred-and-thirty (230) individual repair shops, if you will.

DR. BYRON WILLIAMS: And so, in essence, MPI would be making an offer into the marketplace and individual shops could choose to accept it or -- or not accept it.

MR. CURTIS WENNBERG: That's correct.

DR. BYRON WILLIAMS: And just -- you'll note here in the response from last year's General Rate Application to CAC-1-1(P), it's suggested here that one (1) of the reasons ICBC adopted this approach was just to be careful of potential violations of the Competition Act, which can occur if a service provider association negotiates on behalf of its members. Agreed?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And that's something going forward that Manitoba Public Insurance will have to be mindful of?

MR. CURTIS WENNBERG: We -- we need to be mindful of that.

DR. BYRON WILLIAMS: Okay. Madam Chair, members of the panel, that's -- I'll suggest we break for lunch.

THE PANEL CHAIRPERSON: Thank you, Mr. Williams. Can we return at 1:00, please?

MR. STEVE SCARFONE: Madam Chair, just before we break.

THE PANEL CHAIRPERSON: Yes.

MR. STEVE SCARFONE: Just looking ahead to this afternoon. So we have available -- so you may recall last week, Madam Chair, that as it concerned the -- the broker commissions and as those relate to the undertaking that was filed earlier this morning, you asked Mr. Giesbrecht if he would be available today to, perhaps, testify on those areas in camera.

So what -- and I don't know what time we'll get to it -- but what we propose to do, if it's agreeable to my friends, is there are a number of people that were putting together the response to that undertaking on Friday. And Mr. Dessler, you'll recall, was here on the -- on the Nova panel. He was instrumental in -- in providing that additional Information. In addition to that, Mr. Dunstone -- Dean Dunstone was involved.

So what we thought we could do was have some or all of those people available as a back row support, if necessary. Even bring Mr. Dessler back.

Because there was no workbook provided with the undertaking. So how we arrived at those numbers isn't filed, just the response to the undertaking. So there may be some questions that arise that only those gentlemen can answer.

So I'm wondering if that is agreeable rather than having Mr. Giesbrecht return to answer those questions.

THE PANEL CHAIRPERSON: I look to Mr. Williams.

DR. BYRON WILLIAMS: Madam Chair, certainly, from our clients' perspective, that's fine.

And I could just indicate, in conversations with My Learned Friend representing CMMG, that -- I'm going to guess that my cross of the current panel will take about an hour. And then, I understand that My Learned Friend has no more than ten (10) minutes and probably less than that.

So just for -- for the convenience of Manitoba Public Insurance, you know, if we were re-assembling that -- or assembling that group for 2:15 or -- or so -- that's up to the panel, obviously. But just from this side of the room, that's where we're coming from.

THE PANEL CHAIRPERSON: Thank you, Mr. Williams. That's helpful.

And certainly, Mr. Scarfone, if that's what will help in terms of the availability of those people, then we'll assume the CSI portion of the -- today's hearing will occur at around 2:15.

MR. STEVE SCARFONE: And that's what we'll conclude with, as I understand it, is the -- is the in camera session today?

MS. KATHLEEN MCCANDLESS: Yes.

THE PANEL CHAIRPERSON: That's correct.

MS. KATHLEEN MCCANDLESS: Just to follow up on Mr. Scarfone's comment, would it be possible for MPI to provide the workbook? That may make things more efficient.

MR. STEVE SCARFONE: So I can inquire about that. I don't -- I don't know that that -- so my comment earlier this morning about that, just to be clear, the concern that MPI has isn't about the late minute -- or last minute request. It's really just -- we want to make sure that the information provided -- the evidence is the best evidence.

And my concern for my client was that maybe some of the numbers that were advanced were inaccurate or a mistake was made under the circumstances.

So I want to make sure that the workbook -- we're confident that the workbook is -- is in a format that is helpful for everyone here.

But I'll -- I'll look into that.

Absolutely.

MS. KATHLEEN MCCANDLESS: Thank you.

THE PANEL CHAIRPERSON: Yes, thank you. That would be very helpful.

So we'll adjourn until 1:00.

--- Upon Recessing at 12:01 p.m.

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

THE PANEL CHAIRPERSON: Good afternoon, everyone.

Mr. Williams...?

DR. BYRON WILLIAMS: Yes, good afternoon, members of the panel.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Mr. Johnston, I'm -- I'm going to speak about claims frequency for the -- the first little bit and try not to trespass too much where My Learned Friend has gone before.

But you'll recall a conversation this morning in terms of the '21/'22 ultimate collision losses, that in terms of the significant improvement as compared to last year's forecast, a major driver of that is the lower forecast claims count from lower historical trends. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And subject to check, that number's about $26.5 million lower than forecast last --

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: -- year?

MR. LUKE JOHNSTON: Yes, yeah.

DR. BYRON WILLIAMS: And I wonder if we can go to the first page of CAC-MPI-1-26, and Mr. Johnston, there you'll see an extract from -- from the application, if we go down -- yeah, keep -- right there, Ms. Schubert, if you can show that.

You recognize that document from your Application, sir?

MR. LUKE JOHNSTON: I do.

DR. BYRON WILLIAMS: And I'll just let you know, we'll come to your favourite table or slide from your PowerPoint this morning, slide 12, in a couple minutes, but --

MR. LUKE JOHNSTON: Okay.

DR. BYRON WILLIAMS: Mr. Johnston, what this generally shows us is the trends in ultimate Basic collision frequency per earned vehicle unit, excluding zero (0) claims, from the time period between 2010 and 20 -- going out to the projections in 2024, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And I don't know if that's orange or brown, but at the bottom of that, there's a fairly stable line running from the 2010 to the 24 -- 2024 projection, and that's total loss, sir?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And then the blue line, Mr. Johnston, I'll suggest to you, is the repair line, and it tracks the frequency in repairs from 2010 out to the projected year of 2024 as well, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And above that is the -- the total, and that's the green line, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And we don't have to get into the precise element of how -- how that's calculated, being the total, but it is a combination, generally, of the experience with the total loss and the experience with repair -- the historical experience -- and then you're doing -- based on the historical experience, you're taking certain trends and projecting those into the future. Agreed?

MR. LUKE JOHNSTON: That's right.

It's claims on a per-vehicle basis, so when we project vehicles in the future, we would assume the per-vehicle claims would follow the -- this pattern.

DR. BYRON WILLIAMS: And if we just look -- we're going to ignore the total loss, with your permission. And if we look, sir, at the blue line, being the repair, we see it at about one point one three (1.13) in the 2010 year, tracking out to about zero point nine four (0.94) in the 2018 year. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And then we have that fairly sharp drop between 2018 and 2019, out to zero point zero eight five (0.085), agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And then just above, we see a fairly similar pathway for total, starting at zero point one four one (0.141) in 2010 and out to zero one two one (0.121) in 2018, cor -- agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And then there's that dip again in the 2019 year, sir?

MR. LUKE JOHNSTON: There is, yes.

DR. BYRON WILLIAMS: And if we ignore

that dip just for a second, Mr. Johnston, if we looked at repairs, for example, zero point zero nine four (0.094) in 2018 and over to your projection for 2020 and '21 -- ignore that dip -- that would be a fairly straight downward incline.

MR. LUKE JOHNSTON: Yeah, it -- it looks -- if you drew a trend line from 2016 out into the forecast period, it'd probably lay pretty close on top of that forecasted line, yeah.

DR. BYRON WILLIAMS: Okay, and if we can just go to your slide 12 from -- from Exhibit -- MPI Exhibit 42, the benchmarking and claims forecasting, Mr. Johnston, in a way, that's what you're -- you're trying to express here.

The -- if we take the 2018 year and that brown line extending from it, that -- that's last year's forecast, sir?

MR. LUKE JOHNSTON: Correct, yeah.

DR. BYRON WILLIAMS: And if we take the -- I can't even tell the colour, but I'm going to guess it's purple or grey -- below that, starting in 2020 and extending outward, that's the '21 GRA?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: And the challenge MPI, obviously, has is, with the '19 and '20 years, what to make of -- of those -- that experience, sir?

MR. LUKE JOHNSTON: Yeah. The point I was making earlier is if -- you know, if we were faced with the -- the data, I guess, at the start of that -- that orange line in 2018 -- and I don't -- I -- I don't think anybody would suggest we made a outlandish forecast at that time; no one would, I don't think, have predicted such a big drop -- but yes, now we're -- we do have that information, and how much weight to give it is a big question.

DR. BYRON WILLIAMS: And your conclusion that this is not too optimistic of a frequency claim is reflective, really, of the experience the Corporation has had, at least since 2016. Agreed, sir?

MR. LUKE JOHNSTON: Yeah. We're -- we've talked about some of the reasons earlier, so I won't repeat them. There could be others, but we are trying to, of course, make a best estimate, and as we add more and more years to this, I guess, 2014 and after trend, it becomes less -- or, more credible, I guess, in making the forecast.

DR. BYRON WILLIAMS: And, sir, we will dig into a couple of those reasons in -- in the next few minutes.

But generally, as we observe the decreased collision frequency, two (2) of the major factors Manitoba Public Insurance has identified, one (1) relates to the Driver Safety Rating programming changes in 2010, agreed?

MR. LUKE JOHNSTON: Agree, and just -- just recognizing that that -- you know, we may have seen those early on, and now we're just sustaining that, yeah.

DR. BYRON WILLIAMS: Yeah, and we're going to come to that in just a second, sir.

And certainly in more recent years, a significant driver in the improved frequency experience is with new vehicle technology, including safety features like lane change assist, rearview cameras, and emergency braking. Agreed?

MR. LUKE JOHNSTON: Agreed. And then I'd probably add some winter tire -- winter tires to that list.

DR. BYRON WILLIAMS: And if we could turn to the response to CAC-MPI-2-10(c).

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And we can

actually go to the page 5 of 5.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Johnston, in terms of observing a positive influence of Driver Safety Rating in some -- some of the earlier years between 2010 and 2016, it is information like this table that you would have relied on, agreed?

MR. LUKE JOHNSTON: This is -- this is one (1) of them. The other big piece of information for me was the claim frequencies of the demerit drivers. And so, those have -- have declined since implementing DSR as well.

And -- and even though there's a small number there, the fact that they maybe crash, you know, two (2) or three (3) times more than a good driver, it magnifies that.

DR. BYRON WILLIAMS: Okay. And thank you for that. And what -- what this table tells us in the middle column -- sorry, in the middle row is that sets out when MPI was bringing Driver Safety Rating online, what it was expecting in terms of the average Driver Safety Rating level and forecasts it out moving forward.

Is that correct, sir?

MR. LUKE JOHNSTON: Yeah. Our -- our DSR -- initial DSR projections just created, like, a pretend mock DSR model using the historical experience and -- and use that as a basis for the early projections.

DR. BYRON WILLIAMS: And what you see in the -- the row just above that being average DSR level actual is what the actual outcomes were in those time periods, sir?

MR. LUKE JOHNSTON: That's right. With a lower than expected claims frequency, that's not surprising, yeah.

DR. BYRON WILLIAMS: And, Mr. Johnston, in -- in some of those early years you see in -- in the 2012 year, for example, the difference between the average and the forecast was 0.11, agreed?

MR. LUKE JOHNSTON: I see that, yes.

DR. BYRON WILLIAMS: And there's other quite positive years, 0.09 in 2014 and 0.14 in 2016, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And -- and perhaps I'm putting too much into this, sir, but that's indi -- was indicating to you the -- up to that period of time, at least, the ongoing impact of driver safety rating in terms of driver behaviour. That's --

MR. LUKE JOHNSTON: This is one (1) of the measures. And just, I guess, to remind everyone what's in the -- our forecast, we've assumed that the most recent year of movement of drivers is the best predictor of the future.

So, at least this table's indicating, and -- and over this period, there is a little bit of lag between the recognition of the latest movement and our forecast, but, yeah.

DR. BYRON WILLIAMS: Now, Mr. Johnston, in terms of the utility of Driver Safety Rating in driving improved behaviour, one (1) of the challenges that Manitoba Public Insurance now experiences is that with the majority of drivers at DSR plus 15, their Driver Safety Rating cannot improve, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And it's the opinion of the Corporation that changes in driver behaviour resulting from the implementation of the DSR system have stabilized, agreed?

MR. LUKE JOHNSTON: Close to -- or -- or much more stable than the beginning for sure, yeah.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Staying with this IR response and just moving back a page to 4 of 5, towards the top, Mr. Johnston, this is an estimate by Manitoba Public Insurance of -- of the potential adoption of vehicle safety features, such as lane departure warnings and forward collision warnings, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And what this estimate tells us at a high level if we look to the pie to the -- to the left is that MPI's estimating that somewhere between 37 and 38 percent of the vehicle population may have some of these advanced vehicle safety features, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: So, over 60 percent do not at this point in time?

MR. LUKE JOHNSTON: That's right.

DR. BYRON WILLIAMS: Okay. And if we can go to CAC-2-9, and specifically page 3 of 4.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Mr. Johnston, MPI has undertaken secondary research on the impact that crash avoidance technologies can have on collision frequency, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And generally, the sources you have reviewed suggest that collision avoidance technologies can significantly lower crash rates, correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And what the response to CAC-MPI-2-9, the figure in the middle of the page, shows the prediction of the Insurance Institute of Highway Safety in terms of the projected adoption of certain vehicle safety systems, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And it's basically projecting what may be adopted between 2018 and 2023, taking 2018 as a starting base and where it's projecting things may be by 2023, correct?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And just for a couple of those, go on the left side. You'll see that rear cameras are projected to rise from in the range of 35 percent up to 60 percent?

MR. LUKE JOHNSTON: I see that, yeah.

DR. BYRON WILLIAMS: And similar, as -- as we go along, in terms of front automatic emergency braking, you can see it rising -- projected to rise from fairly modest numbers in 2018 to over 20 percent in 2023, correct?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: Now, to date, Manitoba Public Insurance has not analyzed the tradeoffs or -- or to what extent vehicle safety technology offers a cost savings even after facting -- factoring in the increased costs of replacement parts.

You haven't done that analysis yourself?

MR. LUKE JOHNSTON: We have not done a specific, I guess, assessment of the cost benefit of this technology in terms of frequency reduction versus severity increase; that -- that's correct.

The -- the point I mentioned earlier with the Insurance Bureau of Canada providing us rate groups, we would anticipate the net effect of -- of those benefits to be in the rate groups, but MPI specifically hasn't done that, yeah.

DR. BYRON WILLIAMS: And thank you for that because -- and -- and that -- having that net effect as the -- of the status quo, what I -- what -- I'll suggest to you what you're indicating is that when it comes to the -- the clear rating system and -- and the relativities, the relationship between those groups, that would be reflected in those numbers?

MR. LUKE JOHNSTON: That is the intent, yeah, of the rate groups, yes. Yeah.

DR. BYRON WILLIAMS: But in terms of the impact looking forward of -- of savings in terms of Manitoba Public Insurance ultimates, that -- that is not taken into account to date, sir?

MR. LUKE JOHNSTON: Yeah, the way I'd describe it, and if you -- maybe if -- if you -- you don't -- I don't think you have to go back to the frequency charts. But MPI is recognizing there's a downward trend, so I don't -- I don't think there's any dispute on -- on that.

And even the big drop we had in 2019, obviously, that drop wasn't because we just had a huge number of these cars just show up all of the sudden out of nowhere. You would expect a more gradual decline.

But that is -- that is our current method to -- to account for this, to recognize, you know, a trend, where it exists, and -- and impact --

or project that forward.

DR. BYRON WILLIAMS: What I hear you saying, sir, is, to the extent that there are historic impacts on collision frequency of safe driving technology, those would be reflected in the claims incurred historical results as a starting point, agreed?

MR. LUKE JOHNSTON: Agreed, yeah.

DR. BYRON WILLIAMS: And to extent that greater weight is given to recent years, that will also affect forecasts for future years?

MR. LUKE JOHNSTON: Greater weight or just the -- as you identified earlier, a downward trend that we should be recognizing.

DR. BYRON WILLIAMS: But as we look at kind of the claims incurred forecasts that before -- that's before us, MPI has not made any collision projections based on forecasts of higher adoption rates of driver safety technology or an expressed forecast of the impacts of this technology on collision rates?

MR. LUKE JOHNSTON: That's correct. We've only utilized existing trends. We haven't made, for example, forecasts of vehicles with or without this technology and how those two (2) groups will grow and -- and the frequency will be impacted. Yeah.

DR. BYRON WILLIAMS: Okay. Mr. Johnston, I'm going to ask kind of a parallel question with regard to high -- high school driver education. I don't think we need to -- to go there, but if you feel the need, I have a reference for you if you require it.

MR. LUKE JOHNSTON: Okay.

DR. BYRON WILLIAMS: But you'll recall, sir, as one (1) of the objectives of the high school driver education redesign was -- I'm going to call it a hope for right now -- that there would be a downward trending of at fault serious injury and fatality questions (sic) by fifteen (15) to twenty-four (24) year old drivers over ten (10) years. Agreed?

MR. CURTIS WENNBERG: Agreed. I'll take that question.

DR. BYRON WILLIAMS: Okay. Thank you. And that's helpful and moves things along.

And just to go back to Mr. Johnston, with no offence to you, sir, that reduction -- that potential reduction of risk would not be built into the claims incurred forecasts because it's too speculative at this point in time. Agreed?

MR. LUKE JOHNSTON: That's -- that's generally our approach. Similar with initiatives like DSR, we would say we're optimistic. But, you know, what would we use -- that, you know, as a -- as a benefit. We generally like to see some evidence of that benefit before putting it in rates.

DR. BYRON WILLIAMS: The distinction between, for example, high school education and its anticipated benefits versus the driver safety technology, Mr. Johnston, is -- there's more evidence in the field from the adoption of technology. Agreed? And more research in that area?

MR. LUKE JOHNSTON: For these -- like, the technologies we have on the screen, I would expect that there's evidence that frequency is lower relative to vehicles that don't have these -- no reason to question that.

DR. BYRON WILLIAMS: And that may be -- without any suggestion that you should be forecasting adoption rates -- that may be a hidden strength in the claims incurred forecast, Mr. Johnston, the expected affect over time of the adoption of advanced driver assistant technology.

MR. LUKE JOHNSTON: So I'll split into two (2).

For the rating period that we're going into next year, we do have incorporated this downward trend and -- and frequency. So it's being recognized. So I -- I wouldn't expect there to be a huge gap between what we have today and what could change in the next year or two (2).

In the long term, it would be my expectation -- as Mr. Wennberg mentioned as well -- that as these become more prevalent, you'd expect frequency to decline. To what level, I don't know, but a downward trend.

DR. BYRON WILLIAMS: Okay. Thank you. And just when we look at collision frequency, MPI would have looked at the adopted for forecasting purposes, the -- the five (5) year average, subject to check? Sorry, of repair collision frequency.

MR. LUKE JOHNSTON: We do -- we do split them up. The point when -- we didn't really talk about that total loss line, but it -- the total loss frequency looks stable. But really, what's happening is frequency overall is going down, just a higher percentage of vehicles are being total loss. And you get the illusion of a perfectly flat line. But it is actually a rising percentage of the total -- that are total loss.

DR. BYRON WILLIAMS: Okay. Thank you. Mr. Wennberg, I -- I think these questions go to you.

And I -- I was -- wanted to direct your attention to the Corporation's response to PUB-MPI-1-50. And we'll start with the first page, Ms. Schubert, just with the preamble.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: PUB-1-50.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And Mr. Wennberg, just by way of background, as part of the direct repair program, physical damage repair shops at different tier levels are authorized to take certain levels of repairs without requiring in prior approval of Manitoba Public Insurance. Is that correct, sir?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: Okay. And those -- that authorization, to undertake a certain level of repairs without requiring prior approval, might be known as an earned approval limit or EAL.

Is that correct, sir?

MR. CURTIS WENNBERG: That's correct. Yeah.

DR. BYRON WILLIAMS: Okay. And you see, in the preamble here, Manitoba Public Insurance is indicating that it has removed forecast increases in the earned approval limits to avoid the potential for leakage of higher EAL levels.

Do you see that reference, sir?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: Okay. And if we just go down to question 'C' and 'D' for a second.

You see that we're inquiring -- or the PUB is inquiring why that might potentially lead to leakage, increase in the earned approval limits, and, secondly, looking at what, if any, calculations were done in terms of adduced -- reduced labour savings as a result of the changes in the EAL limits.

You see those questions, sir?

MR. CURTIS WENNBERG: Yes. Yeah.

DR. BYRON WILLIAMS: And I'm going to take you to 'D' first, just to get -- and that's on page 6 of 6.

And what this response to PUB-1-50 suggests, sir, is that if Manitoba Public Insurance had gone to the higher earned approval level, it would save somewhere in the range of fifteen (15) equivalent to full-time positions. Agreed?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: Okay. Now, we'll go back to the answer before and the previous page, starting at the response to PUB 1-50(c).

Mr. Wennberg, in -- in terms of the decision by Manitoba Public Insurance not to raise the earned approval limits, one (1) of the reasons was there was a -- there was a concern that raising the limits would result in the approval of more severe and complex claims and potentially more errors in the estimate. Agreed?

MR. CURTIS WENNBERG: Agreed. That's right.

DR. BYRON WILLIAMS: And in terms of the auto approved or -- I was going to -- called them prior approved, but we're -- the auto approved transaction. Currently, MPI audits at least 25 percent of all auto approved transactions to ensure compliance. Is that correct, sir?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And before I go on with this response, is it expected that that will continue in terms of the existing earned approval levels that MPI will continue to be auditing about 25 percent of all transactions, sir?

MR. CURTIS WENNBERG: At this point, yes.

DR. BYRON WILLIAMS: And if we go under the figure 8 in this response, one (1) of the concerns of Manitoba Public Insurance was that you're increasing the EAL limits -- levels or the earned approval levels would increase the volumes of claims for auditing and the demand for auditing resources. Agreed?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And so, even though increasing the limits would generate an estimated fifteen (15) -- and estimated savings of fifteen (15) full-time equivalents, you're -- MPI is expressing the concern here that it would not be able to capitalize them as it requires a minimum number of staff to provide adequate customer service.

And, Mr. Wennberg, just to assist my clients in this one, we're trying to get an idea of the -- the trade-offs. Is MPI saying here that they would have to -- the new staff that they would have to hire in terms of auditing would out -- outweigh the -- the fifteen (15) EFT savings? Or help us to understand MPI's decision making.

MR. CURTIS WENNBERG: Okay. So there's a little more context, I think, behind this answer.

The repair trade, I believe when they were here, may have mentioned that they also have concerns around the earned approval limits. And it's not like this is the simplest thing that's happening out in our marketplace.

So -- so I'll give you a bit more context. This is something that is basically more of an approach to lean -- lean process or lean manufacturing processes. So we are taking the lowest value claims and really giving some of our repair shops the benefit of the doubt in terms of writing the estimate themselves and we don't even look at it.

And our way of doing that is by saying those shops that have performed the best over the last few years, we rank them in our highest category according to key performance indicators, and we give them the highest earned approval limit which is at this point three thousand seven hundred and fifty dollars ($3,750), meaning that anything below thirty-seven fifty (3,750) they can write and then we will audit them. And it's that process behind -- behind the actual estimate running through that, you know, allows us to maintain control.

For some shops that don't perform on other KPIs, they actually have a zero earned authority level. So there are shops that are at that zero level, and -- and we approve everything.

So it's a risk base, if you want to call it that, setup that does have some straight-through processing, and we wanted to get speed so that the shops could just write an estimate and move on. And then we also take out, you know, some FTE capacity on our side. We don't need too many estimators.

The problem comes in the auditing process when we do find some errors and discrepancies. The shops are particularly not pleased with the idea of having to make us whole. Let's say we find five hundred dollars ($500) or a thousand dollars ($1,000) that was overcharged, for example in error or otherwise, on an estimate. It comes out of the shop's pocket, so they -- there -- there's no -- there's no back and forth in that process.

So from shops' perspective, we're hearing a few more voices lately that that EAL level has -- it's -- it -- it's got -- it's run its course or, you know, it's at the -- the furthest we can push it at this time, or, you know, they're even asking if some shops can make it an optional for them to opt in and opt out. That would require even more FTE on our side and more time involved in the process of a claim, which I don't think we're -- we're wanting at this point in time.

So there's a balance here. If you think of a continuum where we approve everything, which is where we were a couple of years ago, three (3) years ago, versus letting the shops do everything without any oversight, we just have to find that magic line in there. And -- and so we'll continue to experiment and determine what makes the most sense with the EAL.

DR. BYRON WILLIAMS: Okay. Thank you for that. And just in terms of the shops opting in or opting out --

MR. CURTIS WENNBERG: Yeah.

DR. BYRON WILLIAMS: -- from the Corporation's perspective, one (1) of the concerns with that would be that you might end up having to hire back more estimators. Is -- is that what you're saying?

MR. CURTIS WENNBERG: Yeah. It's not the most elegant process. We would probably have to hire back, and then it becomes a question of: Why would you allow one shop to opt in versus those that opt out?

So at this point, we liked -- we like the -- we like the discipline that's involved in a process for a shop to write an estimate, knowing that it can be audited behind the scenes and there is some -- there's a carrot and a stick naturally inherent in the fact that some of these can get audited and you might lose a little bit of money if -- if you don't comply with all of our estimating standards and those sorts of things. So it -- there are some natural advantages in the system as it is.

DR. BYRON WILLIAMS: And if you don't know this offhand there will be no undertaking, but in terms of the limit you mentioned, the -- the upper limit --

MR. CURTIS WENNBERG: Yeah.

DR. BYRON WILLIAMS: -- what percentage of the value of -- of claims might that -- that cover, sir? And if you don't, don't...

MR. CURTIS WENNBERG: The upper limit of thirty-seven fifty (3,750), you're going to have more than 50 percent of our jobs that are in that -- in that level, but we have the three (3) levels.

So we have -- seventeen fifty (1,750) is the -- is the first Earned Approval Level. That's for our tier 2 shops. Tier 3 shops get twenty-seven fifty (2,750), and then the highest tier, tier 4 shops, get the thirty-seven fifty (3,750).

And there's really only -- I believe it's eighteen (18) shops that have that full tier 4 capability, so it's -- it's a smaller number of jobs. Like it's not fully 50 percent of our jobs that go through EAL.

DR. BYRON WILLIAMS: Okay. Thank you.

MR. CURTIS WENNBERG: Yeah.

DR. BYRON WILLIAMS: If we can go to the response of the Corporation to CAC/MPI 2-11, and to page 4 of 6. Thank you.

And, Mr. Wennberg, you did talk a little bit about this in your direct this morning. What this graph represents is the -- a comparison between -- well, it presents both average severity per repair in various fiscal years running from 2013/'14 to 2019/'20, as well as annual severity growth year over year in that time period, agreed?

MR. CURTIS WENNBERG: Agreed.

DR. BYRON WILLIAMS: And the blue bars represent the ultimate collision repair, and their legend is on the left-hand side of this graph, agreed, sir?

MR. CURTIS WENNBERG: Agreed.

DR. BYRON WILLIAMS: And the year-over-year growth is the -- I'm going to call it brown but it may be orange line starting in 2013/'14 and running all the way out to 2019/'20, agreed?

MR. CURTIS WENNBERG: Agreed.

DR. BYRON WILLIAMS: And the legend for that part of the graph is on the right hand of the -- the document from zero percent at the bottom in terms of year-over-year growth up to 9 percent at the top of the legend, agreed?

MR. CURTIS WENNBERG: Agreed.

DR. BYRON WILLIAMS: And, Mr. Wennberg, this morning you spoke about the 2015/'16 year and the jump there, and there we see, following the brown line out from 2014/'15 through to 2015/'16, an average severity growth of 8.21 percent, correct?

MR. CURTIS WENNBERG: Correct.

DR. BYRON WILLIAMS: And then, in terms of the growth, it -- it continues to grow, but at a more moderate pace, out to 2018/'19, and in that year it's 3.55 percent, correct?

MR. CURTIS WENNBERG: Correct.

DR. BYRON WILLIAMS: And then again in 2019/'20, we see a 6.90 percent increase year over year in annual severity, correct?

MR. CURTIS WENNBERG: Correct.

DR. BYRON WILLIAMS: Now, if we go to (c) at the top of page 3 of 6, Mr. Wennberg, this morning you referenced Mitchell, and there was some, I'll call them growing pains, you may not agree with that characterization, in the first couple of years with that sharp increase in -- in severity, correct?

MR. CURTIS WENNBERG: Correct.

DR. BYRON WILLIAMS: And what the Corporation is doing in this -- this response, being CAC 2-11(c), is estimating that perhaps 4 percent of the increase in severity in the two (2) year period, roughly ten (10) to 15 million annually, relates to the software itself, agreed?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: Just to back up for a second, in -- when we think of Mitchell, we would think of it as a tool to improve billing accuracy as repair facilities transition from using pen and paper and memory to electronic data entry, additional repair information, resources, and compliance software, agreed?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: But what we're seeing, at least in the '15/'16 year and -- and perhaps beyond that, is some adverse impacts in severity that the Corporation attributes to -- to Mitchell, correct?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: If we go further down in the sentence -- in that paragraph, the first sent -- that's fine right there -- you'll see a sentence saying:

> "However, without the software and any associated increase in remuneration, MPI expects that repair shops would have demanded higher labour rates or other items in subsequent years to make up for that difference."

Do you see that reference, sir?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: Perhaps you can help our client with this. MPI's not suggesting that they would have just given in to the demands of the repair shops regardless of whether they were merited?

MR. CURTIS WENNBERG: No. I think, if

I understand your questions and -- and what -- what you're trying to understand here, as I -- as I -- again, Mitchell came in after I joined MPI, but the stories I heard from estimators and repair shops was that, when you dealt with a facts-based process to get estimates approved, the -- both on our side and the shop's side, you would -- you would get close enough -- I -- I don't want to mean that it was a -- an unscientific process, but Mitchell allows you to really add many more details within an estimate repair, and then it -- it confirms -- confirms back to our estimator and back to the shop all that specific detail with -- with real speed and ability for people to workflow something, you know, in a -- in a software system.

So the reasons why we think that this probably increased our severity when we first brought it in was because there may have been practices or things that the software was capturing that just, within the facts processes of MPI, we -- we had overlooked and potentially even used things that were blunt, like a higher labour rate, to overcome what was happening within the facts environment.

The anecdotal evidence of that is that we -- we found -- when we started taking a look at whether Mitchell had a severity impact, we found that it seemed that those shops that had a high severity in the first year after Mitchell moderated down afterwards. And then those shops that had a low severity in the first year of Mitchell, in the second year had a much higher severity.

And so the -- the myth of it, if you -- if you will, because it's very difficult to describe actually what -- what caused what, but the view is that some shops learned how to use Mitchell really early on and used it to their benefit, within the rules, within the rules. And then other shops took the second year to do so.

But then once you hit year two (2) and with all the training and other stuff we did with Estimatics training, that we hit a steady state.

DR. BYRON WILLIAMS: Okay. Thank you for that.

Mr. Johnston, I'm going to turn to a couple of questions regarding PIPP. And just to let you know, we're going to talk a little bit about weekly indemnity and other indexed. And then we're going to go to both you and, I suspect, Mr. Wennberg in -- in terms of accident benefits others and permanent impairment payments.

And, Mr. Johnston, I probably ask you to do this every year, but you'll forgive me if I just help my client and I to make sure we're on the -- on the same page with some common definitions.

MR. LUKE JOHNSTON: Sure.

DR. BYRON WILLIAMS: In terms of paid losses, can we agree that it can be described as a statement of the loss amount for a given time period that includes only the amount actually paid on the claims?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And in terms of case reserves, can we agree that an amount of money -- or can -- will you agree, more importantly -- an amount of money budgeted for future payments on claims that have already occurred, you'll agree with that?

MR. LUKE JOHNSTON: Agreed. With the -- I guess, the important distinction there being the case manager puts up those reserves. They are not the actuaries. Extra reserves, that's the case manager's estimate. Yeah.

DR. BYRON WILLIAMS: We'll come to the actuaries extra reserves in a minute, sir.

And will you -- would you agree that incurred losses could be described as a statement of the loss amount for a given time period that includes both paid losses and unpaid case reserves?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: Okay. And perhaps where you were going before, sir, in terms of incurred but not reported losses, would you agree that this value includes losses that occurred during a policy period but were not reported until after the end of the period or -- but it may also include expected development on known claims?

MR. LUKE JOHNSTON: Yeah. And just for the Board's benefit, a really common time to have incurred but not reported reserves would be early on in the -- in the claim life cycle. And we don't really know how many long-term serious claims there are going to be, for example, but we know, you know, weekly indemnity is, you know, often eighty (80), $90 million a year. It wouldn't -- you know, just because we only have $30 million of case reserves doesn't mean we'd expect there would only be $30 million in the year. I'd probably post, you know, $50 million on top of that as IBNR.

DR. BYRON WILLIAMS: And just in terms of that development on known claims that the -- the actuary estimates, that can go both ways in that future loss payments might be expected to exceed case reserves, but there may be circumstances where what's set aside in the IBNR may actually be -- be -- be bigger than the case reserves.

MR. LUKE JOHNSTON: Yes, it can. Especially in the early parts of centralized reserving, the -- we're putting up averages and some will turn out better and some will turn out worse.

If there's a certain bias in a certain direction, for example if we're putting up too much money initially, that would create a negative -- or favourable development later on in the process.

What we'd probably do internally, if that was a trend, is try to get the initial reserve right, but sometimes you don't know that until years down the road.

DR. BYRON WILLIAMS: And -- and we'll -- we'll come back to that point, but in -- in essence, when you were theorizing this morning whether or not accident benefits other indexed was "overbaked", to the extent that it was overbaked, without attributing any improper motive, that might have been that the initial reserves, under centralized reserving, were over conservative.

MR. LUKE JOHNSTON: What we see

today, we are seeing favourable development so we have a couple options there as to my -- to my previous point.

We can say, you know what, just keep reserving as you are and I'll recognize the development on the actuarial side and it will just always be negative. Or we can go back to -- to the case reserving stage and say, okay, clearly we put too much in it the first place. Looks like it needs to be 10 percent lower. Let's just start putting them in that way. So those are two (2) options. Yeah.

DR. BYRON WILLIAMS: And with -- maybe we'll jump ahead for a second.

In -- in terms of accident benefit other indexed to date, is it fair to say that the reserving practice will continue, but that there may be some releases ongoing, depending on the development from -- from the actuarial side?

MR. LUKE JOHNSTON: Given -- given we just moved to centralized reserving, my default right now is just keep doing what you're doing. Do it consistently, being the case managers, allow the actuarial side to say that pattern and then we can make better estimates by -- if we see consistent results come in.

DR. BYRON WILLIAMS: Okay. Mr. Wennberg, just at a high level -- and you did talk about it this morning, but I just want to re-frame the discussion -- there was a significant review of the personal injury protection plan on or about the 2017 year. Agreed?

MR. CURTIS WENNBERG: Agreed.

DR. BYRON WILLIAMS: And flowing from that review were both changes in -- one (1) element of that was changes in reserving practices, including the approach to centralized reserving. Agreed?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And another facet of outcome of the -- that major review was a changes -- a change in -- in claims management, including, for example, adding employees to improve return to work activities. Correct?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And another element on the claims management side involved the more intensive training of -- of case managers, correct?

MR. CURTIS WENNBERG: Yes. Setting of expectations training. Yeah.

DR. BYRON WILLIAMS: And when you

speak of setting up expectations, that might have -- that did involve the implementation of metrics on case management capacity and productivity. Correct?

MR. CURTIS WENNBERG: That's right.

DR. BYRON WILLIAMS: And another element, you know, on the claims management side, would have involved improved occupational therapy support on mental health claims, correct?

MR. CURTIS WENNBERG: Yes. Actually, even just flagging up what could be a mental health claim.

So on triage, for example, we'll ask a claimant different risk factors that they might have. And we'll internally handle that, just to make sure that there's psychiatric assistance for them, and do that sooner, than wait six (6) months into their injury, for example, and -- and then try and deal with it down the road.

DR. BYRON WILLIAMS: Okay.

MR. CURTIS WENNBERG: Yeah.

DR. BYRON WILLIAMS: Thank you.

Mr. Johnston, if we turn to the preamble to CAC 1-11, and I -- you'll see a discussion, generally, of the increase in the ultimate loss estimates for the 2014/'15 through '18/'19 accident year being increased by $30.6 million over estimates from the previous year, sir?

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

DR. BYRON WILLIAMS: And -- and that's factually correct?

MR. LUKE JOHNSTON: It should be, yes. Yeah.

DR. BYRON WILLIAMS: And that increase was driven primarily by the introduction of centralized reserving, resulting in the earlier reporting of case reserves and a corresponding increase in loss development factors in the first to sixty (60) months of claims development. Agreed?

MR. LUKE JOHNSTON: Agreed. It's really saying that, based on the policies developed on how these claims should be reserved, that that was the impact of -- of following that policy and making sure that every claim with ongoing activity in the income -- income replacement realm is reserved appropriately.

DR. BYRON WILLIAMS: And now we're going to kind of focus in on weekly indemnity for a moment or two, sir. As you spoke earlier today, with a new claims reserving approach there will obviously be changes in the loss development patterns flowing from this change in reserving, agreed?

MR. LUKE JOHNSTON: Agreed. And we did make changes on weekly indemnity on the implementation of centralized reserving, but we expected those would be volatile, so we continued to tweak them.

DR. BYRON WILLIAMS: And speaking at the theoretical level, sir, earlier reporting of case reser -- reserves should result in higher loss development factors early in the development cycle and lower loss development factors later in the loss development cycle, agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And the challenge you were speaking of earlier this morning is -- is that, while the impacts of the earlier case reserving can be seen immediately in the observe loss development for the most recent loss years, it will take much longer for the full impact of potentially future favourable development on those loss -- loss years in the later stages of development, agreed?

MR. LUKE JOHNSTON: Agreed. Loss development and also just the -- the rate of claims persisting, as I mentioned earlier, so all the actuarial development assumptions are, for the most part, based on consistent behaviour in terms of how we close claims and such.

So if, for example, the additional staff and other measures we put in place were to get more people back to work, the development assumptions would have to be revised because of that, as well.

DR. BYRON WILLIAMS: And thank you for anticipating my question. So in terms of weekly indemnity claims, they're reserved for life once they reach sixty (60) months of development, correct?

MR. LUKE JOHNSTON: Correct.

DR. BYRON WILLIAMS: And so what you were just telling us is that it -- it may take up to sixty (60) months to determine -- six zero -- to determine if the claims management initiatives have actually impacted the percentage of claims that remain open at that stage of development?

MR. LUKE JOHNSTON: To get to that ultimate point where they're booked for life, yes. Do we track the progress along the way every month? Yes. But -- but you're right, you know, what we know at sixty (60) months is going to be a lot more firm than what we're trending at eighteen (18) months in, for example.

DR. BYRON WILLIAMS: And if -- if the

good work that Mr. Wennberg and his team are trying to do does help people to get back to work earlier, that should be reflected in favourable developments in weekly indemnity over time?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And the particular challenge for you on the weekly indemnity side, sir, in contrast to the accident benefit other indexed where you can already see some favourable development is that to date that favourable development on the weekly indemnity side is theoretically there, but it's not tangibly there yet?

MR. LUKE JOHNSTON: That's correct. To the extent that, if we had seen favourable development, particularly what I call the tail beyond five (5) to ten (10) years, we ongoing -- we make ongoing updates to that, we haven't seen anything substantive that would cause a big change in the estimates.

DR. BYRON WILLIAMS: Shifting to accident benefit other indexed again, I think the quote I had from you this morning, have we overbaked the initial reserves for -- for accident benefit other index.

Do you recall a statement to that

effect, sir?

MR. LUKE JOHNSTON: Probably would have rephrased that if I could do it again, but it doesn't sound as good when you say it, but, anyways, I'll -- subject to check in that reference, were there initial reserves potentially too high? Possibly.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And are they still overbaked, sir?

MR. LUKE JOHNSTON: So as discussed earlier, we have released some of the reserves in the policy evaluation from ABO index. We'll continue to track and update it.

I can't say with any accuracy whether I think, you know, we have extra 5 percent in there as such, but we'll continue to reflect the experience that comes in.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: I wonder if we can turn to the Corporation's response to CAC 1-22. And, Mr. Wennberg, I think you can feel free to chime in. Mr. Johnston will jump in as -- as he sees fit.

In terms of what is des -- let me back up. In terms of acci -- accident benefit other non-indexed, one (1) element of that would be permanent impairment payment, sir.

Is that correct?

MR. CURTIS WENNBERG: Yes.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And with regard to the accident benefit non-indexed category, in 2018, Manitoba Public Insurance, I'll suggest to you, discovered a backlog in processing payments and establishing reserves for personal impairments in the insurance years 2015 to 2017, correct?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And what happened is, quite naturally, staff was focussed on clearing the backlog for accident years 2015 to 2017 in terms of permanent impairments and, as a consequence, payments for the accident years 2018 and 2019 in terms of personal impairment slowed.

Is that fair, sir?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: And when MPI reviewed claims in the -- those insurance years, being 2015 to 2017, it -- it found the need, as well, to increase the case reserves for the 2015 to 2017 insurance years, correct?

MR. CURTIS WENNBERG: Yes.

DR. BYRON WILLIAMS: Okay. And in terms of the backlog in -- relating to personal impairment payments for the accident years 2018 and 2019, has it been addressed now, sir, or is it still ongoing?

MR. CURTIS WENNBERG: My understanding is that we've pretty much hit a steady state again on this.

DR. BYRON WILLIAMS: Now if we could turn to the Corporation's response to PUB -- sorry, CAC 2-8.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And we'll go to the bottom of page 2 of 4, that very last sentence there, and then we'll go on to the next page.

Prior to 2010, sir -- and go on to the next page, if you would, Ms. Schubert -- there was a specialized unit of -- of staff who had expertise in permanent impairment identification rating and calculations, and they were managing the personal impairment portfolio, both the payments and the reserves, agreed?

MR. CURTIS WENNBERG: Agreed.

DR. BYRON WILLIAMS: And by all accounts, were relatively successful in ensuring the timely and accurate payment of personal impairment, agreed?

MR. CURTIS WENNBERG: Agreed. It's a unit, and the makeup of which we were talking about a little bit between my director and I on where we go here.

DR. BYRON WILLIAMS: Okay. And in 2010, this unit was disbanded in an effort to reduce the number of full-time equivalent positions, agreed?

MR. CURTIS WENNBERG: Yeah. The timing's probably around the BI3.

DR. BYRON WILLIAMS: And one (1) of the challenges for the case managers and administrators after that unit was disbanded and that expertise was spread to the -- well, was -- was spread -- was they didn't have the experience in -- in these complex files, and so they delayed making decisions respecting entitlements because they were busy, and it was complex, time consuming, and conflicting with other priorities, agreed?

MR. CURTIS WENNBERG: Agreed. And -- and, you know, in their defence, from what I understand on this, is that the -- the permanent impairment payment will be paid.

It's -- it's a matter of sometimes these permanent impairments aren't even known until years after the injury, and so it's something that -- it's not like our case managers are willfully, you know, pushing away what's a potential liability to be paid to a customer. That -- I hope that's not at all any of the assumptions people are making who are listening in.

It's just purely that they were inundated on a lot of case management work with other issues, and so this was something that could be put to the side and wait for the customer to mention it, and then maybe jump on it, and in -- in that way, you could see some of these things being deferred.

DR. BYRON WILLIAMS: And going back to prior to 2010 for a moment, prior to 2010 MPI was tending to finalize and pay the vast majority of impairment payments sooner than twenty-four (24) months, agreed?

MR. CURTIS WENNBERG: Yeah.

DR. BYRON WILLIAMS: Now, Mr. Johnston, this may be where you come in. At the top of this first full paragraph on -- on page 3 of 4 of CAC-2-8, you'll see a suggestion that:

"MPI magnified the problem with the introduction of centralized PIPP case reserving, as the process resulted in the placement on files twenty-four (24) months old of reserves at a standardized and steady rate."

Agreed?

MR. LUKE JOHNSTON: I see that, yes. Agreed.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: The suggestion in this paragraph, at least for a point in time, is that centralized reserving artificially increased the loss development factor, making it appear as though PIPP liabilities had grown when -- when, in essence, they were just simply delayed.

MR. LUKE JOHNSTON: Yeah. The -- if you have a backlog that normally would have been handled in the first couple years and then, you know, you find the backlog -- obviously, from an actuarial perspective, that's not good to find a -- a group of claims that aren't properly reserved -- reserving them can create a hopefully one (1) time development factor that -- that just shows up in -- you know, the -- in the time period when you put all the reserves in and make it look like it's abnormal development, but it -- it won't persist.

DR. BYRON WILLIAMS: And that impact, in terms of loss development factors, is it still there with regard to this -- to this line, sir, being ABO other non-indexed?

MR. LUKE JOHNSTON: From a historical perspective, it will never go away in the sense of, you know, hopefully we never have a backlog that needs to be reserved. But -- and the history is still there. Going forward we would hope to not see that again and just reflect steady-state, consistent processes.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And just so I understand, in your view, sir, is any kind of artificial infla -- inflation in future years eliminated, or is it -- or is there still a residual effect?

MR. LUKE JOHNSTON: Just as -- as we were talking on this subject, I can tell you that our -- our prior years 2016 and prior 2017 experience relative to budget has been favourable for non-indexed in the current year, while the -- the 2020 year is over budget. So it appears, at least through halfway through this year, that we are running off some of this -- these previous reserves that were -- that were put for this backlog. But the current-year budget doesn't seem to have any kind of inflated issue at this time, yeah.

DR. BYRON WILLIAMS: Which I think leads nicely to my next question, sir. You'll recall last week in our discussion of the accounting world view of COVID-19 versus the actual -- actuarial world view of COVID-19; you recall that, sir?

MR. LUKE JOHNSTON: Yes.

DR. BYRON WILLIAMS: And one (1) of the points you were attempting to make in that conversation a whole week ago, if mem -- or perhaps about a week ago, anyways, is that in terms of some of the PIPP favourable impact in the 2020/'21 year, some of that was the experience from prior years. You -- you recall that, sir?

MR. LUKE JOHNSTON: Yes, I do.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: So in terms of that prior experience from past years, I'm going to suggest to you it could be a couple of things, and you'll correct me if I'm wrong. One (1) is what you spoke of this morning, which would be -- because of COVID-19, there was less therapy, massage therapy, chiropractic therapy, and so some payments related to prior accident years would not have been made in the '20/'21 year because of COVID-19. Agreed?

MR. LUKE JOHNSTON: Agreed.

DR. BYRON WILLIAMS: And then some of the other favourable results for the Personal Injury Protection Plan as compared to budget in the '20/'21 year would involve things like the favourable runoff of the 2016 and 2017 accident benefit other non-indexed?

MR. LUKE JOHNSTON: That's right. So

the -- the paid losses are usually pretty consistent from year to year, so we have seen pretty -- not pretty -- very favourable pay development in ABO indexed, which makes you believe that something's happening there on the COVID front, right? We don't -- don't have to believe it; we -- we know that it's happening to some extent. Incurred is paid, but also the reserves. We have seen favourable development on ABO non-indexed in the backlog years you mentioned and, to some extent, in some of the twent -- mostly the 2019 year, actually, for ABO indexed.

DR. BYRON WILLIAMS: That was for ABO indexed in the 2019 year?

MR. LUKE JOHNSTON: The -- the 2019, just using my own kind of monthly num -- numbers that I get, for 2019 year, we've seen paid 37 percent under budget, so that's about 7.4 million versus 11.7 million budget. Incurred, the actual is close to zero (0) relative to a budget of 7 million, so not only have we had less paid, but we've also been -- apparently been removing reserves and such.

But we're watching this one closely. It's a tricky one with a mixture of, you know, COVID impacts and prior years development, so it's going to be tough to sort out, yeah.

DR. BYRON WILLIAMS: Mist -- Mr. Wennberg, just at a general level, and I don't intend to probe in great detail, but you referenced earlier this morning talking about the efforts the Corporation has made to improve the timelines related to the Autoba -- Autopac ins -- the AICAC, yes, the appeals process. And I wonder, at a high level, if you can indicate just where that process is and -- and whether you're satisfied with the time frame post-improvement.

MR. CURTIS WENNBERG: Okay, yeah, thank you. I -- I was made aware there were some questions around the AICAC process from a -- a couple of days ago, and so I asked our director to -- to give me a couple of stats to share with the -- the PUB here.

We have about fifty thousand (50,000) decisions in any given year that go through the bodily injury group. Of those fifty thousand (50,000) decisions, we get about eight hundred (800) that go through our internal review officers. So this is like the first step in this pipeline before it gets into AICAC. So -- so we handle about eight -- eight hundred (800) of them.

Six hundred and forty (640) of those are managed through the IRO process, or the Internal

Review Officer process, so the -- it -- it's handled. And actually, what we find is that in many cases our decision originally held -- from the case manager was upheld through the IRO. So it's -- often people like to have a second view on these things, and so -- so that's provided.

Of the remaining cases, you -- you get them to go to AICAC, but the first step to AICAC is to mediation. And mediation takes care of about 60 percent of those cases, and -- and so 92 percent of those get done within ten (10) months, and it's done through mediation.

And then the final group is seventy claims (70). They enter the full AICAC, and they go right to the end. And it was thirty-two (32) months, and now it's down to twenty-six (26) months.

What -- what I'd like to just share with this group is that in many cases, there's additional information that's being sought to come onto the -- to the table for recognition. There's very complex types of factors that are involved in these cases that go right to that end, AICAC full process. And so while twenty-six (2) months does seem like a long time, there's a -- there's a lot of that time that is spent on the customer's side getting this information or, you know, taking its time to respond to the various things.

And so you're really dealing with 0.1 percent, if you will, of the overall decisioning processes, and there are a number of steps where a customer can detour out of that appeal at different levels to get a fair outcome or, you know, justice is served in their case.

So that's maybe a little bit more around that time line. And -- and we took six (6) months out of the process, but are we satisfied?

I -- I think we're always going to be taking a look to see how -- how can we, you know, do what we can to make sure that customers get a good and fair access to an appeal process through this because we -- we recognize where we stand in PIPP.

We'd never want to -- we never want to have a public backlash against the injury program, which is probably the heart of why we can have low and stable rates. And so this is not an area that we want to play around with by -- by taking benefits away from customers, if you will.

DR. BYRON WILLIAMS: And thank you very much. That progression is very -- will be very helpful to our clients.

In terms of the processes that -- going all the way through to the appeal hearing, does MPI confer with its colleagues that -- for example, the Workers Compensation Appeal Commission in terms of their time frames, or is there any kind of dialogue that goes on between those corporations --

MR. CURTIS WENNBERG: M-hm.

DR. BYRON WILLIAMS: -- those appeal processes?

MR. CURTIS WENNBERG: With -- with specificity to the appeal process, we -- what we try to do with most of our -- our improvements is take a look across jurisdictionally. And we do have good relationships with other Crown insurers on different things we want to do.

This is very particularly true with anything around licensing-based stuff. And -- and so we generally do try and -- and touch base with others that have similar or relevant types of appeal channels.

In the Workers Comp. side, they have more of a primary nature of being able to direct what sort of medical experience their customer goes through, where we're much more open for the customer to make the choices that are relevant for them.

And that does involve some difference be -- between the two (2) processes. However, that said, I do think my director does actually closely touch base with WCB.

DR. BYRON WILLIAMS: Thank you very much for -- to the MPI Panel, and I was pretty close to my time estimate, Madam Chair.

THE PANEL CHAIRPERSON: Yes. Thank you, Mr. Williams.

Ms. Meek...?

CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:

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

I guess I'll start -- probably this will be for Mr. Johnston. During your presentation and through some previous questioning, you confirmed that, overall, we've seen reductions in collision frequency, but that's been slightly offset by a small increase in severity. Is that correct?

MR. LUKE JOHNSTON: Probably not offset. Like the -- the -- relative to what our previous forecasts were, we are lowering the forecast pretty substantially for frequency with -- we have seen severity increase relative to like the long-term, for example, yeah.

MS. CHARLOTTE MEEK: Okay. Thank you. And would you say that pattern is true for the motorcycle class, as well as other major classes?

MR. LUKE JOHNSTON: I don't know the answer to that. The motorcycles, as you may or may not know, declare their motorcycle in a declared value band, and they have a pretty low number of annual accidents, in the -- around the three hundred (300) accidents per year range.

But, you know, inflationary costs of motorcycles and stuff, I would expect there'd be some upward trend over time. And obviously, motorcycles would experience injury claims inflation as well.

MS. CHARLOTTE MEEK: Okay. And if we could go to CMMG/MPI 1-1, please. So if we go to page 2 first, Kristen, so this gives us a chart of the loss comparison for collision. And then the next page gives us a loss comparison for PIPP as well between -- so it's a loss comparison between the motorcycle class, as well as the private passenger class.

Is that correct?

MR. LUKE JOHNSTON: Yes.

MS. CHARLOTTE MEEK: And the response

from MPI indicates that the figures provided are undeveloped and pre-PIPP cost allocation.

Is that correct? I can scroll up to show you that if it helps.

MR. LUKE JOHNSTON: Yes. Whether -- I'm not sure if anybody understands what that means, but undeveloped, just that obviously losses that are very new, like 2019, that could grow a lot if they're serious losses.

The PIPP costs allocation just means that they haven't been converted into the -- the manner that I've -- like essentially, after loss transfer for rate-making purposes. So they're just the raw claims. The motorcyclist's had an accident. That's the total that we've incurred to date.

MS. CHARLOTTE MEEK: Sure. So kind of what you're saying is the last kind of two (2) years would be less reliable data than the -- than the years before 'cause they're not developed yet?

MR. LUKE JOHNSTON: Yeah. The last two (2) years for sure. And just -- just kind of show how much we believe that, when we do trending for PIPP, we generally don't even include the two (2) most recent years just knowing that it's not developed yet.

MS. CHARLOTTE MEEK: Right. Would MPI

would be able to provide Figure 2 with the loss transfer for PIPP?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So my understanding of the request is update this figure on PIPP loss experience after PIPP cost allocation methodology that we use for rate-setting purposes.

MS. CHARLOTTE MEEK: Yes, please.

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

MS. CHARLOTTE MEEK: Thank you.

--- UNDERTAKING NO. 29: MPI to update figure on PIPP loss experience after PIPP cost allocation methodology that MPI uses

CONTINUED BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: And then this morning in your presentation and then through some of the questions with my other colleagues here, you discussed that centralized reserving is a new process that MPI has kind of begun recently, and that, as of this year, it's showing that initial reserves are a little high. Is that correct?

MR. LUKE JOHNSTON: Centralized reserving as an overall corporate I guess approach to injury reserving is -- is new. Weekly indemnity is more established, and -- and reserves in the budget -- or, sorry, the estimates in the budget seem pretty consistent.

For other non -- sorry, accident benefits, other indexed and non-indexed, we have seen a favourable development in -- in this year relative to those estimates. So that -- that was my discussion with Mr. Williams.

There could be some favourable developments from COVID, and -- but it could also be true that the initial reserves were too high for the impairment benefits. It does appear that we are seeing some favourable results relative to those reserves.

MS. CHARLOTTE MEEK: Okay. And so you'd mentioned COVID, and I think we also talked about some other factors -- please correct me if I'm wrong -- that would be impacting the reserves such as what Mr. Wennberg was referring to, which was MPI doing work to reduce some fraudulent claims.

Was that correct?

MR. LUKE JOHNSTON: Yes, and if you -- if Mr. Wennberg wants to jump in, I talked about a couple of high-level actuarial-type impacts, but there's others, yes.

MR. CURTIS WENNBERG: There's -- there's also the -- with PIPP, what we're watching is the ability for our customers to go back to work. And so one (1) of the conflating factors that we haven't discussed is that, with the weekly indemnity, we are paying all of those, as discussed, but we are also watching how our customers are going back to their place of employment.

Through this year and as COVID continues, it's -- it's something we're going to have to watch in how -- how that trend impacts both next year's GRA as well. So that could be a -- a more difficult one.

And then the other piece affecting ABO is -- is that they aren't accessing some of that other care like -- like physio or chiropractor or something else like that.

And what's curious right now is it looks like our back-to-work factors aren't changing very much, which is really interesting. We're --

we're finding that quite interesting, but we'll have to see what sort of medium- and longer-term impacts it'll have.

MS. CHARLOTTE MEEK: Sorry, you said the back-to-work factors aren't changing very much or are -- are changing?

MR. CURTIS WENNBERG: They -- they aren't. So we're -- we're seeing a similar curve of people going back to work that we had seen from pre-COVID.

MS. CHARLOTTE MEEK: I see. Okay.

MR. CURTIS WENNBERG: Yeah, which is encouraging.

MS. CHARLOTTE MEEK: Right. And so -- so all of these factors that you've discussed, these would most likely impact PIPP claims, right, personal injury claims?

MR. CURTIS WENNBERG: Yes.

MS. CHARLOTTE MEEK: Right. And I think, Mr. Johnston, you said something along the lines of it'll take some time before any reliable pattern can be observed from this data.

And when you were talking to Mr. Williams, you said that, on the actuarial side, you can make better estimates once you see the pattern is developing. Is that correct?

MR. LUKE JOHNSTON: Yeah. To the extent that there's clear evidence that it's happening, sure. We'll -- we will update that quickly.

To the extent that, for example, there's a longer-term impact that, you know, extends beyond, you know, ten (10) years of -- after the claim happened and such, we -- we'd recognize those, but it could take a little longer to fully materialize.

MS. CHARLOTTE MEEK: So what you're saying is, as a result, MPI has not actually changed its forecasting methodology as of yet, but you may do so in the future?

MR. LUKE JOHNSTON: For accident bene -- benefits other index, we did have a pretty significant reduction in our actuarial evaluation this year, and -- and we lowered the forecast as a result of that; it was about 6 million a year reduction.

On the opposite end of that though, weekly indemnity, as I mentioned earlier, we have -- we put up the reserves and haven't seen any kind of favourable movement on that and, as a result, that forecast is higher.

MS. CHARLOTTE MEEK: Okay. So, you're

kind of separating out the accident benefit other index versus the weekly indemnity. So, in order to -- I guess my question would be: How -- how many years of data or how much time would you require before a discernible pattern could be observed in the weekly indemnity or is there a time frame that you have in mind before you would be able to see a pattern or is it just once that pattern arises?

MR. LUKE JOHNSTON: Well, so I guess I can split it a couple ways. If changes in development would be recognized as they occur, there could also be noticeable trends that we'd recognize, something like getting a claimant back to work.

So, the -- the big issue around the -- like, the BI3 period was that it just seemed like all of the sudden there's a lot more claimants not getting back to work by the time that sixty (60) months came around.

So, that ended up being a pretty big miss from the actuarial standpoint, that there was never any expectation that, you know, the number of claims going a lifetime would -- would double, for example.

The reserve is also true to the extent that, you know, maybe we have ninety (90) to a hundred claims a year going lifetime. If we work those claims better or investigate them, whatever is necessary, and it drops to a lower number, great, but I don't have anything to support that that's going to happen yet, as optimistic as -- as we want to be about that, yeah.

MS. CHARLOTTE MEEK: Right. So, you're not able to give us a time frame.

It would just be the patterns may develop, and you'll see them as they occur, and then, in the future, may change methodology?

MR. LUKE JOHNSTON: Yes. If the -- if the reserving process is conservative or -- or biassed or upward or downward, it should show itself and be tweaked toward an unbiassed estimate.

MR. CURTIS WENNBERG: If I may. Underlying your question might be is there -- if we saw that in previous history we had fifty (50) claims go through to life after five (5) years, recent history was that we had a hundred.

So, couldn't you just go back and identify which fifty (50) are on your books that shouldn't be on your books, and if you move them out, then he can immediately change his forecast?

The answer is no. So, a couple of years ago when we saw what we saw, we did take a look at some of the longer term claimants on our books. And after five (5) years, where that claimant is, they did deserve to be on the books.

And so, one (1) of the things in return to work when you have injured people is the best thing is to start working with them fairly quickly to get their life back on track with whatever the new normal is, and the sooner you do that, the better for everybody involved.

And so, in -- in this environment, although we do try and look at our serious and long-term book and try and get folks back to work where you can, there's no windfall really to -- to be had there.

Once those folks are -- are moving towards life, they've moved towards life, subject to some of the other fraud investigation pieces that we found fairly satisfactory over the last little while.

So -- so, then it comes to this, that a second one would be development factors. So, if we have now put more operational reserves up through our centralized reserve process on those claimants between two (2) and five (5) years, there -- there should be less of the historical development between two (2) and five (5) years than there was before, and so we'll be able to see that probably first.

And then the final piece is, if you had 8 percent of your customers still on your book in twenty-four (24) months and now we've got 7 percent, well that -- that basically reduces the curve for everybody. And that would be the final thing that Luke would probably see that would make an impact on the reserve rates for PIPP.

MS. CHARLOTTE MEEK: Thank you. Those are my -- oh, unless --

MR. LUKE JOHNSTON: I'm just --

MS. CHARLOTTE MEEK: -- you want to make another comment.

MR. LUKE JOHNSTON: No, I'm just going to -- adding things is... We do watch this curve every month. So, just -- I don't want you to think that I'm waiting -- you know, when we say it's down the road, I don't want you to think that it's a delayed reaction by us.

To the extent we see changes, we -- we will recognize them.

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

THE PANEL CHAIRPERSON: Thank you, Ms. Meek. Mr. Gabor...?

THE CHAIRPERSON: Thank you. Mr.

Wennberg, I've got a few questions for you in terms of decision making.

Now, I guess as my opening, did you listen to the testimony on Friday?

MR. CURTIS WENNBERG: I was able to catch some parts of the PUB testimony.

THE CHAIRPERSON: Okay. I'm going to -- I'm going to put something to you, quite frankly, that I intended to put to the last panel, but between the confusion of what was CSI and what wasn't CSI and what we were doing, I forgot to do so.

So, I'm going to ask Mr. Scarfone to -- to listen because what I'm going to do is sort of, before I ask the question, put some statements that other people on the panel made. And I just want to make sure that I'm accurate in the statements.

So, the first statement was from Mr. Remillard, which was that MPI was not projecting a negative NPV for Project Nova, okay? You don't have to 'yes' or 'no'.

But the second statement was from Mr. Mitra, which was that not doing Project Nova, would it -- would itself be a risk.

The third statement from Mr. Dessler was, aside from NPV, sometimes there are things that need to be done for the technilog -- for technological reasons. So --

THE PANEL CHAIRPERSON: Excuse me, Mr. Gabor. Our counsel has a question.

MS. KATHLEEN MCCANDLESS: I'm just wondering -- we will have a CSI session after this.

THE CHAIRPERSON: Well, let me just put this to him in open session. There's a simple question though following, and -- and here's the simple question.

Is there anything that would restrict the MPI Board from deciding to proceed with Project Nova even if there was a negative NPV?

MR. CURTIS WENNBERG: The Board may -- may have different reasons to choose to proceed or not proceed based on a magnitude perhaps impact on -- on NPV, but -- but that would be like any other business decision, especially when you're play -- you're -- you're dealing with the underlying IT architecture of your firm.

THE CHAIRPERSON: Right. So, if there was a negative NPV, the Board would have the authority to, as Mr. Dessler took, make a decision based on the technological needs of MPI?

MR. CURTIS WENNBERG: Yeah, like, a

compliance investment would be a similar sort of nature.

THE CHAIRPERSON: Or that it's so important to the future of MPI, we're prepared to proceed whatever the NPV is?

MR. CURTIS WENNBERG: Agreed.

THE CHAIRPERSON: Okay. The second question I have for you is -- sorry, I'm working off two (2) pads. You made the comment about Fineos hiring thirteen (13) additional people and providing additional responsibilities.

What year was that?

MR. CURTIS WENNBERG: We had a big write-down of $80 million in our PIPP reserves when we discovered some of the reserving issues. And we did the deep dive in 2017.

And then we got final approval to make some of the org changes and add the thirteen (13) people slightly after our -- our previous CEO, Ben Graham, was in, so I'm gonna say halfway through 2018.

And then we had them hired and trained by October of 2018.

THE CHAIRPERSON: Who -- who actually made the decision?

MR. CURTIS WENNBERG: Well, it depends

on how you think about it. So, I championed the deep dive within MPI and took it to the Board, who then asked Ben to get comfortable with it as the new CEO to -- to agreed with.

THE CHAIRPERSON: But ultimately, was it a Board decision to hire the people or was it a CEO decision to hire the additional people?

MR. CURTIS WENNBERG: I guess really the way we try to do things in MPI is create ownership within the different groups. So, I would assume I'm hireable or fireable on the basis of that decision.

So, I call it my decision that the CEO agreed with and I -- I believe the Board agreed with as well, but it's really CEO level. The Board doesn't need to agree with that.

THE CHAIRPERSON: Okay. And if you were in the same position today, where you thought you -- you had to hire a number of people, thirteen (13) -- let's use the same number, thirteen (13) people --

MR. CURTIS WENNBERG: Yeah.

THE CHAIRPERSON: -- to bring efficiencies to the Corporation, would it be your decision or would you need the Board to decide it?

MR. CURTIS WENNBERG: I don't believe we'd need the Board to decide those types of operational decisions. But, absolutely -- and, in fact, I actually push this sort of decision down to my directors who run the different units. I have directors in place that run groups of five hundred (500) people, for example.

And so, in -- in part of the change in culture at MPI, what we're trying to do is use our position as -- as COO or -- or chief actuary to coach our directors to make the right business acumen decisions and run MPI like a business first.

And then, we go through whatever filters we have as a -- you know, the monopoly provider and the DVA provider and some of the other aspects of our certain stakeholder community, which we do.

But we -- we need to run this place like a business first. And if it's an org change or if it's even some of the banter that we had around thinking about the old permanent impairment unit, we had some positive discussions about those sorts of things.

I really want my directors to be able to put a strategy in place and have them own what they think makes the most sense for the Company going forward.

There may be some times where I give them hints around what I think is an opportunity, but, really, it comes from them.

And then, what we would expect from our governance channel is that they listen to the pros and cons from a business logic perspective and agree or tell us why they disagree.

THE CHAIRPERSON: Sorry, can you take -- sorry, when you said from the -- from the governance --

MR. CURTIS WENNBERG: Yeah. So me -- I might have certain authorities to say 'yes' or 'no'. Then -- up to CEO level. Potentially through the executive committee. There's things the executive committee does. And then, if it has to go to the Board, it goes to the Board after that.

THE CHAIRPERSON: Is there anything that has to go outside the Board to government for approval?

MR. CURTIS WENNBERG: Most of the things, I think, I'm aware of, go to our Board to get resolved.

What we like to get government approval on is the annual business plan and I think we've filed a verison of that here.

THE CHAIRPERSON: Okay. Finally, there was the discussion about the automotive -- automotive group. And, as I understand, there's a -- a contract for a specific period of time and you meet to discuss the terms of the contract or any changes to the contract.

Are there regular meetings throughout the contract period as well, to -- to discuss problems that may arise? Or are the meetings mostly focused on the renewal of the contract?

MR. CURTIS WENNBERG: There are regular meetings. There's two (2) different groups that -- that we had set up a number of years ago. I want to say three (3) -- three (3), three and a half (3 1/2) years ago.

I'm -- I chair and sit on the executive committee where we have two (2) members of the ATA, and two (2) members of the Manitoba Motor Dealer Association, and three (3) members of MPI.

We'll meet quarterly to talk about anything in terms of advancing -- any of the other issues.

These aren't generally about the LVAA negotiations; that's -- that's really held separately. And we try and kick that off eight (8) months before, you know, the -- the next agreement comes due or is -- is end of term.

There's also another committee that we call the technical committee. And if there's challenges with Estimatics or, you know, something that's happening between our estimators and the shops or, you know, something, we will kick it down to the technical committee. And that's made of a few MPI folks and a few of the ATA, MMDA teams. And they get together and they talk about things.

I'll give you an example. So between last negotiation and this next one, we had developed a new part strategy. And we're using a third-party software system called Car-Parts Pro. It's a very common industry standard type of software.

And what we used to do is we used to have MPI parts people get in the way of a certain repair, and we would force a certain recycled part on an estimate. And the shops didn't have a lot of say to it. I'm really simplifying it, but -- but, in essence, that's what it was.

Now, we've got this new system. We're asking them to use it. They find whatever parts they need on a vehicle. If they find they have to use all original equipment parts on a certain repair, then we don't really get in the way. We let them do that. As long as their average of the parts used is about the historical percentage of recycled and after-market and OEM. And then, we get our savings as well that we're used to.

So we're actually giving more autonomy to the repair shops and how they use parts.

That -- a lot of that detail was sorted out in that technical committee and that subject also came up through the executive committee and -- and we -- we worked -- we worked fairly closely with them to actually tweak and develop this part strategy.

THE CHAIRPERSON: So if they had complaints about the parts strategy, would it go to you or would it go back through this committee process?

MR. CURTIS WENNBERG: It could be both. I -- what we like to do is use the committee process for it.

Or I have a director of physical damage, and he and his team really have close relationships with the shops. The shop reps, actually, have a number of shops they deal with. And -- and that stuff should be going through him.

But I'm always a -- I'm always an

escalation channel, if need be. And -- and, certainly, it was this group that was on board with the -- the strategy of that parts strategy, then the pilot rollout, all that kind of stuff. We dealt with the -- the technical and exec committee on that.

THE CHAIRPERSON: Just going back to this business plan that you submit to the government.

What time of year do you submit it?

MR. CURTIS WENNBERG: It's usually in the January, February, March time period.

THE CHAIRPERSON: Okay. And it's -- and it's every year. And it would include your budget, as well as your proposed business plan for the year?

MR. CURTIS WENNBERG: Yeah. The high level, yeah.

And -- and what we do is -- is we often get a mandate letter from the Crown Services Department, and we try and satisfy what's required in the mandate letter.

THE CHAIRPERSON: And they respond to you -- what time? By the end of March? Before the new years starts or...

MR. CURTIS WENNBERG: Or slightly thereafter.

THE CHAIRPERSON: Okay.

MR. CURTIS WENNBERG: It's been -- it's been in process for the last couple of years.

THE CHAIRPERSON: Okay. Thank you, sir.

MR. CURTIS WENNBERG: You're welcome.

THE CHAIRPERSON: Those are my questions.

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

(BRIEF PAUSE)

MS. CAROL HAINSWORTH: No, I do not.

THE PANEL CHAIRPERSON: Thank you.

Mr. Scarfone, any re-direct?

RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thanks, Madam Chair. I know that we are -- we've got a full agenda this afternoon, so I'm going to limit my questions to just a couple. Maybe even just one (1).

For Mr. Johnston -- Ms. Schubert, could you pull up Mr. Johnston's presentation from this morning. Thank you. You're very quick. And number

11, please.

So Mr. Johnston, there -- again, you were questioned by My Learned Friends about the trend in collision frequency, analyzing those trends, and, of course, the reasons that the Corporation suspects these trends are occurring.

One (1) of which you cited as improved driving behaviour. You see that there?

MR. LUKE JOHNSTON: I do.

MR. STEVE SCARFONE: You would have, I think, attributed that to the Driver Safety Rating model?

MR. LUKE JOHNSTON: One (1) of the factors. But there's -- hopefully, all the other initiatives we have on road safety would influence driving behaviour as well.

MR. STEVE SCARFONE: Okay. So that partly answers my question.

So the Corporation hasn't identified its reasons in order of priority or what -- what represents the most important reasons, in its view, for the frequency reduction?

MR. LUKE JOHNSTON: The only comment I -- I had made on that earlier is -- is Driver's Safety Rating has matured a lot since 2010. So I would expect most of the benefits would have happened earlier in that -- after implementation and we'd continue to enjoy them.

The vehicle technology, winter tire program, items such as those have become more prevalent in recent years. So I'd probably give more weight to those items.

MR. STEVE SCARFONE: Okay. Thank you.

And so, I'll put you on the spot here because it may be a better person -- or it may be a better question for the person who's speaking to DSR tomorrow, which I think is you anyways.

But how, sir -- if you're -- if you can -- would any change to the model from the registered owner model to, perhaps, a primary driver model impact upon the trends we're seeing in collision frequency?

MR. LUKE JOHNSTON: So the question is: What changes to the current model that we have today -- how could we expect to see any further changes to driving behaviour to the benefit of, I guess, our results?

MR. STEVE SCARFONE: Sorry, not any further changes. But to the extent that MPIC has attributed some of the reduction in collision frequency to the DSR, would that impact upon that trend if the DSR is changed?

MR. LUKE JOHNSTON: Well, in my history here, whenever we had rating, I guess, deficiencies or inadequacies -- whatever you want to call them -- and we've fixed them, in -- in terms of -- what I mean by that is charging ratepayers more in terms of their risk.

So I'll give an example. We used to not have motorcycle body styles, and I would meet with CMMG and say, You know, these sport bikes have a lot more accidents than, you know, these touring bikes, for example. And eventually, you know, we added body styles, and though it wasn't very popular initially to charge sport bikes a lot more money, the frequency of everybody dropped because the incentives had changed to, you know, either pay for the risk or -- or make a different choice.

So on -- on DSR, you could -- could be similar incentives to the extent that we're undercharging or overcharging certain customers and not creating the right incentives. How to measure that, I -- I couldn't tell you, but from everything I've seen in the past, pricing them more accurately based on risk generally improves the trends.

MR. STEVE SCARFONE: Okay, thank you

for that. Just quickly to Mr. Wennberg.

Mr. Wennberg, to the extent that any benefits paid to customers under PIPP are deferred or delayed, whether it be a -- a permanent-impairment award or the weekly indemnity, do you know, sir, if the Corporation provides compensation to the customer in the form of interest when that payment is ultimately made?

MR. CURTIS WENNBERG: Yes.

MR. STEVE SCARFONE: And then I might just -- in response to Mr. Gabor's question about the -- the involvement, Mr. Gabor, with the board of directors, I'm -- I'm being told to say that in some of the confidential Information Requests, there's two (2) that you might pay particular attention to.

One (1) would be CAC-1-8, and then another one (1) that I found interesting was PUB-2-9, also on the confidential module, which specifically speaks to the board of directors and their role in approving and looking at Nova as it advances through each of the phases.

So there's a question there about when they get to the discovery phase, it could be that the board of directors looks at it and -- and decides, you know, one (1) way or the other whether it should proceed. And so that, I don't know if it specifically addresses the NPV aspect of that question, but it certainly helps in that regard, and if you'd take a look at those two (2).

And so those are all my questions for the witnesses on re-direct.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone. As you pointed out, we have a full agenda this afternoon, so could we come back, please at ten (10) to 3:00?

Is that enough time for you to switch over? Okay, yeah. Thank you. Ten (10) to 3:00.

(PANEL STANDS DOWN)

--- Upon adjourning at 2:42 p.m.

(RECORD NOW ENTERS CSI PROCEEDINGS)

Certified Correct,

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Donna Whitehouse, Ms.