



“When You Talk - We Listen!”



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

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Winnipeg, Manitoba

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APPEARANCES

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17	32	MPI to provide the relativity analysis or outcomes for the other rating variables, and compare those to the existing relativities, i.e., to present the full results by rating variable, and then to compare it to the relativities that underlie the General Rate Application.	1545
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16		2019 with a registered vehicle that had	
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1 --- Upon commencing at 9:00 a.m.

2

3 THE PANEL CHAIRPERSON: Good morning,
4 everyone. So yesterday afternoon, we went into a
5 confidential session so that the Board could hear
6 testimony with regard to commercially sensitive
7 information.

8 There was a motion made by Mr. Scarfone
9 to have a presentation by Mr. Wennberg entered as
10 commercially sensitive information and as an exhibit
11 on that basis. And the Board ordered that the
12 presentation be marked as commercially sensitive
13 information.

14 We're now back on the public record,
15 and so, Mr. Scarfone, over to you.

16 MR. STEVE SCARFONE: Thank you, Madam
17 Chair. Just before we begin, I've been given a number
18 of exhibits for filing this morning, some undertakings
19 that are outstanding.

20 Undertaking Number 7 will be marked as
21 MPI Exhibit Number 45, and that's a reconciliation on
22 some reported investment income.

23

24 --- EXHIBIT NO. MPI-45: Response to Undertaking

25

No. 7

1 MR. STEVE SCARFONE: MPI Exhibit
2 Number 46 is a response to Undertaking Number 9, and
3 that was MPI explaining the net impact of changes in
4 interest rates.

5

6 --- EXHIBIT NO. MPI-46: Response to Undertaking
7 No. 9

8

9 MR. STEVE SCARFONE: MPI Exhibit
10 Number 47 is a response to Undertaking Number 15, with
11 MPI advising as to the status of any communications on
12 CERP changes to its customers.

13

14 --- EXHIBIT NO. MPI-47: Response to Undertaking
15 No. 15

16

17 MR. STEVE SCARFONE: MPI Exhibit
18 Number 48 is a response to Undertaking Number 16. Oh,
19 and that was the one that MPI agreed to provide an
20 estimate of the amount of claims that would be
21 transferred between property damage third -- third-
22 party deductible transfer and collision under CERP.

23

24 --- EXHIBIT NO. MPI-48: Response to Undertaking
25 No. 16

1 MR. STEVE SCARFONE: And -- and
2 lastly, MPI Exhibit Number 49 is the presentation that
3 Mr. Johnston is about to give on the Driver Safety
4 Rating Program.

5

6 --- EXHIBIT NO. MPI-49: Presentation by Mr. Luke
7 Johnston on the Driver
8 Safety Program

9

10 MR. STEVE SCARFONE: And if there's
11 nothing further, then I'll ask Mr. Johnston to proceed
12 with his presentation on the Driver Safety Rating
13 Program.

14 THE PANEL CHAIRPERSON: Yes, thank
15 you.

16

17 (BRIEF PAUSE)

18

19 MR. STEVE SCARFONE: Apologies for the
20 delay, Madam Chair. So I had thought that they were
21 circulated by email, but perhaps the presentation was
22 not. So Mr. Johnston's just sending a note downstairs
23 and then they'll -- so Ms. Hainsworth will have it.

24 THE PANEL CHAIRPERSON: Okay. Thank
25 you.

1 (BRIEF PAUSE)

2

3 MR. STEVE SCARFONE: By email.

4 THE PANEL CHAIRPERSON: And, Mr.
5 Scarfone, apparently we don't have the exhibits
6 either.

7 MR. STEVE SCARFONE: The ones that I
8 just marked?

9 THE PANEL CHAIRPERSON: Yes. So could
10 you email those as well, please?

11 MR. STEVE SCARFONE: Yes. So --

12 THE PANEL CHAIRPERSON: Thank you.

13 MR. STEVE SCARFONE: -- we seem to be
14 having some difficulties because we've said that we
15 need them circulated, and the response was, We did.

16 THE PANEL CHAIRPERSON: Maybe.
17 They've apparently not been circulated to the fourth
18 floor.

19

20 (BRIEF PAUSE)

21

22 MR. LUKE JOHNSTON: I was going to go
23 to describe the video pretty soon, but -- anyways,
24 okay. We're good to go? All right.

25

1 (BRIEF PAUSE)

2

3

4 MR. STEVE SCARFONE: Not forty-five
5 (45). Oh, I see. I'm going to probably have to sort
6 out this and other things when I go back downstairs.
7 It could be my fault, but I've got -- I've got these
8 as -- the next one was supposed to be forty-four (44),
9 so I'll sort that out and see if we're missing one,
10 and then we can --

11 THE PANEL CHAIRPERSON: Yes. If you
12 could do that, Mr. Scarfone.

13 MR. STEVE SCARFONE: -- we can
14 rearrange them.

15 THE PANEL CHAIRPERSON: -- that would
16 be --

17 MR. STEVE SCARFONE: But does
18 everybody now have the presentation?

19 THE PANEL CHAIRPERSON: We have
20 Exhibit Number 49, the Driver Safety Rating
21 Presentation.

22 DR. BYRON WILLIAMS: I don't think we
23 have. We have it here on the screen --

24 THE PANEL CHAIRPERSON: The screen.

25 DR. BYRON WILLIAMS: -- but not -- I'm

1 asking -- yeah, and I don't think we have Exhibits 44
2 through 49.

3 MR. STEVE SCARFONE: Okay. And do you
4 want a hard copy, Mr. Williams?

5 DR. BYRON WILLIAMS: Just paper -- or
6 electronic, please.

7 MR. STEVE SCARFONE: Sorry, I thought
8 -- you said you do have it?

9

10 (BRIEF PAUSE)

11

12 MR. STEVE SCARFONE: Right, right,
13 right. So that -- that's -- that's coming, and I'm
14 Skyping with them now to figure out what's going on.
15 They both confirmed to me that it's been sent, and
16 they sent it again, so I don't know what's happening.
17 But if -- if we're fine to proceed with it on the
18 screen for now and then we'll --

19 DR. BYRON WILLIAMS: Sure.

20 THE PANEL CHAIRPERSON: Yes. Please
21 proceed with it on the screen, and then at the break,
22 if you could check and determine whether anybody's
23 received it electronically --

24 MR. STEVE SCARFONE: Yes.

25 THE PANEL CHAIRPERSON: -- in this

1 room, and if not, then if you could check with your
2 colleagues, that would be great. Thank you.

3 MR. STEVE SCARFONE: Yes.

4

5 EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

6 MR. LUKE JOHNSTON: Okay. So we'll
7 start with the recent PUB Order on Driver Safety
8 Rating and just go through these quickly and explain
9 what we've done.

10 Order 13.7(a) was to file information
11 in the '20/'21 GRA as to the time line and major
12 milestones for the determination of which rating model
13 it -- being MPI -- intends to proceed with.

14 I'm sure there'll be some discussion on
15 this. We've provided some information on why that
16 final decision hasn't been made, how -- how it relates
17 to Nova and government -- governmental approvals. But
18 I'm -- again, I'm sure we'll have discussion on that
19 one.

20 Part B is the pricing examination. I
21 guess the first part being on the current registered
22 owner model that's been provided.

23 Other costs in terms of modifying the
24 system to other versions of DSR I would say are not
25 known with a great amount of certainty right now, and

1 that relates to either modifying the current
2 technology or waiting till Nova's complete or building
3 it in Nova.

4

5 Part C, asking MPI if it has collected
6 data to recalibrate amounts of driver premium to be
7 charged under DSR to be more statistically sound based
8 on experience. We have done this in our pricing
9 analysis of the current registered owner model but not
10 on other models.

11 And then part D, review of best
12 practices for rating models in other jurisdictions.
13 This has been filed. I would call it a not a complete
14 jurisdictional scan and -- because, for the most part,
15 we're looking at other public insurers, how private
16 insurers rate based on driver experiences, more
17 proprietary and -- and pretty difficult for us to --
18 to obtain.

19 So, really it's a jurisdictional scan
20 of other -- other public insurers.

21

22 (BRIEF PAUSE)

23

24 MR. LUKE JOHNSTON: Okay. Going to
25 the pricing examination. Just to be extremely clear,

1 what we filed is an actuarial analysis of the existing
2 registered owner model.

3 And what that means is that the rating
4 factor in question is the DSR level of the registered
5 owner, and -- and that -- and only the registered
6 owner.

7 So, we're not trying to figure out who
8 else in -- in the household is driving or what their
9 DSR levels are. We're not splitting out drivers with
10 or without vehicles and figuring out what the
11 different rates should be. It is purely our current
12 model and the actuarial indications from that model.

13 So, in the sub-point to the first
14 bullet point, when you see a discount percentage
15 indicated for, let's say, DSR level 15, that is the
16 collective loss experience of all registered owners
17 that -- that registered their vehicle with a DSR level
18 of plus 15.

19 Some will have no one else in the
20 house; some will have three (3) teenagers. Any
21 combination, obviously, is possible, but -- but that -
22 - that's what those figures represent.

23 Bullet point 2 just states that we used
24 the minimum bias procedure, which is the same method
25 we use to calculate our normal rates that come through

1 this process.

2 Really, what it means is -- is that
3 we're just trying to minimize the -- I guess the
4 variance around the -- the numbers predicted based --
5 based on the loss costs of -- for the different rating
6 variables, whether it be territory or rate group or
7 now DSR level.

8 The last bullet point is just noting
9 that we limited this analysis to passenger vehicles
10 and light trucks, which -- which is the vast majority
11 of vehicles.

12 Because other vehicle classifications
13 start introducing very different rating variables, for
14 example, like, motorcycles would have engine
15 displacement, other -- other classes would have
16 declared value and such. It exponentially complicates
17 the analysis.

18 So, to get a clear picture on DSR, we
19 just focussed on passenger vehicles and light trucks,
20 which again is -- is 96 percent of vehicles that are
21 entitled to DSR discounts.

22

23 (BRIEF PAUSE)

24

25 MR. LUKE JOHNSTON: So, on the screen

1 you're seeing the indicated discount percentage based
2 on the relative loss costs of registered owners by DSR
3 level.

4 The second bullet point is just
5 reminding everyone that, again, this is registered
6 owner. If we did drivers, as we've done in the past,
7 where we just ignored whether they owned a vehicle or
8 not, we'd get a different relative risk.

9 But what this is saying is, regardless
10 of previous concerns we might have had, that the plus
11 15 or 33 percent discount level was being, I guess,
12 abused or taken advantage of by registered owners that
13 could, you know, roll other people in the family under
14 that discount.

15 Of course, that happens. But based on
16 our analysis, we were still charging more than we
17 needed to charge for that group of people no matter
18 what their behaviours were collectively as a group.
19 So -- so, that's the -- that's indicated by that 57.6
20 percent.

21 We've -- it -- it wasn't just a fluke
22 that DSR zero is a zero percent discount. That was --
23 it was designed -- the -- the analysis was designed to
24 be relative to the base rate of -- of DSR zero.

25 So, obviously, you know, different --

1 pegging it to a different number on the scale would
2 produce a different result. But recognizing the
3 existing model we have in place, we -- we assumed that
4 it'd be appropriate to at least maintain the
5 foundations of that model which is -- is pegged around
6 DSR zero.

7

8

(BRIEF PAUSE)

9

10 MR. LUKE JOHNSTON: One (1) obvious, I
11 guess, outcome of giving certain drivers a 55 percent
12 discount is, obviously, you're going to lose revenue
13 from that. And -- and our total revenue requirements
14 wouldn't have changed simply because we changed our
15 rates on -- on a scale, at least not in the immediate
16 term.

17 So, if we give a bigger discount on top
18 of the scale, we're going to have to offset that with
19 increases on other parts of the scale.

20 So, what is being shown on this slide
21 is average rate by DSR level in the current system.
22 We apply the discounts that are indicated on the
23 previous slide, so DSR 15 around 55 percent.

24 And then we offset all rates
25 proportionately to achieve the same amount of overall

1 revenue that we need to -- to breakeven.

2 So, in this case, in order to provide
3 that discount at the top of the scale, we would have
4 to increase our level zero base rate by 23 percent.

5 So, in this -- I -- I don't think
6 anybody would suggest we move fully to this model,
7 like, instantly.

8 But if that were to happen, yeah, we'd
9 have to raise the DSR zero base rate from fifteen
10 seventy-one (1,571) to one thousand nine hundred and
11 thirty-six (1,936), creating a 23 percent rate
12 increase for those customers, which is effectively
13 handed out to the folks at the top of the scale. So,
14 that's just -- that's just the math there, so.

15 If implemented quickly, this obviously
16 would create some confusion for customers, especially
17 those in the middle of the scale where they would, on
18 paper, appear to get a bigger discount percentage, and
19 then be disappointed when they found out their --
20 their average rate actually went up. So a lot of
21 cautions in terms of how -- how this is implemented,
22 or -- or the speed which you do it if we were to go
23 this route. The next slide, please.

24 On the surcharge side, again, we
25 calculated actuarial indicators, keeping in mind the

1 existing structure of the -- the DSR program. And --
2 and that structure on the demerit side is a surcharge-
3 based model.

4 So, all -- all that's happening here is
5 we're calculating the indicated loss costs in the same
6 way that we did for the top of the scale, except the
7 additional moneys required above the base rate are
8 assumed to be calculated as a surcharge rather than an
9 increase in the percentage of vehicle premium.

10 So, just, I guess, a caution here. At
11 minus 20 on the scale, you're seeing a two thousand
12 three hundred and fifty-five dollar (\$2,355) surcharge
13 which is lower than the currently indicated -- or
14 sorry, not indicated, the currently charged three
15 thousand dollar (\$3,000) surcharge.

16 We've talked about this before. What -
17 - what the two thousand three hundred dollars (\$2,300)
18 means is that we need to collect about two thousand
19 three hundred dollars (\$2,300) over our indicated base
20 rate of about nineteen hundred (\$1,900).

21 So, a minus 20 driver is costing us
22 four thousand dollars (\$4,000) plus per year. In
23 previous hearings we've talked about the three
24 thousand (3,000) and whether it's excessive for
25 drivers at that level. And the issue is if they don't

1 register a car, well, they don't pay any vehicle
2 premium at all and they seem to be costing us about
3 four thousand dollars (\$4,000).

4 If they register a car and they pay a
5 couple thousand dollars of premium and pay a three
6 thousand dollar (\$3,000) surcharge, now we have more
7 money than we needed.

8 So what's different here, in the model,
9 the registered owner model, is every driver that
10 doesn't register a vehicle is rolled up somewhere on
11 that scale under someone else's policy. So they could
12 be in a plus 15 registered owners policy driving that
13 vehicle.

14 The -- the people on the demerit side
15 of the scale here are folks that I guess don't have
16 anyone in the house to register a car at minus 15 or a
17 -- they're the only driver of that car or whatever
18 their circumstances are, which as we talked about
19 before that is probably the biggest drawback of the
20 registered owner model, just not really knowing who is
21 actually driving the car in the household.

22 I think that is it. And that concludes
23 the presentation.

24 THE PANEL CHAIRPERSON: Mr.
25 Scarfone...?

1 CONTINUED BY MR. STEVE SCARFONE:

2 MR. STEVE SCARFONE: Thank you, Madam
3 Chair.

4 Just a couple follow-up questions, and
5 -- and I expect you've already explained this to some
6 extent, Mr. Johnston, but Ms. Schubert, could you move
7 back to the slide that shows the variances? I think
8 it's just the one before this. One back further,
9 please. Yes, thank you.

10 So these -- this particular slide, Mr.
11 Johnston, shows the variances in what the drivers at
12 the various steps should receive by way of discount.

13 Is that right?

14 MR. LUKE JOHNSTON: Correct.

15 MR. STEVE SCARFONE: And so I take
16 that to mean that the drivers at the top end of the
17 scale, as set out there, should have or would if the
18 pricing that you -- the pricing examination that
19 you've performed, they would have received a larger
20 discount, particularly those from 11 through to 15?

21 MR. LUKE JOHNSTON: If we had priced
22 DSR on a -- a registered owner basis, actuarially
23 sound from day one, I would have expected results
24 similar to this.

25 It could have been behavioural changes

1 over that period too, but a larger discount than 33
2 percent is -- is what's indicated. And -- and really
3 it's what's always been indicated, even in our -- our
4 pre-DSR hearings, MPI was I think pretty transparent
5 to say that the top of the scale could get even bigger
6 discount than -- than -- than we've provided.

7 MR. STEVE SCARFONE: And then the
8 corollary to that would be the -- the drivers at the
9 lower end of the scale would receive a smaller
10 discount than they've currently been receiving.

11 Is that fair?

12 MR. LUKE JOHNSTON: That was my
13 concern about the communication of this. If you look
14 at the -- the chart, all registered owners by DSR
15 level would get a bigger discount than they currently
16 have today.

17 And that is not by any sort of design,
18 it's just relative to the numbers that were picked in
19 the current scale.

20 But as you note on the slide following
21 this one, how that translates into revenue neutral
22 costing means that really only the top five (5) or so
23 spots on the scale would -- would end up with actually
24 paying less after we adjusted up the base rate and
25 such to offset the loss revenue from giving such a --

1 such a large discount at the top.

2 MR. STEVE SCARFONE: Right. And so
3 does the Corporation then intend to -- to make that
4 adjustment on a go-forward basis?

5 MR. LUKE JOHNSTON: So I guess a
6 couple things. Assuming there was no other models
7 being discussed and no potential for Project Nova to
8 do -- to enhance or create another model around DSR,
9 internally with our executive there's no concerns to -
10 - to move more towards actuarial soundness and we
11 haven't talked about this in detail with the Board
12 given that it's just recent, but the Board's been
13 consistent in the past about, you know, appropriate
14 actuarially sound rates.

15 The concern, of course, would be with
16 the speed at which you proceed and how that impacts
17 customers and -- and it's communicated and I'm sure,
18 some other concerns.

19 Of course, government would have
20 concerns about moving too fast as -- as well. But --
21 I think that's it.

22 MR. STEVE SCARFONE: Okay. And then
23 just in terms of those discussions with -- with the
24 Board of Directors and more so with the Project Nova
25 team and Mr. Mitra, we've heard earlier evidence that

1 in order for the Driver Safety Rating model to be
2 changed, there would have to be some accommodation in
3 Project Nova.

4 Do you recall that evidence?

5 MR. LUKE JOHNSTON: I do.

6 MR. STEVE SCARFONE: And has there --
7 have you had any discussions with the Nova team to
8 this point about possible changes to the model or
9 whether the Corporation intends to maintain the
10 current model when Nova goes live?

11 MR. LUKE JOHNSTON: Yeah, this is a
12 critical piece of the -- I guess the rating component
13 for Nova and it's a bit chicken-and-egg type of
14 situation, I guess.

15 So if there is no question we wanted
16 the current model in Nova, well then just -- just
17 build it and -- like right? So the Nova team would
18 know, they'd figured out the amount of work that needs
19 to be done and -- and build in their current state
20 into the new system.

21 What I don't know yet is what is
22 available out of the box in -- in the new technology.
23 Is it very easy to implement and -- and use in the --
24 and such and the costs are low and we could adapt to
25 that? Whatever comes out of the box, I don't know.

1 But it's worthy of assessment and that
2 would, obviously, have to be assessed relative to the
3 cost of custom building this system into Nova.

4 So that -- so when I say "chicken and
5 egg," I -- you know, we will -- the product pricing
6 team will say to the Nova team well, yeah, like we
7 know the different models, and -- and how to construct
8 them. That's not the problem. Like we can -- you
9 know, we can design the product.

10 But without the full picture on cost
11 and timing and such, those decisions are hard to make
12 right -- right now.

13 And then you -- you didn't mention this
14 piece, but all that would also have to be approved by
15 government. So we could design some new system and --
16 and maybe some more actuarially sound, but perhaps it
17 creates a bunch of dislocation and -- and such and the
18 government is not in favour of doing it.

19 So that would be more if we completely
20 change the methodology. But a lot of moving parts
21 here.

22 For us to proceed on the product and
23 pricing side, we just need a better grasp on what --
24 what the capabilities are from the -- the new system.

25 MR. STEVE SCARFONE: And just on that

1 government piece, you, of course, were involved in
2 with the corporation when the current Driver Safety
3 Rating model was first designed. Is that right?

4 MR. LUKE JOHNSTON: Yes, I was.

5 MR. STEVE SCARFONE: And do you recall
6 what policy decisions may have been factored or
7 considered into MPI's decision to go with the current
8 model in those discussions with government?

9 MR. LUKE JOHNSTON: I wasn't involved
10 in those discussions directly. But I was definitely
11 involved with many back and forths with Ms. McLaren at
12 the time, the CEO.

13 Our first cut of DSR was purely
14 actuarial. Like, no -- no question. It was the how
15 people move on the scale, the amount of movements --
16 you know, two (2) for a minor conviction and -- and,
17 you know, five (5) for an accident, and such. So the
18 -- the movements on the model, statistically sound.

19 Initial rate indications were
20 calculated on that model on an actuarial sound basis.

21 That first cut would have had new
22 drivers pay about three hundred dollars (\$300) for a
23 licence and would have -- I can't remember exactly,
24 but a really significant decrease in the rates for --
25 for the drivers at the top of the scale.

1 That was too much impact for
2 government's liking. After many versions of the
3 model, more than twenty (20), we basically ended up
4 with a model where we tried to minimize the initial
5 placement -- sorry, minimize the rate impact to every
6 single customer of being placed on the DSR scale to
7 the extent that we lost about \$8 million in revenue in
8 order to not impact anyone negatively on the scale.

9 So I know this project was very
10 important to Ms. McLaren at the time and I'm,
11 obviously, not aware of all the discussions she had,
12 but there was a lot of compromise that had to be
13 considered to get this put through.

14 MR. STEVE SCARFONE: And you recall,
15 Mr. Johnston, three (3) years ago, in the 2018 GRA,
16 that some changes were made to the demerit side of the
17 scales. Do you recall that?

18 MR. LUKE JOHNSTON: I do.

19 MR. STEVE SCARFONE: And the evidence
20 at that hearing, and since that time, in fact, has
21 been that the current model is an effective way of
22 changing driver behaviour. Do you agree with that?

23 MR. LUKE JOHNSTON: Yes, it is. And
24 it's -- obviously premium drives some of that change.
25 But the communication and -- and movement up and down

1 the scale and such, surely, has some impact on -- on
2 people's behaviour and awareness of, you know, that
3 these types of behaviour will lead to, you know,
4 further charges and -- and such. Yes, I'm aware of
5 that. Yeah.

6 MR. STEVE SCARFONE: And do you have
7 any early data on the effectiveness of the changes
8 that were made three (3) years ago on the driving
9 behaviour of the customers on the demerit side of the
10 scale?

11 MR. LUKE JOHNSTON: We would be able
12 to do that. Off the top of my head, I -- I do not.
13 But I have stated, in previous hearing days, that the
14 biggest benefit of DSR was on the crash rates of
15 demerit drivers. And that -- I'd have to get the
16 reference -- but we have filed that evidence in -- in
17 previous hearings under, I believe, road safety loss
18 prevention area.

19 MR. STEVE SCARFONE: Okay. Thank you.
20 Those are my questions, Madam Chair, on
21 direct examination for Mr. Johnston.

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

24

25 CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

1 MS. KATHLEEN MCCANDLESS: Thank you.

2 Mr. Johnston, I want to just go back
3 and review some of the recent history on the DSR
4 before this Board and Mr. Scarfone just alluded to it
5 just at the conclusion of his questions.

6 So first, if we could have a look at
7 Directives 11.8 and 11.9 from Order 130/'17. And
8 you'll recall, Mr. Johnston, that in the 2018 GRA, the
9 Corporation had applied for an increase of 1.8
10 percent, or \$17.5 million, in revenue, associated with
11 increases to the surcharges on the demerit side of the
12 DSR. Is that correct?

13 MR. LUKE JOHNSTON: Correct.

14 MS. KATHLEEN MCCANDLESS: And so,
15 those surcharges currently are seen at slide 6 from
16 your presentation.

17 And that's where the maximum surcharge
18 went up from, I believe -- if we have a quick look at
19 that -- at minus twenty (20) from two thousand three
20 hundred and fifty-five (2,355) to three thousand
21 dollars (3,000).

22 MR. LUKE JOHNSTON: That's correct.
23 The -- the lowest spots on the DSR scale were
24 adjusted. Yeah.

25 MS. KATHLEEN MCCANDLESS: Okay. And

1 then, the Directives at 11.8 and 11.9 of 130/'17 --
2 sorry to make you jump around so much, Kristen --
3 eleven-point-eight (11.8), the Board had ordered for
4 the 2019 GRA that the Corporation filed proposed
5 driver premium rates that are most statically
6 consistent with the estimated average claims cost per
7 driver for each level on the demerit side of the DSR
8 scale.

9 MR. LUKE JOHNSTON: I see that, yes.

10 MS. KATHLEEN MCCANDLESS: And then, at
11 eleven-point-nine (11.9), in the 2021 GRA -- so this
12 GRA -- the Corporation shall file proposed premium --
13 vehicle premium discounts that are actuarially
14 indicated based on principal driver performance
15 evaluation.

16 MR. LUKE JOHNSTON: Yes.

17 MS. KATHLEEN MCCANDLESS: And
18 following this Order, the Corporation applied for a
19 review and variance of the DSR directives. And that
20 resulted in Board Order 29/'18?

21 Are you familiar with this, Mr.
22 Johnston?

23 MR. LUKE JOHNSTON: Likely. But I
24 have to read it again.

25 MS. KATHLEEN MCCANDLESS: The first

1 one -- variance was with respect to the technical
2 conference that had been ordered -- and I -- I didn't
3 take you to that -- for 130/'17.

4 I just want to key in on Directives
5 11.8 and 11.9, which were varied. So if we just
6 scroll towards the bottom of this page, running to the
7 next page.

8

9 (BRIEF PAUSE)

10

11 MS. KATHLEEN MCCANDLESS: So at four-
12 point-two (4.2), Directives 11.8 and 11.9 of Order
13 130/'17 were -- the Board said:

14 "They could be held in abeyance
15 until such time as the issues of
16 driver premiums more statistically
17 consistent with the average claims
18 cost per driver for each level on
19 the demerit side of the DSR scale
20 and vehicle premium discounts that
21 are fully supported by actuarial
22 indications based on principal
23 driver performance evaluation have
24 been reviewed and considered in the
25 2019 GRA."

1 Yes?

2 MR. LUKE JOHNSTON: Yes.

3 MS. KATHLEEN MCCANDLESS: And then,
4 following this review and variance, in Order 159/'18
5 after the 2019 GRA.

6

7 (BRIEF PAUSE)

8

9 MS. KATHLEEN MCCANDLESS: The
10 Corporation had indicated that it was going to be
11 engaging in some public consultation on changes to the
12 DSR.

13 And so, in the 2019 GRA, the Board
14 asked that the Corporation report on its -- on the
15 progress of those efforts, as well as some decisions
16 on the no or low cost options for rating models, and
17 its decision on whether to proceed with data collection
18 for higher cost options. Yes?

19 MR. LUKE JOHNSTON: Correct.

20 MS. KATHLEEN MCCANDLESS: And so, that
21 took us then to last year's Order, following the 2020
22 GRA, and that's 176/'19. And you did have it set out
23 in your presentation.

24 But that one was also subject to an
25 application for review and variance by the

1 Corporation. You recall that?

2 MR. LUKE JOHNSTON: Yes.

3 MS. KATHLEEN MCCANDLESS: So, at
4 176/'19, 13.7(a), initially the Board had ordered last
5 year that for this GRA, the Corporation file
6 information in this GRA as to which rating model it
7 intends to proceed with. Yes?

8 MR. LUKE JOHNSTON: Oh, sorry. Yes.
9 Yeah.

10 MS. KATHLEEN MCCANDLESS: And then,
11 the Corporation applied for a review and variance of
12 13.7(a), which resulted in Order 6/'20 on page 11.

13 MR. LUKE JOHNSTON: I see this, yes.

14 MS. KATHLEEN MCCANDLESS: And so,
15 that's how we end up with Directive 13.7(a) reading:
16 "File information in the 2021 GRA as
17 to the time line and major
18 milestones for the determination of
19 which rating model intends to
20 proceed with."

21 Yes?

22 MR. LUKE JOHNSTON: Yes.

23 MS. KATHLEEN MCCANDLESS: Okay.

24

25 (BRIEF PAUSE)

1 MS. KATHLEEN MCCANDLESS: And so, in
2 response to 13.7(a), at part 6 of the GRA, in the DSR
3 section at the bottom of the page.

4

5 (BRIEF PAUSE)

6

7 MS. KATHLEEN MCCANDLESS: Scroll up,
8 please. We want to go to the bottom of page 4.

9

10 (BRIEF PAUSE)

11

12 MS. KATHLEEN MCCANDLESS: Yes, thank
13 you. So in addressing the time line and major
14 milestones, at lines 23, the Corporation indicates
15 that:

16 "If the DSR is to change, the
17 decision to make the change will be
18 government's decision.

19 MPI and the PUB do not have
20 authority to make regulations."

21 Yes?

22 MR. LUKE JOHNSTON: Yes.

23 MS. KATHLEEN MCCANDLESS: And then if
24 we scroll on to the next page, starting at line 3:

25 "The process for making a regulatory

1 change begins with MPI submitting to
2 the minister of Crown services a
3 recommendation about the DSR model."

4 MR. LUKE JOHNSTON: Yes.

5 MS. KATHLEEN MCCANDLESS: Correct?

6 Okay. So notwithstanding that it's a government
7 decision, certainly the initiative is with MPI to --
8 to institute that process, yes?

9 MR. LUKE JOHNSTON: Yes.

10 MS. KATHLEEN MCCANDLESS: And I --
11 you've mentioned -- there were some questions from Mr.
12 Scarfone about this -- about the decision as to when
13 to initiate any DSR changes and whether to do that
14 before or during or after Project Nova.

15 MR. LUKE JOHNSTON: Agreed.

16 MS. KATHLEEN MCCANDLESS: Yes?

17 MR. LUKE JOHNSTON: Yeah.

18 MS. KATHLEEN MCCANDLESS: And Mr.
19 Scarfone had asked you about that. I just wanted to
20 take you to some evidence from Mr. Dessler during the
21 Project Nova session last week, and that's at the
22 transcript beginning at page 984.

23 Here the Board Chair took Mr. Dessler
24 to the DSR section from the application, and if we
25 scroll down, Mr. Dessler was asked:

1 "What are you doing about it now in
2 terms of, if there's a decision to
3 change DSR to something other than
4 registered owner, how long the
5 process would take and what the
6 timing would be?"

7 MR. LUKE JOHNSTON: Yes.

8 MS. KATHLEEN MCCANDLESS: And then Mr.
9 Dessler's response, beginning at line 5, says:

10 "So what we'd like to do is look at
11 the DSR model as under way today.
12 What we want to do, though, is have
13 a decision on what the new model is
14 going to look like for we don't have
15 to make the changes inside of our
16 existing technology and then have to
17 redo it as part of the new
18 technology. So we really want to,
19 you know, get that decision done
20 before we start to implement the
21 rating changes for Duck Creek. So
22 it's really a timing -- timing
23 challenge for us. We want to get
24 that work under way now as soon as
25 possible."

1 Do you see that?

2 MR. LUKE JOHNSTON: I do.

3 MS. KATHLEEN MCCANDLESS: Okay. So my
4 understanding of Mr. Dessler's evidence was that MPI
5 needs to make a decision on changes to the DSR as soon
6 as possible.

7 MR. LUKE JOHNSTON: Agreed.

8 MS. KATHLEEN MCCANDLESS: Is that your
9 understanding? And -- and do you agree with that?

10 MR. LUKE JOHNSTON: I do.

11 MS. KATHLEEN MCCANDLESS: Okay. And
12 "as soon as possible" -- what does that mean?

13 MR. LUKE JOHNSTON: Yeah, I -- I spoke
14 a lil -- a little bit about this in my presentation.
15 It is a bit of back and forth.

16 So from the product-pricing side, we
17 need to understand the capabilities of Nova, what's
18 available there, in order to do appropriate cost-
19 benefit analysis.

20 We've talked about Driver Safety Rating
21 enough that I don't think it would be appropriate for
22 us to say, Well, let's just put the current model in
23 there without any further evaluation of what the new
24 system can do.

25 So that -- that's where we're -- we're

1 at now. The different vendors and such have been
2 selected, so that hopefully will allow us to kind of
3 dive into the -- the new system and -- and see what
4 can or can't be done with different modelling options.

5 MS. KATHLEEN MCCANDLESS: So "as soon
6 as possible," is there -- do you have a time frame on
7 that?

8 MR. LUKE JOHNSTON: The -- my
9 understanding is by early next year, we'd have to have
10 a pretty good direction on where we're going.
11 Already, you can see complexities around that, and
12 I'll give you an example.

13 Let's say that there's a driver
14 experience type of rating engine that comes out of the
15 box and it looks great and it's cheap and we wouldn't
16 be abl -- we'd be able to just use it. It's not going
17 to be Driver Safety Rating; that's pretty obvious. A
18 private-sector model may have some way of listing
19 drivers and utilizing that in -- in rating.

20 The next step after that would be,
21 well, government would have to approve that model if
22 it's different, and you -- you know, we can go through
23 that whole page of all the things we'd have to do on
24 the government side, but it's not a slam dunk by any
25 means.

1 So if we were to change the model, now
2 we im -- we, essentially, expose ourself to risk from
3 the -- the government side that we could start
4 investing time and effort into building what, you
5 know, we think could be the new system but not yet
6 have government approval.

7 So a lot of moving parts here. The --
8 there's going to be a lot of pressure to use the
9 existing model from the ex -- from the sense that we
10 know it, and government doesn't have to approve it,
11 PUB's familiar with it, et cetera.

12 But again, I don't think that should
13 preclude us from at least assessing the other options
14 or -- or at least giving them a fair assessment
15 relative to the current registered-owner model.

16 MS. KATHLEEN MCCANDLESS: On the
17 pricing examination, that's Exhibit 25.

18

19 (BRIEF PAUSE)

20

21 MS. KATHLEEN MCCANDLESS: So first,
22 was this pricing examination prepared solely to comply
23 with Board Order 176/'19, or does it direc -- reflect
24 the direction of the Corporation's intended approach
25 to moving towards having an actuarial foundation for

1 the DSR scale?

2 MR. LUKE JOHNSTON: Clearly, the --
3 the Board's Order influenced the -- the speed at which
4 we did the pricing examination, so the -- yeah, I just
5 say that that's -- that's the case.

6 The -- the examination was --

7 UNIDENTIFIED SPEAKER (by phone): Are
8 you there?

9 UNIDENTIFIED SPEAKER (by phone): I --
10 I am trying to connect to the TV. Let's see how it
11 works, if it does.

12 MS. KATHLEEN MCCANDLESS: Excuse me,
13 there's someone -- someone's just -- we heard someone
14 speaking, so please have your microphones on mute if
15 you are following along remotely.

16

17 (BRIEF PAUSE)

18

19 MR. LUKE JOHNSTON: Thanks. So in --
20 in some of the previous Orders -- good? Okay. We had
21 talked about conc -- our concerns about changing DSR
22 in light of new Legacy systems, modernization, and
23 such. So that was definitely a -- a real concern and
24 continues to be.

25 So all that said, the pricing

1 examination was done, presented to our executive, and
2 they, in general, were supportive of a more
3 actuarially sound approach. But again, as mentioned
4 in the presentation, with caution and not... As an
5 actuary, I'm well aware that going full actuarial is
6 often -- has risks to it, so we have to see the whole
7 picture.

8 MS. KATHLEEN MCCANDLESS: Just
9 scrolling down, please, Kristen, just for the
10 introduction of the pricing examination.

11 So this pricing examination, starting
12 at line 15, was intended to -- sixteen (16), pardon me
13 -- evaluate the appropriateness of the current vehicle
14 discounts and driver licence surchargers on a
15 registered-owner basis. Yes?

16 MR. LUKE JOHNSTON: That's right.

17 MS. KATHLEEN MCCANDLESS: And "vehicle
18 discounts," as used here, refer to the DSR vehicle
19 premium discounts.

20 MR. LUKE JOHNSTON: That's right. The
21 -- I don't -- I'm not sure we've used the term "base
22 rate" before, but I'll use it in this context as the -
23 - the zero discount premium that you'd pay at DSR
24 level zero. So these vehicle premium discounts would
25 be reductions from that base rate as a percentage.

1 MS. KATHLEEN MCCANDLESS: And "driver
2 licence surcharges," as used here, refer to the DSR
3 driver premiums demerit side of the scale, as we
4 discussed earlier, yes?

5 MR. LUKE JOHNSTON: That's right.

6 MS. KATHLEEN MCCANDLESS: Does the
7 pricing examination address the DSR driver premiums on
8 the merit side of the scale?

9 MR. LUKE JOHNSTON: It -- it does not.
10 It's assumed they've remained constant for -- at least
11 for the time being. The amounts are very low, that
12 they are, essentially, almost immaterial to the
13 outcome, so fifteen dollars (\$15) at the top of the
14 scale. The -- the results you see in terms of the
15 discount percentage would have fairly minor impacts if
16 those were included or excluded.

17 MS. KATHLEEN MCCANDLESS: And then at
18 page 2, line 9, the report states that:

19 "The vehicle discounts provided at
20 each DSR level are based on the
21 collective loss experience of the
22 drivers of vehicles registered to
23 owners with the same DSR level."

24 Yes?

25 MR. LUKE JOHNSTON: Correct.

1 MS. KATHLEEN MCCANDLESS: This is a
2 reference to the indicated vehicle premium discounts
3 provided in this report and not to the discounts in
4 the current DRS scale?

5 MR. LUKE JOHNSTON: Well, the current
6 -- the current DSR -- sorry, the pricing analysis,
7 this is what is indicated. It is the indicated
8 discount percentage of regis -- collective experience
9 of registered owners at that level on the scale.

10 The current system operates in the same
11 way; it's just that the -- the discount percentage was
12 not based on actuarial science to the -- you know, to
13 the indicated level.

14 MS. KATHLEEN MCCANDLESS: So I think
15 that's a "yes"?

16 MR. LUKE JOHNSTON: Yeah. I wasn't
17 sure what was being asked. Like, the system is the
18 same in both cases. The pricing analysis just says
19 here's the -- the actuarial indicated numbers rather
20 than the policy-based numbers.

21 MS. KATHLEEN MCCANDLESS: And so just
22 following what I just read to you, you have here, for
23 example:

24 "The vehicle discount at DSR level
25 15 reflects the collective loss

1 experience of the drivers of
2 vehicles registered to owners with
3 DSR level 15."

4 MR. LUKE JOHNSTON: That's right. And
5 -- and maybe just so I don't lose my opportunity to
6 say this, the -- the discount at DSR plus 15 is really
7 the minimum possible discount, and the reason is
8 because, if you're a DSR plus 15 driver, the only type
9 of driver you can add to your policy is somebody
10 higher risk than you, so a zero, minus 5, a plus 10.

11 Since this is the collective experience
12 of everybody that drives in vehicles registered by
13 that owner, the discount is not as big as it would
14 have been if we just said only plus 15 people can
15 drive it, no one else on the policy, et cetera.

16 So the -- this, again, it's the -- it's
17 really, if -- if this was done in isolation just for
18 plus 15 drivers, the discount rate would be even --
19 even larger.

20 MS. KATHLEEN MCCANDLESS: Okay. So my
21 -- my question was with respect to this statement here
22 about the vehicle discount at DSR level 15 reflecting
23 the collective loss experience of the drivers of
24 vehicles registered to owners with DSR 15, whether
25 that's a weakness of the analysis or if it's a more

1 generally inherent weakness of the registered owner
2 model used in the current DSR scale?

3 MR. LUKE JOHNSTON: Yeah, the analysis
4 is the analysis really. It -- it's accepting any
5 flaws in the rating factors that are selected, but
6 it's not -- it's -- it's -- we're just doing actuarial
7 math based on the rating factors available.

8 So this would be a flaw of the -- the
9 design of the system itself, so ...

10 MS. KATHLEEN MCCANDLESS: Does the
11 registered owner model in effect encour -- encourage
12 policyholders to register all household vehicles in
13 the same name of the household driver with the best
14 DSR rating?

15 MR. LUKE JOHNSTON: I -- I would
16 expect that to be the case. And I don't know that a
17 bigger discount encourages that even more, but it may.

18 MS. KATHLEEN MCCANDLESS: While a
19 number of data exclusions were applied, the report at
20 page 2 starting at line 18 states that:

21 "The pricing examination is still
22 based on more than 96 percent of
23 total merit eligible vehicles."

24 MR. LUKE JOHNSTON: Yes.

25 MS. KATHLEEN MCCANDLESS: How do you

1 define merit eligible vehicles?

2 MR. LUKE JOHNSTON: Vehicles that are
3 eligible to get the DSR vehicle premium discounts, so
4 the -- the registered owner's DSR level is used as --
5 they can use the DSR system.

6 MS. KATHLEEN MCCANDLESS: So not all
7 vehicles are subject to the DSR scale, just the ones
8 that --

9 MR. LUKE JOHNSTON: No. So it was
10 only recently that taxis were part of that scale. And
11 the logic behind that was, well, there's, you know,
12 different people driving taxis and -- and the
13 registered doesn't really matter, similar for things
14 like fleets and stuff where the vehicles are share by
15 different -- many different driver's potentially.
16 That's just a couple examples where that's the case,
17 or was the case.

18 MS. KATHLEEN MCCANDLESS: We see that
19 starting at the bottom of page 2 the analysis uses
20 five (5) accident years of experience as reported to
21 February 29, 2020 --

22 MR. LUKE JOHNSTON: Yes.

23 MS. KATHLEEN MCCANDLESS: -- so
24 insurance years 2015 to 2019 for collision,
25 comprehensive, property damage, and bodily injury

1 coverages, and accident years 2013 to 2017 for PIPP
2 coverages, yes?

3 MR. LUKE JOHNSTON: Yes.

4 MS. KATHLEEN MCCANDLESS: Can you
5 explain why the two (2) most recent accident years
6 were excluded from the analysis for the PIPP coverage?

7 MR. LUKE JOHNSTON: Yes. This is
8 consistent with other treatment of PIPP in our rating
9 and forecasting. The first two (2) -- the most recent
10 two (2) loss years are undeveloped in terms of the --
11 the full loss exposure we have for long-term injury
12 claims.

13 So we know now that under centralized
14 reserving a more complete estimate of exposure will be
15 put by case managers by -- by year 3 and, at that
16 point, we have more confidence in those numbers.

17

18 (BRIEF PAUSE)

19

20 MS. KATHLEEN MCCANDLESS: And you had
21 spoken about this in your presentation, that the
22 pricing examination only used the data for merit
23 eligible passenger vehicles and light trucks?

24 MR. LUKE JOHNSTON: Yes.

25 MS. KATHLEEN MCCANDLESS: And that's

1 found at -- starting at line 19 of page 3?

2 MR. LUKE JOHNSTON: Correct.

3 MS. KATHLEEN MCCANDLESS: And can you
4 explain what merit eligible vehicles were excluded and
5 why this was done?

6 MR. LUKE JOHNSTON: So explain why we
7 just focussed on this -- this group?

8 MS. KATHLEEN MCCANDLESS: And, more
9 particularly, why other groups were excluded.

10 MR. LUKE JOHNSTON: Yeah. So we -- by
11 far the -- the biggest class of vehicles is the
12 private passenger class for passenger vehicles and
13 light trucks, most of which are merit eligible.

14 As you go into other rating
15 classifications, motorcycles, vehicle for hire, other
16 commercial type classes, the complexity of the model
17 would increase exponentially because they have
18 different rating variables and such.

19 So we thought it would be best to just
20 focus on the main class of where most of the vehicles
21 reside and most of the merit elig -- eligible vehicles
22 reside to get a very clear, credible outcome.

23 The -- if we were to perform this
24 analysis on a smaller group of vehicles, credibility
25 could be a concern, but we haven't done that, you

1 know, in isolation for motorcycles, for example, to
2 see if, you know, they also show a 57 percent discount
3 at the top of the scale; that hasn't been done.

4 But at least our assumption would be
5 that, you know, good drivers are good drivers. We
6 would expect a pretty high correlation between
7 relative behaviour in other classes, but I can't
8 confirm that through any analysis.

9 MS. KATHLEEN MCCANDLESS: But what
10 does the exclusion of these other merit eligible
11 vehicles imply about the relevance of the findings of
12 the pricing examination on those other vehicles?

13 MR. LUKE JOHNSTON: Really, just,
14 yeah, my -- my previous comments. I'd expect similar
15 results for other merit eligible vehicles, but we have
16 not undertaken that analysis on smaller groups.

17 And it's quite possible we couldn't
18 conclu -- make statistically valid conclusions given
19 the size of some of the groups.

20 So, like, you know, if four hundred and
21 fifty (45) taxis kind of make that statement with any
22 credibility, we would -- where we would -- if we were
23 to apply the same scale to other groups, we could do
24 some analysis to show the validity of that, but we'd
25 likely have to make an assumption that it's also

1 applicable, and then, I guess, monitor that as -- as
2 data comes in.

3

4 (BRIEF PAUSE)

5

6 MS. KATHLEEN MCCANDLESS: At page 4,
7 line 24:

8 "With respect to the methodology for
9 the report, MPI used the minimum
10 bias procedure to determine the DSR
11 level relativities. This procedure
12 isolates the effect of DSR level on
13 lost costs by adjusting for exposure
14 correlations with other rating
15 variables."

16 MR. LUKE JOHNSTON: Yes.

17 MS. KATHLEEN MCCANDLESS: At a
18 conceptual level, how does the minimum bias procedure
19 work and to what does "minimum bias" refer?

20 MR. LUKE JOHNSTON: Yeah. So we have
21 put DSR aside today. We'll maybe just use passenger
22 vehicles as an example. We have territories and uses,
23 rate groups, and they all have relative costs.

24 So if you start a base rate at say a
25 thousand dollars (\$1,000), we would have a factor that

1 says that Territory 1 Winnipeg should cost 10 percent
2 more than average, and that factor would be applied.

3 You have a high-rate-group vehicle. We
4 know that new vehicles have higher relative costs than
5 older vehicles, we'd apply another factor. Insurance
6 use, same -- same type of thing.

7 The -- we, essentially, run all of our
8 loss costs by -- for each risk classification through
9 a model and then determine which of those relative
10 costs produces the best fitting model for -- for all,
11 so, you know, minimize the differences, so to speak.

12 And when we found the absolute minimum
13 variation based on what we've selected, that would be
14 what we'd use as the -- the minimum bias selection for
15 -- for the relative costs between territory rate group
16 and use. So that is general enough?

17 MS. KATHLEEN MCCANDLESS: Okay. And
18 the other rating variables you mentioned are
19 territory, insurance use, and rate group, yes?

20 MR. LUKE JOHNSTON: Yes. And so all
21 we're really saying is just add DSR to that group
22 instead of ignoring it. So in the past, we basically
23 ignored it, just used the -- the current scale.

24 MS. KATHLEEN MCCANDLESS: In the
25 derivation of the indicated DSR relativities, does

1 this minimum bias procedure use the territory,
2 insurance use, and rate group relativities underlying
3 the current GRA proposal?

4 MR. LUKE JOHNSTON: So just to make
5 sure I understand, did the inclusion of DSR in the
6 minimum bias procedure change the relativities for
7 these other territory use and rate group? Is that --
8 that was my understanding of the question.

9 So assuming that's correct, there would
10 have definitely been some change. There's no way that
11 territory relativities would have stayed exactly the
12 same with and without DSR. The directional impact of
13 all the different rating factors I don't know off the
14 top of the my head. I'd have to look at that, but
15 there -- there would definitely be some change.

16

17 (BRIEF PAUSE)

18

19 MS. KATHLEEN MCCANDLESS: Thank you.
20 I may have some follow-up for you on that, but I'm
21 just going to jump ahead for a moment. Page 5 and 6,
22 Figures 1 and 2 provide graphs of resulting
23 relativities for other than PIPP and for PIPP
24 respectively, yes? So Figure 1, other than PIPP DSR
25 level relativities, and Figure 2 --

1 MR. LUKE JOHNSTON: That's right.

2 MS. KATHLEEN MCCANDLESS: -- for PIPP.

3 Okay. Can you provide your comparative observations
4 on the two graphs and describe the purpose of the
5 curved fitting process also illustrated here?

6 MR. LUKE JOHNSTON: Yes. So as I
7 mentioned, just like we have relativities for -- maybe
8 the best comparator would be rate groups -- we have a
9 similar analysis here for DSR now.

10 Just going back to rate groups, as you
11 know, we get rate groups from the Insurance Bureau of
12 Canada. They're intended to represent relative risk
13 among vehicles.

14 If we put loss cost by rate group on --
15 on a chart for collision, for example, we will see an
16 upward sloping line similar to this one. If we
17 didn't, we would have some concern that what we were
18 getting from the Insurance Bureau of Canada was not
19 accurate.

20 So for DSR, this is really physical
21 damage relative costs. This shows me that the DSR
22 scale is doing an amazing job of predicting the risk
23 level. The green line is really the actual results,
24 and it's almost a straight line without us having to
25 do anything.

1 The fitted line is we would do the same
2 thing on -- on rate groups, for example. There may be
3 ups and down on the scale, but you wouldn't want
4 illogical outcomes like, you know, DSR-6 having a
5 lower discount than DSR-5 or something like that. So
6 we assume that those would smooth out over time, but
7 this is a fantastic fitting graph for physical damage.

8 MS. KATHLEEN MCCANDLESS: Using some
9 reasonable standard for full credibility, are there
10 any DSR levels for which low credibility is a concern?
11 And if so, is the curve-fitting process intended to
12 address this?

13 MR. LUKE JOHNSTON: Yeah. Curve
14 fitting would be one (1) way to address volatility,
15 and it's no accident that that green line gets more
16 bumpy as you get to the demerit side because there's
17 less drivers in -- in that side of the scale,
18 particularly as you get down to -- you see nineteen
19 (19), twenty (20) are kind of up and down.

20 Fitting a line through that is -- is
21 one (1) way to smooth that out, and then anything else
22 we do on -- you know, use multiple years of data. In
23 rate making, we would assign credibility weights and
24 rate caps and such, so that would -- that would
25 operate the same way as we would for other rating

1 variables.

2 MS. KATHLEEN MCCANDLESS: Now moving
3 to page -- pages 6 through 8, in the process of
4 combining the results for PIPP and other than PIPP, a
5 provision for average fixed expenses in the amount of
6 forty dollars and fifty-five cents (\$40.55), and
7 that's -- that amount is seen in Figure 3 at page 8.

8 MR. LUKE JOHNSTON: Yes.

9 MS. KATHLEEN MCCANDLESS: The third
10 column in from the right, yes?

11 MR. LUKE JOHNSTON: Yes.

12 MS. KATHLEEN MCCANDLESS: So that
13 amount is added. What is the nature of these fixed
14 expenses and why is the adjustment made?

15 MR. LUKE JOHNSTON: Yeah. Really, any
16 analysis we do on loss costs obviously has to roll in
17 other expense loads and such so the total amount
18 collected will balance to the actual premiums that we
19 need to charge.

20 So this is essentially that adjustment
21 for -- for the approximate expense load to -- to make
22 the premiums hit the overall requirement that we need.

23 So at the detail level, were we to do
24 this, there -- there'd be more precision to this. In
25 -- in -- you know, when we show our rate making, we

1 would show, you know, this amount is added per unit
2 for reinsurance and this amount is added for premium
3 taxing.

4 But in a -- on a general, overall
5 basis, we've made the adjustment just to ensure I
6 guess revenue neutrality on an overall basis because,
7 as you know, premiums are more than just a loss cost.

8 MS. KATHLEEN MCCANDLESS: The footnote
9 at line 38 of Figure 3 references Figures RM-11 and
10 RM-12 as the sources for the amounts shown for all DSR
11 levels, yes?

12 MR. LUKE JOHNSTON: I see the
13 reference. I -- I don't know if I heard the question,
14 sorry.

15 MS. KATHLEEN MCCANDLESS: Just to
16 confirm, that footnote reference is RM-11 and RM-12 as
17 the sources for the amounts shown under All DSR Levels
18 for PIPP.

19 MR. LUKE JOHNSTON: Okay. I -- yes.

20 MS. KATHLEEN MCCANDLESS: Perhaps by
21 way of undertaking, could you provide the build-up for
22 these amounts from the information shown in Figures
23 RM-11 and RM-12?

24

25

(BRIEF PAUSE)

1 MR. LUKE JOHNSTON: Could you maybe
2 just repeat the question? And I just -- build-up of -
3 - of what speci -- specifically and just make sure I
4 understand.

5 MS. KATHLEEN MCCANDLESS: The amounts
6 shown for all DSR levels. So if you could provide the
7 build-up for the amounts shown for all DSR levels from
8 the information shown in Figures RM-11 and RM-12.

9 MR. LUKE JOHNSTON: We can do that,
10 yeah.

11 MS. KATHLEEN MCCANDLESS: Thank you.

12

13 --- UNDERTAKING NO. 30: MPI to provide the build-up
14 for the amounts shown for all DSR
15 levels from the information shown in
16 Figures RM-11 and RM-12, and MPI to
17 advise as to whether the amounts
18 shown in figures RM-11 and RM-12
19 reflect the same data exclusions as
20 applied for the pricing examination.

21

22 CONTINUED BY MS. KATHLEEN MCCANDLESS:

23 MS. KATHLEEN MCCANDLESS: Do the
24 amounts shown in Figures RM-11 and RM-12 reflect the
25 same data exclusions as applied for this pricing

1 examination?

2 MR. LUKE JOHNSTON: They likely would
3 not. Subject to check, I'll say there could be
4 differences, yeah.

5 To the extent there are differences,
6 we'll make sure those are identified such that
7 reconciliation works.

8 MS. KATHLEEN MCCANDLESS: So as part
9 of the undertaking then, MPI will advise as to whether
10 the amounts shown in figures RM-11 and RM-12 reflect
11 the same data exclusions as applied for the pricing
12 examination.

13 MR. LUKE JOHNSTON: And if there are
14 any deviations, we'll reconcile them or explain --
15 explain why.

16 MR. STEVE SCARFONE: Just to clarify
17 then, Ms. McCandless, the -- the exclusions are the --
18 the other classes that weren't included in the pricing
19 examination, the motorcycle classes and other classes
20 that Mr. Johnston said were left out?

21 MS. KATHLEEN MCCANDLESS: Yes. To the
22 extent there were any other data exclusions, we would
23 expect that information to be provided.

24 MR. STEVE SCARFONE: Okay, thank you.

25

1 CONTINUED BY MS. KATHLEEN MCCANDLESS:

2 MS. KATHLEEN MCCANDLESS: At page 10
3 we see Figure 4, and that is the resulting calculated
4 discounts and surcharges, yes?

5 MR. LUKE JOHNSTON: Yes.

6 MS. KATHLEEN MCCANDLESS: And footnote
7 (b) to this figure shows that the -- an amount of
8 forty-five dollars (\$45) being added to each
9 calculated surcharge, yes?

10 MR. LUKE JOHNSTON: Correct.

11 MS. KATHLEEN MCCANDLESS: What is the
12 nature of this adjustment and can it be tied to
13 information provided for the rate model?

14 MR. LUKE JOHNSTON: This would be just
15 to ensure the base driver premium is incorporated into
16 the analysis.

17 MS. KATHLEEN MCCANDLESS: Footnote (c)
18 references RSF-2.2 as a source for the average
19 undiscounted premium of one thousand five hundred and
20 forty-eight dollars and forty-eight cents (\$1,548.48),
21 which is found at line 37?

22 MR. LUKE JOHNSTON: Oh, sorry. That's
23 right. That's -- that's our estimated average from
24 our rate model for merit eligible passenger vehicle
25 and light truck in the baseline '20/'21 approved

1 rates.

2 So by only including certain vehicles,
3 obviously we want to make sure that we're using the --
4 the right average premium in the calculation.

5 MS. KATHLEEN MCCANDLESS: And could
6 MPI provide the buildup for this amount from the
7 information otherwise provided in the GRA?

8 MR. LUKE JOHNSTON: So the question is
9 for part (c) show how the rate model arrived at an
10 average undiscounted premium for merit eligible
11 passenger vehicles and light trucks at one thousand
12 five hundred and forty-eight dollars (\$1,548)?

13 MS. KATHLEEN MCCANDLESS: Yes.

14

15 (BRIEF PAUSE)

16

17 MR. LUKE JOHNSTON: We can do that,
18 yes.

19 MS. KATHLEEN MCCANDLESS: Thank you.
20 So that's an undertaking?

21 MR. LUKE JOHNSTON: Yes.

22 MS. KATHLEEN MCCANDLESS: And do you
23 need it restated for the record?

24

25 (BRIEF PAUSE)

1 MS. KATHLEEN MCCANDLESS: Mr.
2 Johnston, are you able to restate for the record --

3 MR. LUKE JOHNSTON: Oh, sorry, sure.
4 I didn't realize you were waiting for me.

5 So my understanding of the undertaking
6 was for the average undiscounted premium on line 37 of
7 one thousand five hundred and forty-eight dollars and
8 forty-eight cents (\$1,548.48), MPI to provide the
9 buildup or underlying data used in the rate model to
10 arrive at that average amount.

11 MS. KATHLEEN MCCANDLESS: Yes, thank
12 you.

13

14 --- UNDERTAKING NO. 31: MPI to provide the buildup
15 or underlying data used in the rate
16 model to arrive at the average
17 undiscounted premium on line 37 of
18 one thousand five hundred and forty-
19 eight dollars and forty-eight cents
20 (\$1,548.48).

21

22 CONTINUED BY MS. KATHLEEN MCCANDLESS:

23 MS. KATHLEEN MCCANDLESS: And Figure 4
24 also provides a comparison of the calculated discounts
25 and surcharges to the current discounts and

1 surcharges, yes?

2 MR. LUKE JOHNSTON: Yes.

3 MS. KATHLEEN MCCANDLESS: What
4 observations have you made with respect to the
5 comparison of current and calculated vehicle premium
6 discounts?

7 MR. LUKE JOHNSTON: Well, the -- in
8 the past I guess one obvious thing, when we had
9 presented driver data the relationship was fairly
10 linear, so we were -- referenced a chart earlier that
11 showed that physical damage costs were almost a
12 straight line from, you know, plus 15 to -- to
13 negative 20. Our discount structure is not a straight
14 line from, you know, the relationship.

15 It's -- there's intervals of 5 and
16 sometimes the same discount goes for, you know,
17 several spots on the scale in a row. So that is
18 clearly not the actuarial indication.

19 On -- on the surcharge side, per my
20 earlier comments, the old scale was obviously a
21 balance between collecting more from drivers at the
22 bottom of the scale, especially those that didn't have
23 a registered vehicle, offsetting perhaps what could
24 have been a bigger discount to drivers on the high end
25 of the scale.

1 Obviously a more actuarial sound
2 approach to this would address that on its own, but we
3 would have to make some decisions on how to
4 appropriately charge the -- on the surcharge side of
5 the scale, which I think is probably a more difficult
6 decision than moving to the indicated discounts on the
7 top side of the scale.

8 MS. KATHLEEN MCCANDLESS: So with
9 respect to the demerit or surcharge side of the DSR
10 scale, what observations have you made with respect to
11 the comparison of current calculated vehicle premiums
12 on the demerit side of the DSR scale?

13 MR. LUKE JOHNSTON: Yeah, those --
14 that was my comment earlier. So the -- the surcharges
15 you see indicated are really the -- they're -- this is
16 a registered owner model, so it's the assumption that
17 they've already paid their base rate or average at
18 vehicle premium at DSR 0 plus this amount.

19 And so that's different than what we've
20 assumed today, which was more about making sure these
21 drivers that don't pay anything on the demerit side of
22 the scale pay something more -- more appropriate.

23 Again, I think moving -- if we were to
24 move fully actuarial on this model, we would have to
25 move towards the surcharges, as well, based on the --

1 based on the logic from the actuarial side.

2 So, again, how fast we make that move
3 and -- would be a decision that we have to make.

4 MS. KATHLEEN MCCANDLESS: And the
5 commentary on the surcharges found at the bottom of
6 page 11, starting at line 24, with respect to Figure 4
7 the report states that the surcharges are not directly
8 comparable to the calculated surcharges, yes.

9 So perhaps you could just expand on
10 that and provide your observations?

11 MR. LUKE JOHNSTON: This is again
12 going back to my comments that -- that these -- all
13 the calculations in the pricing examination are based
14 on registered owners and what is required from an
15 actuarial perspective to cover their -- their loss
16 costs.

17 That is different than separately
18 collecting driver premiums from non-registered owners
19 in -- not part of the registered owner model.

20 So kind of difficult to explain, but
21 our pricing model is -- effectively assumes that
22 everything is collected from registered owners.
23 Whether we'd want to go completely that route or not,
24 we'd have to -- we'd have to figure that out.

25 Hope that helps. It's -- we have --

1 I'm struggling here, as you can see, to explain it,
2 but in the past, we've come to -- to PUB and said,
3 Here's just the drivers, what they cost us. Right?
4 Not the registered owners, just the drivers. And this
5 analysis aligns very close with that. It says -- it's
6 around four thousand dollars (\$4,000) or so for the
7 bottom of the scale, whether you're a registered owner
8 or not, but the dynamic definitely changes a little
9 bit if we're going more fully on the -- on the
10 registered owner side.

11 The concern, of course, would be, you
12 know, do -- just because -- if someone's not a
13 registered owner and they're on the demerit side, I
14 think most people would agree we need to still charge
15 them something, like especially if they're very high
16 risk, and how we use that additional premium to
17 offset, perhaps, bigger discounts and such has to be
18 figured out.

19 MS. KATHLEEN MCCANDLESS: What does
20 the lack of comparability between the current and
21 calculated surcharges suggest as to the effectiveness
22 of the pricing examination to test the current
23 surcharges?

24 MR. LUKE JOHNSTON: Yeah. The -- the
25 pricing examinations consistent with what we've

1 presented in the past, in terms of the costs of
2 drivers on the DSR demerit side of the scale, again I
3 think that's just -- just the point I just made that
4 how do we appropriately charge non-registered owners
5 on the demerit side of the scale so we're getting
6 something from that group.

7 MS. KATHLEEN MCCANDLESS: How do you
8 anticipate the pricing examination will evolve to
9 address the DSR's premiums on the merit side of the
10 scale?

11 MR. LUKE JOHNSTON: I don't know right
12 now. We would, of course, want whatever the total
13 premium collected is to reflect the actuarial
14 indicators, at least in our analysis of target.

15 So the assumed premiums would be
16 included. There's different ways to go about it, I
17 guess. So if -- if the merit side of the scale was
18 showing a rate decrease, obviously you could just
19 eliminate the driver surcharge completely. And there
20 -- there is a rate decrease of some kind, right?

21 Or you could leave those -- they're
22 almost token amounts, like fifteen dollars (\$15) and
23 such. Whether they really influence anything is
24 questionable.

25 But either way, we'd have to include

1 them in the analysis and then decide whether we want
2 to still collect them, if we should increase them and
3 give bigger vehicle discounts and such. That -- that
4 decision doesn't completely go away.

5 MS. KATHLEEN MCCANDLESS: If we could
6 go to page 13, primary driver basis. So just to
7 summarize, a primary driver model -- starting at line
8 1 -- would provide a discount on the vehicle premium
9 based on the DSR level of the primary driver/drivers
10 of the vehicle, rather than the registered owner of
11 the vehicle.

12 MR. LUKE JOHNSTON: That's right.

13 MS. KATHLEEN MCCANDLESS: And the
14 report states, below that, that the primary driver
15 model shares a similar shortcoming to the registered
16 owner model in that the vehicle discounts provided at
17 each DSR level are based on the collective loss
18 experience of the drivers of vehicles insured by
19 primary drivers with the same DSR level. Yes?

20 MR. LUKE JOHNSTON: That's right. We
21 -- yeah. I'll just say yes for now and expand after.

22 MS. KATHLEEN MCCANDLESS: If the -- if
23 the primary driver truly is the primary driver, is
24 this shortcoming for the primary driver model as
25 serious as the corresponding shortcoming for the

1 registered owner model?

2 MR. LUKE JOHNSTON: Yeah. We -- we
3 don't know for sure what the implications of using a
4 primary driver and trying to enforce a primary driver
5 model would look like.

6 There's only one (1) direction it could
7 go. Like, you know, if everybody just said, Whatever,
8 you know, I'm just going to keep registering the same
9 way and say I'm the primary driver, it would be
10 difficult to enforce that for MPI in the same way.
11 You know, it's -- it can be difficult to say, you
12 know, should you -- should you have been all purpose
13 or pleasure and make that distinction.

14 But if some drivers or if it changed
15 how the vehicles are registered now -- like, what if
16 MPI were to say, you know, is this -- are you the
17 primary driver, that would, in theory, improve the
18 model's accuracy and -- and rate. That vehicle's more
19 actuarially sound.

20 Directionally, I would expect pretty
21 similar indications as a registered owner model, but I
22 don't know that for sure, and we don't have data to
23 confirm that.

24 MS. KATHLEEN MCCANDLESS: But assuming
25 that most people are honest in responding to that

1 question, if the primary driver is truly the primary
2 driver, then the shortcomings with respect to the
3 registered owner model should be reduced under a
4 primary driver model. Yes?

5 MR. LUKE JOHNSTON: The amount of that
6 reduction, I don't know, but the only thing that could
7 happen would be for it to -- for it to be reduced, for
8 the indications to be better.

9 MS. KATHLEEN MCCANDLESS: Thank you.
10 I'm just coming to the end of the
11 report at page 14. MPI states that, at line 2, it
12 does not have the information on the primary
13 driver/drivers of MPI insured vehicles, and that,
14 therefore, a pricing examination for the primary
15 driver model was not conducted. Yes?

16 MR. LUKE JOHNSTON: Yes.

17 MS. KATHLEEN MCCANDLESS: What are the
18 practical barriers to collecting the needed
19 information going forward to allow for such an
20 analysis to be conducted?

21 MR. LUKE JOHNSTON: I guess step 1
22 would be asking the question. We don't -- we don't do
23 that.

24 Another -- I won't comment maybe on the
25 systems side. I'm not fully understanding what that

1 would look like.

2 If -- if we were to go the primary
3 driver route, per your earlier point, that it should
4 result in either the same or a better system as a
5 registered owner, I think what -- what the approach
6 would be is to start rating on that basis with the
7 registered owner model as the guide. And then adjust
8 the data over time as you -- as you gain information
9 on the primary driver.

10 In -- in terms of the design of the DSR
11 system, not much would have to change. The system
12 doesn't care if you call that rating factor registered
13 owner or primary driver. So that, from an IT
14 standpoint, I wouldn't expect significant costs.

15 But -- and then from a pricing
16 standpoint, I wouldn't expect that we would go all the
17 way to the indicated numbers on the registered owner
18 model anyways, so it would be a good initial
19 approximation for primary driver and then you can
20 modify thereafter.

21 MS. KATHLEEN MCCANDLESS: At line 8,
22 the report cites another limitation of the primary
23 driver model relating to the fact that for collision
24 losses where a driver can be identified, 41 percent of
25 reported losses are attributable to claims where the

1 driver is not the registered owner. Yes?

2 MR. LUKE JOHNSTON: That's true.

3 MS. KATHLEEN MCCANDLESS: Can this
4 limitation be addressed by enhanced data collection?

5

6 (BRIEF PAUSE)

7

8 MR. LUKE JOHNSTON: Can the -- can the
9 limitation be addressed by enhanced data collection?

10

11 (BRIEF PAUSE)

12

13 MR. LUKE JOHNSTON: So if the question
14 is can MPI start asking the question about who the
15 primary driver is and record that information and get
16 better statistics on that on the assumption that it's
17 honest reporting? Yes.

18 MS. KATHLEEN MCCANDLESS: Thank you.

19 Now with respect to the -- the
20 registered owner model, we were discussing earlier how
21 -- pardon me -- the current model, in effect,
22 encourages policy holders to register all vehicles --
23 household vehicles in the name of the driver with the
24 highest DSR rating.

25 MR. LUKE JOHNSTON: That's correct. I

1 would -- that would be what we expect, yes.

2 MS. KATHLEEN MCCANDLESS: And in terms
3 of the professional practice of an actuary, part of
4 what you do is consider public interest considerations
5 in -- in rating?

6 MR. LUKE JOHNSTON: Yes, that's --
7 that's fair. The -- in terms of the actuarial
8 calculations themselves, I would follow actuarial
9 standards, obviously, but I'm not naive to the fact
10 that there's other factors that are at play, and the
11 actuarial numbers are generally a guide to what's
12 indicated, and other policies and may be -- or
13 decisions may be made otherwise.

14 MS. KATHLEEN MCCANDLESS: So in terms
15 of public interest considerations of the registered-
16 owner model versus the primary-driver model, can you
17 provide some commentary on what public-interest
18 considerations MPI has turned its mind to in terms of
19 those rating models?

20 MR. LUKE JOHNSTON: From our talking
21 to customers, and I -- I may not get everything on
22 this, it's not -- not my area, per se, but it appears
23 customers do like the current model. That's not
24 overly surprising; status quo is -- is often favoured.
25 And -- and customers are also sensitive to their

1 discounts, and -- but that said, they also seem to
2 indicate that they want to be appropriately priced for
3 the risks that -- that are present.

4 Where I think you'd get push-back -- I
5 think, initially, if you were to put a primary-driver
6 requirement in, there would be some initial confusion,
7 like -- in, like, What's wrong with the way I was
8 registering now? And then if that primary driver
9 turned out to be a sixteen (16) year old teenager and
10 caused a 30-percent-plus increase in rates, we'd
11 probably hear about -- about that, as well. Not to
12 say that that's sound logic or anything, but that'd be
13 my expectation. So there -- yeah, there'd -- there'd
14 be some bumps for sure.

15 All that said, we would obviously
16 continue to get actuarially sound rates on an overall
17 basis based on the rating factors that we've decided
18 to use. And also, as you know, we have some of the
19 lowest rates in Canada, and we're not -- I don't think
20 anyone would assume that these rates are excessive or
21 extremely detrimental to having access to insurance
22 and stuff like that. So that's probably about all you
23 can get from the actuary, yeah.

24 MS. KATHLEEN MCCANDLESS: From the
25 perspective of considering fairness in rating, can one

1 (1) of the two (2) models, so registered owner or
2 primary driver, be characterized as more fair?

3 MR. LUKE JOHNSTON: The primary driver
4 model would -- would have to be considered more fair
5 in the sense that just -- I'd expect slightly better
6 information, which would allow me to -- or allow MPI,
7 pardon me, to more accurately price the product.

8 MS. KATHLEEN MCCANDLESS: In other
9 words, primary driver would do a better job of
10 relating premium level to risk level?

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

13 MS. KATHLEEN MCCANDLESS: Does the
14 Corporation currently foresee any next steps in the
15 evolution of the pricing examination?

16 MR. LUKE JOHNSTON: So, yeah, I guess
17 step 1 was to do it, so that -- we've done a first go
18 at this. Is -- is it perfect? Probably not.
19 There'll probably be some feedback and review. Our
20 intent would be to continue to provide this analysis
21 on whatever system we're using.

22 So it's pretty clear that the PUB and
23 customers want actuarially sound indications or, from
24 a customer standpoint, pay-what-you-cost kind of
25 behaviour from MPI. So the Corporation would

1 definitely commit to updating a pricing examination
2 like this for the current model and -- and whatever
3 models are -- are in the future.

4 How to respond to this information? We
5 haven't hashed that out yet, but in general our
6 approach would be to do it on a fairly gradual basis.
7 But again, we haven't had those discussions.

8 MS. KATHLEEN MCCANDLESS: Currently
9 driver premium comprises about 5 percent of total
10 written premium?

11 MR. LUKE JOHNSTON: I believe it's a
12 little more. I'm thinking more in the sixty-five
13 (65), 70 million range, but 5 to 10 percent.

14 MS. KATHLEEN MCCANDLESS: Do you
15 foresee the DSR pricing examination in the future
16 providing indications for the relative contributions
17 of driver premium versus vehicle premium to the total
18 required written premium?

19

20 (BRIEF PAUSE)

21

22 MR. LUKE JOHNSTON: I guess the -- for
23 the registered owner model, the information is there,
24 but, yeah, we would have to arrive at a methodology or
25 policy of some sort to address the non-registered-

1 owner contribution to the pool, recognizing that in
2 the registered owner calculations, all drivers are
3 already being considered. So what I mean is if there
4 are minus-20 drivers using a plus-15 registered
5 owner's car, their experience is in that pool, so it's
6 not like we're not collecting it based on what we're
7 indicating.

8 But there are certain incentives and
9 penalties, I guess if you want to say, on the demerit
10 side that I think I'd struggle to take away and just
11 let people, you know, fall down to the negative side
12 with minimal financial consequences. So that has to
13 be worked out.

14 MS. KATHLEEN MCCANDLESS: So I'm not
15 sure if I understand the answer, then. In the future,
16 this pricing examination, do you foresee it providing
17 indications for the relative contributions of driver
18 premium versus vehicle premium to the total required
19 written premium?

20 MR. LUKE JOHNSTON: Yeah, I think it
21 would have to -- to be a complete presentation. If --
22 if MPI was to recommend a change, I don't see how we
23 would recommend moving to a new model without
24 answering that question. So we don't have that answer
25 today, but it would have to be part of the -- the

1 package.

2 MS. KATHLEEN MCCANDLESS: Thank you.

3 Those are my questions for Mr.

4 Johnston.

5 THE PANEL CHAIRPERSON: Thank you very

6 much. It's 10:35, so we'll take a break, please,

7 until 10:50.

8

9 --- Upon recessing at 10:37 a.m.

10 --- Upon resuming at 10:57 a.m.

11

12 THE PANEL CHAIRPERSON: Mr. Scarfone,

13 I understand that you've got some information on the

14 exhibits?

15 MR. STEVE SCARFONE: Yes. So, some

16 clarity on the exhibits, and also on -- on the -- the

17 exhibits that would have been circulated, or should

18 have been circulated this morning.

19 There was an email sent at 8:44 a.m.

20 with each of the exhibits, but I'm told that there was

21 some intermittent internet problems downstairs, and so

22 that may have caused that. But everybody should have

23 then received it at about 9:10 or something.

24 So, I just have a couple more. And

25 there was a question concerning one (1) of the

1 exhibits. So, yesterday, I'm just -- so they say the
2 transcript doesn't lie. I -- I say here exhibit -- in
3 yesterday's transcript, Exhibit number 43 is
4 Undertaking number 2 and Exhibit number 43 is response
5 to number 3.

6 So, that, I think, caused the
7 confusion. I would take a terrible actuary. So,
8 Exhibit number 44 is Undertaking number 3. And so
9 that -- I misspoke yesterday. And -- and so, that
10 brings us to today. And so we marked Exhibits 45
11 through 49.

12

13 --- EXHIBIT NO. MPI-44: Response to Undertaking
14 No. 3

15

16 MR. STEVE SCARFONE: And then I have
17 three (3) additional exhibits to mark. I believe
18 we're at number 50, and that would be a response to
19 Undertaking number 11. And that was a response to Ms.
20 Meek's request for updates to the shadow portfolio,
21 Shadow Portfolio number 2 from August 2019 to August
22 2020.

23

24 --- EXHIBIT NO. MPI-50: Response to Undertaking
25 No. 11

1 MR. STEVE SCARFONE: Undertaking
2 number 12 was to provide the CMMG again with a chart
3 that allows for a comparison of the shadow portfolios
4 with the actual returns of the Basic claims portfolio.
5 So, that is Exhibit number 51.

6

7 --- EXHIBIT NO. MPI-51: Response to Undertaking
8 No. 12.

9

10 MR. STEVE SCARFONE: And Exhibit
11 Number 52 is a response to Undertaking Number 20,
12 which is for MPI to provide the current corporate
13 vacancy levels of an all-bases, including improvement
14 initiatives.

15

16 --- EXHIBIT NO. MPI-52: Response to Undertaking
17 No. 20.

18

19 MR. STEVE SCARFONE: So, that, I
20 think, updates us on each of the exhibits.

21 THE PANEL CHAIRPERSON: Thank you, Mr.
22 Scarfone, for that clarification. Mr. Williams...?

23 DR. BYRON WILLIAMS: Yes. Good
24 morning, Madam Chair and members of the panel.

25 THE PANEL CHAIRPERSON: Excuse me.

1 One (1) moment before you start. Excuse me for
2 interrupting.

3 DR. BYRON WILLIAMS: We should check
4 on the other panel members.

5 THE PANEL CHAIRPERSON: We are going
6 to have to adjourn this morning at 11:45, just so you
7 know what our timing is. And we'll be back at ten
8 after 1:00. Thank you. Sorry.

9 DR. BYRON WILLIAMS: I'll see if I can
10 finish before then. First of all, I wonder, Ms.
11 Schubert, if you can go to the General Rate
12 Application part 5, revenue appendix number 1.

13

14 (BRIEF PAUSE)

15

16 CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

17 DR. BYRON WILLIAMS: Mr. Johnston,
18 you'll recognize this document is presenting the
19 driver premium forecast by DSR level filed with this -
20 - the initial General Rate Application?

21 MR. LUKE JOHNSTON: Yes.

22 DR. BYRON WILLIAMS: And what it
23 describes or -- or char -- sets out is the policy year
24 earned drivers by DSR level for a number of years
25 running from 20 -- the 2019 policy year to the 2023

1 policy year, agreed?

2 MR. LUKE JOHNSTON: Agreed. And the
3 earned driver would be someone that has a licence for
4 one (1) year.

5 DR. BYRON WILLIAMS: Okay. Thank you
6 for that. And if we go down -- let's take the 2021
7 year and just go down to the total in that year.
8 You'll agree that it's nine hundred and -- over nine
9 hundred and twenty thousand (920,000) earned drivers,
10 sir?

11 MR. LUKE JOHNSTON: That's right.

12 DR. BYRON WILLIAMS: Okay. Back up to
13 the top, and focussing on -- if we can make that a
14 little bigger for -- for me -- DSR levels 11 through
15 twent -- through 15 on the positive side.

16 Mr. Johnston, subject to check, if we
17 look at DSR levels 11 through 15 for the 2021 policy
18 year, would that constitute, subject to check, in the
19 range of four hundred and twenty-five thousand
20 (425,000) drivers?

21 MR. LUKE JOHNSTON: That sounds
22 reasonable. It looks like 40 to 50 percent of the
23 population, if I had to guess, yeah.

24 DR. BYRON WILLIAMS: And if we looked
25 exclusively for the 2021 year for DSR level 15, that

1 would constitute over three hundred and five thousand
2 (305,000) drivers, agreed?

3 MR. LUKE JOHNSTON: Agreed.

4 DR. BYRON WILLIAMS: Mr. Johnston, if
5 I'm stressing your memory too far, you'll let me go
6 (sic). But you will recall, I'll suggest to you, that
7 prior to the Driver's Safety Rating system in 2010,
8 its predecessor was a system known as the Bonus-Malus
9 system?

10 MR. LUKE JOHNSTON: That's right.

11 DR. BYRON WILLIAMS: And without going
12 into too many details, the Bonus-Malus system did have
13 a vehicle discount system based upon registered
14 drivers?

15 MR. LUKE JOHNSTON: That's right. You
16 had to have at least one (1) merit on your driver's
17 licence. And then you would get a claims-free
18 discount that -- my memory is that it went up in
19 increments of 5 percent per year up to 25 percent.

20 DR. BYRON WILLIAMS: Okay. And again,
21 if you -- if you don't know this through personal
22 knowledge, would it be fair to -- to suggest that that
23 Bonus-Malus system, its origins date back to the
24 1980s, sir?

25 MR. LUKE JOHNSTON: It would be ver --

1 very old, yes, close to the original MPI rate-setting
2 process.

3 DR. BYRON WILLIAMS: And so, if we
4 think of within the driver's safety rating system, the
5 legacy of the registered vehicle owner approach, we
6 can say that that dates back to the -- to the 1980s,
7 sir?

8 MR. LUKE JOHNSTON: That's fair.

9 DR. BYRON WILLIAMS: It's a -- one
10 might say an artifact of history and of the policy
11 judgments of -- of government over time?

12 MR. LUKE JOHNSTON: Maybe. I -- I --
13 like, it's -- it's definitely old. You can see the
14 logic that the owner of the car would often make the
15 insurance purchasing decision, as well, so I think
16 there's some logic just from that standpoint, as well.

17 DR. BYRON WILLIAMS: Okay. Thank you.
18 Mr. Johnston, you've told us this for years.

19 I'll suggest to you that a central part
20 of your role is identifying the relative insurance
21 risk that a vehicle owner and driver bring to Mati --
22 Manitoba public insurance, taking into account their
23 insurance territory, the purpose for which they use
24 their vehicle, the rate group to which their vehicle
25 belongs, and their driving behaviour as reflected in

1 the Driver's Safety Rating system, agreed?

2 MR. LUKE JOHNSTON: Agreed.

3 DR. BYRON WILLIAMS: And once we
4 identify the relative risk brought -- brought to the
5 system by vehicle owners and drivers and the
6 reasonable and prudent cost of Manitoba Public
7 Insurance, the general intent of the rate-making
8 process, I'll suggest to you, as you understand it, is
9 to charge rates that fairly reflect the risk?

10 MR. LUKE JOHNSTON: So, definitely on
11 the -- my actuarial role is to perform that
12 calculation subject to the rating -- the approved
13 rating factors of this jurisdiction, I guess.

14 And I would show what those indicated
15 values are and, if necessary, note where we've
16 deviated.

17 DR. BYRON WILLIAMS: Mr. Johnston,
18 you've been part of these proceedings before the
19 Public Utilities Board for many years, agreed?

20 MR. LUKE JOHNSTON: Many years, yes.

21 DR. BYRON WILLIAMS: And at the start
22 of every hearing you hear reference to the process
23 being aimed at rates that are actuarially indicated
24 and statistically sound, agreed?

25 MR. LUKE JOHNSTON: Agreed.

1 DR. BYRON WILLIAMS: And when you hear
2 the words 'actuarially indicated' and 'statistically
3 sound', you no -- you no doubt think of rates that
4 fairly reflect the -- the risk that is brought to the
5 system by vehicle owners and drivers, agreed?

6 MR. LUKE JOHNSTON: Agreed. The --
7 the only reason for my extra commentary is I think we
8 all know that maybe there's other rating factors that
9 can make that even better, but I'm just -- I can only
10 use the rating factors that I'm permitted to use here;
11 that's all, yeah.

12 DR. BYRON WILLIAMS: Okay. And taking
13 into account your actuarial experience, as well as
14 your experience before the -- before the Board, would
15 you agree or observe that we want a rating system and
16 rates that reflect the risk that vehicle owners and
17 drivers bring to the system because it is generally
18 regarded as fair?

19 MR. LUKE JOHNSTON: In -- in a general
20 sense, there could be some policy considerations at
21 the more extreme bounds of that but, in general, yes.

22 DR. BYRON WILLIAMS: And based upon
23 your extensive experience in the insurance industry
24 and the public auto insurance industry, speaking
25 generally, you would observe that people are prepared

1 to pay for the risk they bring to the system but tend
2 to be unhappy if they are also asked to cover part of
3 someone else's costs or risks, agreed?

4 MR. LUKE JOHNSTON: That would align
5 with -- with what we've heard from customers in terms
6 of paying -- paying their fair share within reason, be
7 -- again, being the -- the kind of extreme ends, high
8 risk drivers and such where their decisions, like, a
9 private insurer would just not insure them at all.

10 MPI would have to do some kind of
11 driver improvement control or take away, suspend
12 licence, things like that. That's the only option we
13 have other than providing them that insurance, but --
14 but, in general, yes, to your question.

15 DR. BYRON WILLIAMS: Okay. And as you
16 indicated to your legal counsel yesterday towards the
17 end of the day, to have rates that reflect the risk
18 that one brings to the system sends an important
19 message about the value of risk-reducing behaviour,
20 agreed?

21 MR. LUKE JOHNSTON: Agreed.

22 DR. BYRON WILLIAMS: And, as you noted
23 yesterday, when the DSR system was implemented in
24 2010, there was a demonstrated improvement in the
25 behaviour of drivers following its implementation,

1 agreed?

2 MR. LUKE JOHNSTON: Agreed.

3 DR. BYRON WILLIAMS: You also noted
4 yesterday, sir, that MPI believes that changes in
5 driver behaviour change resulting from the
6 implementation of the DSR system have stabilized?

7 MR. LUKE JOHNSTON: That appears to be
8 the case. The -- as mentioned, the biggest
9 improvement was on the demerit side. And, obviously,
10 that improvement can't continue forever. It reaches a
11 certain point, and it appears to have stabilized.

12 DR. BYRON WILLIAMS: And on the
13 positive side, or the non-demerit side, stability is
14 not surprising when so many drivers have reached DSR
15 level 15, and the discount rate for that level has not
16 changed for some time?

17 MR. LUKE JOHNSTON: I'm not sure I
18 totally understand the question, but I'll give it a
19 shot.

20 There is a large number of drivers, as
21 you've already noted, probably 90 percent plus on the
22 merit side with 50 percent or so in the top five (5)
23 or six (6) categories. There's -- those results have
24 stabilized pretty significantly over the last ten (10)
25 years.

1 DR. BYRON WILLIAMS: Thank you, Mr.
2 Johnston. In terms of the behaviour that a driver or
3 vehicle owner brings to the -- the system that may
4 affect risk, I'm going to suggest some examples to
5 you, sir.

6 One (1) example might include the speed
7 at which they drive.

8 MR. LUKE JOHNSTON: True.

9 DR. BYRON WILLIAMS: And another
10 factor in terms of behaviour that might affect risk is
11 whether or not individuals obey the rules and laws of
12 the road, agreed?

13 MR. LUKE JOHNSTON: Agreed.

14 DR. BYRON WILLIAMS: And the place
15 where they choose or have to park their vehicle,
16 whether on the street in a high-crime area, in the --
17 in the garage to avoid hail, or downtown for work,
18 those behaviours affect the -- the risk -- may affect
19 the risk for the insurance system, agreed?

20 MR. LUKE JOHNSTON: Those behaviours
21 will definitely affect risk. Whether they're charged
22 for it is a different story. So as -- as you know, we
23 don't -- com -- comprehensive claims don't lower your
24 DSR level, but high risk, to your point, yes.

25 DR. BYRON WILLIAMS: And similarly on

1 the theme of affecting risk, how frequently they drive
2 and where they drive, whether rarely, regularly, and
3 at peak business times, they may affect risk, agreed?

4 MR. LUKE JOHNSTON: Correct. Agreed.

5 DR. BYRON WILLIAMS: And where they
6 drive, including the traffic volumes of where they
7 drive, and the conditions of the roads on which they
8 drive can also affect risk, correct?

9 MR. LUKE JOHNSTON: Correct.

10 DR. BYRON WILLIAMS: Again, the type
11 of vehicle they drive may affect risk?

12 MR. LUKE JOHNSTON: Yes.

13 DR. BYRON WILLIAMS: And the weather
14 conditions in which they drive may affect risk as
15 well?

16 MR. LUKE JOHNSTON: Yes.

17 DR. BYRON WILLIAMS: And, sir, when a
18 -- a driver or a vehicle owner ventures out of their
19 home into a vehicle and onto the road, there are a
20 variety of possible outcomes, one (1) of which is that
21 they have a clean ride with no accidents, correct?

22 MR. LUKE JOHNSTON: Yes.

23 DR. BYRON WILLIAMS: Of course,
24 another potential outcome is that they could get into
25 an accident or have a traffic violation?

1 MR. LUKE JOHNSTON: Yes.

2 DR. BYRON WILLIAMS: And if there is
3 an accident, there's a risk that they could injure
4 themselves or others, correct?

5 MR. LUKE JOHNSTON: Correct.

6 DR. BYRON WILLIAMS: And another
7 possible outcome when one's vehicle is on the road or
8 parked on the street is that there may be harm done to
9 their vehicle by others, whether through vandalism or
10 accident?

11 MR. LUKE JOHNSTON: That's right.

12 DR. BYRON WILLIAMS: Or through hail?

13 MR. LUKE JOHNSTON: Correct.

14 DR. BYRON WILLIAMS: Mr. Johnston,
15 going to about grade 9 level mathematics --

16 MR. LUKE JOHNSTON: Okay.

17 DR. BYRON WILLIAMS: -- which may be
18 stretching me, two (2) events are statistically
19 independent if the occurrence of one (1) does not
20 affect the probability of occurrence of the other,
21 agreed?

22 MR. LUKE JOHNSTON: Agreed.

23 DR. BYRON WILLIAMS: And moving to
24 correlation for a second, would you agree with the
25 definition suggesting that correlation or dependence

1 is any statistical relationship, whether causal or
2 not, between two (2) random variables?

3 MR. LUKE JOHNSTON: Yes.

4 DR. BYRON WILLIAMS: Essentially,
5 correlation is the measure of how two (2) or more
6 random variational -- variables are related to one another,
7 agreed?

8 MR. LUKE JOHNSTON: Agreed.

9 DR. BYRON WILLIAMS: And in your work,
10 correlations are useful because they can indicate a
11 predictive relationship with regard to risk, correct?

12 MR. LUKE JOHNSTON: That's right.

13 DR. BYRON WILLIAMS: And the
14 relationship between two (2) variables can have a
15 positive correlation. For example, if we know that if
16 collision frequency is going down during COVID-19,
17 then the property damage frequency will also tend to
18 go down, agreed?

19 MR. LUKE JOHNSTON: Agreed.

20 DR. BYRON WILLIAMS: And the
21 relationship between two (2) variables can have a
22 negative correlation. For example, if interest rates
23 are going down, we would tend to expect that the
24 capital value of existing bonds would go up.

25 MR. LUKE JOHNSTON: That's right.

1 DR. BYRON WILLIAMS: And, Mr.
2 Johnston, we know that variables used in rate making
3 such as use of vehicle and territory can be
4 correlated, correct?

5 MR. LUKE JOHNSTON: Correct.

6 DR. BYRON WILLIAMS: For example, for
7 those living downtown close to work will tend to be
8 more likely to have pleasure use, while those living
9 in the suburbs will be more likely to have all-purpose
10 use, agreed?

11 MR. LUKE JOHNSTON: That would
12 intuitively make sense. I don't have that data, but
13 I'll accept that.

14 DR. BYRON WILLIAMS: Okay.
15 Conceptually or intuitively, similarly, liveding --
16 living in the suburbs might also be correlated with
17 DSR levels to the extent that there are more families
18 living in the suburbs, more moms insuring their cars?
19 You're not sure you're going to go with
20 me on that one, Mr. Johnston?

21 MR. LUKE JOHNSTON: Yeah, I'm not
22 sure. Like -- like I don't -- I don't know that
23 there's more families in the suburbs, but that -- I
24 could understand -- I wouldn't be surprised if that
25 was true.

1 And then I think your other question
2 was how those vehicles are registered would
3 potentially be different for families than -- than
4 maybe single people or -- or people with no children.
5 I'll accept that, yeah.

6 DR. BYRON WILLIAMS: Okay. Thank you.
7 A better answer than the question.

8 So as an actuary for Manitoba Public
9 Insurance, and in investigating factors that affect
10 risk, if you look at them individually and do not take
11 into account how they relate to each other, you run
12 the risk of double counting the risk factors, agreed?

13 MR. LUKE JOHNSTON: That's right.

14 DR. BYRON WILLIAMS: Mr. Johnston,
15 just by way of example, let's take a vehicle owner in
16 North Kildonan, Winnipeg, and that vehicle owner lives
17 just down the street from Rae's Bistro where, if you
18 inquire, you'll find out that Mr. Watchman likes to go
19 for supper, or he did in pre-COVID-19 days, okay?
20 We'll take that ratepayer? You'll work with me, sir?

21 MR. LUKE JOHNSTON: Okay. That
22 doesn't sound like a hypothetical ratepayer. We know
23 who it is, it sounds like.

24 DR. BYRON WILLIAMS: Well, let's call
25 this vehicle owner Margaret (phonetic) and not Robert.

1 MR. LUKE JOHNSTON: Okay, okay.

2 DR. BYRON WILLIAMS: Assume her Dodge
3 Caravan is insured as a plea -- pleasure vehicle
4 because she takes the bus, and that she's a very good
5 driver such that she is at DSR level 15. You've got
6 that?

7 MR. LUKE JOHNSTON: I accept that,
8 yeah -- or I got that, yeah.

9 DR. BYRON WILLIAMS: And the fact that
10 Margaret, (1), lives and drives in Winnipeg, (2), does
11 not drive her car to work downtown, (3), that she
12 drives a van, and (4), that she is at a DSR level 15
13 all provide insight into the risk that she brings to
14 MPI, correct?

15 MR. LUKE JOHNSTON: Correct.

16 DR. BYRON WILLIAMS: So let's call
17 those four (4) factors variables, agreed?

18 MR. LUKE JOHNSTON: Okay.

19 DR. BYRON WILLIAMS: Okay. And if one
20 were trying to figure out the effect of Margaret's
21 driving behaviour on the risks she brings to the
22 system, it would be analytically challenging to do so
23 in isolation without considering the implications of
24 other variables such as the territory in which she
25 drives, whether she drives her car to work, and what

1 type of vehicle she drives, agreed?

2 MR. LUKE JOHNSTON: Agreed. The --
3 the -- all those variables in isolation added together
4 would not necessarily produce the same, you know,
5 collective result.

6 DR. BYRON WILLIAMS: And -- and thank
7 you for that because, notionally, they might be
8 independent of each other or they may interact in
9 complex ways.

10 MR. LUKE JOHNSTON: That's right,
11 yeah.

12 DR. BYRON WILLIAMS: And as an actuary
13 charged with assessing the risk that Margaret brings
14 to the system, you're tasked with trying to understand
15 or disentangle the relationship between these
16 different variables as they may affect the relative
17 risks that Margaret brings to the system as compared
18 to others, agreed?

19 MR. LUKE JOHNSTON: Agreed.

20 DR. BYRON WILLIAMS: Just moving to
21 the subject of relativities, Mr. Johnston.

22 If you're looking at a distinct group
23 with -- with -- within an entire population, the
24 relativity of that group is a measure of the risk of
25 the group compared to the population?

1 MR. LUKE JOHNSTON: Yes.

2 DR. BYRON WILLIAMS: Okay. For
3 example, a group which on average costs twice as much
4 to insure when compared to the population would have a
5 relativity of two (2), all other things being equal?

6 MR. LUKE JOHNSTON: That's right.

7 DR. BYRON WILLIAMS: Mr. Johnston and
8 Ms. Schubert, I guess I'll ask you to turn to the
9 Driver Safety Rating pricing review. And you can go
10 to Figure -- you can go to page 8, the -- Figure 3,
11 overall relativities of DSR levels.

12 Mr. Johnston, this is not on page 8,
13 but you'll know this stuff by heart.

14 In the Drivers Safety Rating pricing
15 review, MPI was seeking to isolate the effects of --
16 of the DSR level on loss costs by adjusting for
17 exposure correlations with other rating variables,
18 including territory, use, and rate group. Agreed?

19 MR. LUKE JOHNSTON: Agreed.

20 DR. BYRON WILLIAMS: And in
21 undertaking that exercise, reported losses and earned
22 units were organized by territory, insurance use, rate
23 group, and registered owner DSR level to facilitate
24 running the minimum bias procedure to determine DSR
25 level relativities. Agreed?

1 MR. LUKE JOHNSTON: Agreed.

2 DR. BYRON WILLIAMS: And in answer to
3 a question from My Learned Friend, PUB counsel, in
4 terms of those other relativities being other than DSR
5 rating level, you recall being asked whether or not
6 the relativities for territory group and insurance use
7 were the same that were part of the rate application?

8 Do you recall that question, sir?

9 MR. LUKE JOHNSTON: Yes, I do.

10 DR. BYRON WILLIAMS: And you indicated
11 that there definitely would have been some change in
12 those relativities, sir?

13 MR. LUKE JOHNSTON: Yes, they would
14 have to have changed with the addition of a new
15 variable, yes.

16 DR. BYRON WILLIAMS: And we'll come
17 back to that in just a couple of seconds.

18 Just speaking generally about the
19 minimum bias procedure, a bias function is a means of
20 comparing two (2) or more models to see which fits the
21 data with the smallest degree of mismatch, agreed?

22 MR. LUKE JOHNSTON: Agreed.

23 DR. BYRON WILLIAMS: And the idea of
24 the minimum bias procedure is to get the best fit to
25 the data with all of the variable relativities in

1 combination, correct?

2 MR. LUKE JOHNSTON: That's right.

3 DR. BYRON WILLIAMS: And Mr. Johnston,
4 when -- when folks started writing about this
5 procedure back in the 1960s, the point they were
6 trying to make was that we should be trying to use a
7 rate-making system which, instead of producing each
8 set of adjustments successively, one after another,
9 produces those adjustments simultaneously. Agreed?

10 MR. LUKE JOHNSTON: Agreed.

11 DR. BYRON WILLIAMS: And the goal, of
12 course, is the best prediction of the loss cost from
13 the data being modelled, correct?

14 MR. LUKE JOHNSTON: Correct.

15 DR. BYRON WILLIAMS: And going back to
16 that double-counting theme, in essence, you look at
17 the loss cost associated with the variables at the
18 same time when you're determining these relativities
19 so there's no double counting?

20 MR. LUKE JOHNSTON: That's right.

21 DR. BYRON WILLIAMS: You're accounting
22 for correlations, correct?

23 MR. LUKE JOHNSTON: Correct.

24

25 (BRIEF PAUSE)

1 DR. BYRON WILLIAMS: So when we look
2 at Figure 3 on the Drivers Safety Rating pricing
3 review, again, you're trying to isolate the effects of
4 the DSR level on loss costs, agreed?

5 MR. LUKE JOHNSTON: That's right.

6 DR. BYRON WILLIAMS: And it would be
7 fair to say that the model results for the DSR
8 relativities in isolation are impacted by the lift or
9 impact of the other fitted relativities that came out
10 of the model, territory use and group?

11 MR. LUKE JOHNSTON: That's right.

12 DR. BYRON WILLIAMS: And that's
13 because these relativities are calculated in
14 conjunction with other variables?

15 MR. LUKE JOHNSTON: That's right.

16 DR. BYRON WILLIAMS: Mr. Johnston,
17 just to be clear about methodology, the other three
18 (3) variables employed were territory use and rate
19 group, correct?

20 MR. LUKE JOHNSTON: Were employed, is
21 that the question?

22 DR. BYRON WILLIAMS: Yes.

23 MR. LUKE JOHNSTON: Yes, that's right.
24 Yeah.

25 DR. BYRON WILLIAMS: And the minimum

1 bias procedure was done with all these variables
2 within the same analysis?

3 MR. LUKE JOHNSTON: That's correct.

4 DR. BYRON WILLIAMS: Can MPI undertake
5 to present the full results by rating variable of the
6 minimum bias procedure resulting in the relativities
7 shown on page 8 of the -- this analysis?

8

9 (BRIEF PAUSE)

10

11 MR. LUKE JOHNSTON: I'll repeat what I
12 believe the request was, and I -- make sure it's
13 right.

14 So, the request is to provide the
15 relativity analysis or outcomes for the other rating
16 variables, and I'm going to guess compare those to the
17 existing relativities, otherwise they're meaningless.

18 DR. BYRON WILLIAMS: Yeah. Yes, and -
19 - and just -- yes. It's to present the full results
20 by rating variable, and then to compare it to the
21 relativities that underlie the General Rate
22 Application.

23 MR. LUKE JOHNSTON: We can do that,
24 yes.

25

1 --- UNDERTAKING NO. 32: MPI to provide the
2 relativity analysis or
3 outcomes for the other
4 rating variables, and
5 compare those to the
6 existing relativities,
7 i.e., to present the full
8 results by rating
9 variable, and then to
10 compare it to the
11 relativities that
12 underlie the General Rate
13 Application.

14
15 CONTINUED BY DR. BYRON WILLIAMS:

16 DR. BYRON WILLIAMS: Still on Figure
17 3, and you went through this to a degree with My
18 Learned Friend, you'll see the seventh column in is
19 Average Loss Cost.

20 MR. LUKE JOHNSTON: Yes.

21 DR. BYRON WILLIAMS: And you've
22 already done the definition of what that is, but it's
23 fair to say that an average loss cost of forty dollars
24 and fifty-five (\$40.55) was applied uniformly to all
25 thirty-six (36) DSR levels. Agreed?

1 MR. LUKE JOHNSTON: In this analysis,
2 yes. There -- there are expenses that definitely
3 apply per unit. Operational expenses we wouldn't
4 charge somebody more operating expenses since they --
5 just because they were minus 20 necessarily.

6 And the -- there are others, but this
7 is a -- this charge is the same for everyone, yes.

8 DR. BYRON WILLIAMS: Thanks. Thank
9 you for that. And just so I -- you're indicating 1)
10 that the chart is the same for everyone, but I think I
11 heard you suggesting that if you look at, for example,
12 those on the -- on the negative side of -- of the DSR
13 rating, there would tend to be more expenses
14 associated with -- with them.

15 Is that what you're suggesting, sir?

16 MR. LUKE JOHNSTON: Other -- to the
17 extent that other variables move with premium, for
18 example, like taxes or commissions, they would
19 continue to follow this final relativity because
20 everybody gets the 3 percent or the -- or such.

21 So really, in order to make this
22 appropriate, only the flat costs need to be assigned
23 this way, if that makes sense.

24 Sorry, by 'flat' I mean no reason to
25 differentiate them by risk level. Their operational

1 costs or reinsurance charge or something that's
2 applied on a per-driver basis or a per-vehicle basis.

3 DR. BYRON WILLIAMS: I'm not sure if
4 you gave me parts of two (2) answers in that. So just
5 -- so just in terms of this, has Manitoba Public
6 Insurance done an analysis in terms of the
7 appropriateness of the simplified assumption for --
8 for this of uniformly applied -- applying other loss
9 costs?

10 MR. LUKE JOHNSTON: I wouldn't have
11 the details in -- in front of me, but yes, that's my
12 under -- understanding, that these costs are uniformly
13 applied for -- for that reason, that they're --
14 they're fixed on a per-vehicle basis.

15 DR. BYRON WILLIAMS: Okay. And that's
16 based upon MPI's analysis. Their -- it's directed
17 their mind to this and you're suggesting it's not a
18 simplified assumption?

19 MR. LUKE JOHNSTON: I'd have to take
20 the details of that offline, I can't -- I can't
21 remember exactly everything that went into that
22 number.

23 DR. BYRON WILLIAMS: I'm not going to
24 ask -- I'm not going to ask for a -- we may come back
25 to that just at lunch and it...

1 (BRIEF PAUSE)

2

3 DR. BYRON WILLIAMS: Going to Figure
4 4, page 10 of 14, yes, Figure -- right.

5 And Mr. Johnston, you did go over this
6 with My Learned Friend, but if we just, again, let's
7 just focus on DSR level 15. There's a 24 -- if we
8 could make that bigger, Ms. Schubert.

9 There's a 24.6 percent variance between
10 the current discounts and the calculated discount.

11 Agreed?

12 MR. LUKE JOHNSTON: Agreed. With one
13 (1) caution, which I think you're already aware.

14 This is the discount relative to the
15 base level. And -- and the following table, we show
16 that that is not all else equal. The base rate would
17 have to go up.

18 But from a relative risk standpoint, it
19 is 24.6 percent higher per year.

20 DR. BYRON WILLIAMS: And Mr. Johnston,
21 if that makes you more comfortable, lest there be any
22 mis-communication, let's go right to the -- the next -
23 - the next figure.

24 MR. LUKE JOHNSTON: Sure.

25 DR. BYRON WILLIAMS: And what you're

1 suggesting for DSR level 15 -- if we go to figure 5,
2 page 12 of 14.

3

4 (BRIEF PAUSE)

5

6 DR. BYRON WILLIAMS: Is that -- if for
7 -- if the current rate is nine hundred and ninety-
8 seven dollars (\$997) as the average rate, the
9 indicated rate would be over two hundred and twenty
10 dollars (\$220) less, at seven hundred and seventy-
11 seven (777). Agreed?

12 MR. LUKE JOHNSTON: Agreed.

13

14 (BRIEF PAUSE)

15

16 DR. BYRON WILLIAMS: Relative to the
17 risks they bring to the system, this would suggest
18 that those vehicle owners at DSR level 15 are paying
19 20 percent too much?

20 MR. LUKE JOHNSTON: On a -- on a pure
21 --

22 DR. BYRON WILLIAMS: On a base --

23 MR. LUKE JOHNSTON: -- on a purely
24 actuarial basis, that -- those are the numbers. Yes.

25 DR. BYRON WILLIAMS: And is it

1 consistent with accepted actuarial practice to have
2 certain vehicle owners paying 20 percent too much,
3 sir?

4 MR. LUKE JOHNSTON: On an actuarial
5 basis, that would not be appropriate. But every
6 jurisdiction would have rules on -- on -- policy-based
7 rules on, perhaps, the maximum discounts that are
8 allowed or the maximum additional surcharge that are -
9 - are required.

10 So, there would be different rules in
11 each jurisdiction. But that wouldn't affect the
12 actuarial calculation of indicated risk. So I -- I'm
13 just saying that there may be other steps beyond what
14 I do that could influence that outcome.

15 DR. BYRON WILLIAMS: Sir, in terms of
16 the conclusions of the Driver Safety Rating pricing
17 review, and recognizing the limitations of figure 4 --
18 we'll go back there for a second -- recognizing -- not
19 the limitations, but that it's relative to base.

20 MR. LUKE JOHNSTON: Yes.

21 DR. BYRON WILLIAMS: One (1) of the
22 conclusions of Manitoba Public Insurance is that the
23 discounts and surcharges do not reflect the relative
24 risk of drivers with different DSR levels. Agreed?

25 MR. LUKE JOHNSTON: Agreed.

1 DR. BYRON WILLIAMS: And if we look at
2 that driver DSR level 15, MPI also concluded that the
3 discount for that driver would be greater than fifty-
4 seven-point-six (57.6) compared to the base, given
5 that the discount was calculated including the loss
6 experience of other drivers with a DSR level lower
7 than fifteen (15). Agreed?

8 MR. LUKE JOHNSTON: Agreed. The --
9 that one, we -- that level, we can make that statement
10 because you can only add drivers that are higher risk
11 than -- than you. So that -- in -- theoretically,
12 would -- could be greater for a single individual
13 without anyone else on the policy.

14 DR. BYRON WILLIAMS: I want to go away
15 from the study to what we do with the study.

16 And, Mr. Johnston, you had a dialogue
17 with My Learned Friend about the regulatory changes
18 that might be required if one moved to a primary
19 driver approach. Agreed?

20 MR. LUKE JOHNSTON: A primary driver
21 or any approach that changes the methodology itself
22 versus the -- the rates charged.

23 DR. BYRON WILLIAMS: Okay. And so,
24 we're not walking down that path. I'm going to focus,
25 for the purposes of our conversation, on the rates

1 charged under the existing system. Okay?

2 MR. LUKE JOHNSTON: Fair.

3

4 (BRIEF PAUSE)

5

6 DR. BYRON WILLIAMS: Recognizing that
7 the analysis in -- in the driver safety rating pricing
8 review looked at the interaction between the variables
9 being territory, use, rate group, and DSR level, to
10 the extent that Manitoba Public Insurance is
11 considering taking steps to mitigate the mismatch
12 between the vehicle discounts, for example, and -- and
13 good drivers, would the Corporation's intent be only
14 to change premiums related to Driver Safety Rating or
15 would it be looking more broadly at the other
16 relativities that flowed from the minimum bias
17 procedure and how they changed with regard to the rate
18 application?

19 MR. LUKE JOHNSTON: The -- the
20 direction would be to include all -- all components of
21 the rating model. The -- maybe just a simple example.

22 I think in -- as classifications get
23 bigger, it may not be surprising that the distribution
24 of DSR levels is not that different than the --
25 another big class.

1 But as you get into other smaller
2 classes or individuals that are maybe thrill-seeking
3 and maybe they ride a sports bike or a sports car or
4 things like that, would it shock me if that group
5 collectively had a lower DSR level than the average
6 person, if they're biased to young people or something
7 like that? No, it wouldn't.

8 But a model that includes that
9 information, being their DSR collectively with the
10 rest of the information, would, in theory, improve the
11 soundness of that particular group's rates.

12 DR. BYRON WILLIAMS: So what I'm -- I
13 think I hear you saying, sir, is based on the analysis
14 that flowed out of this, related not just to the DSR
15 levels, but to the other relativities, there may be
16 potential changes over and above just on the DSR
17 level.

18 MR. LUKE JOHNSTON: Agreed. I -- I'm
19 not -- we'll provide that undertaking. I'm not
20 expecting dramatic changes, given that we have
21 relatively few variables and -- and -- but there would
22 be changes and it would be -- make the most sense to
23 recognize all those changes collectively, as part of a
24 DSR relativity analysis.

25 DR. BYRON WILLIAMS: And, Mr.

1 Johnston, in the event a decision was made to make
2 some changes to the system, including the DSR -- let's
3 say the vehicle discounts within the current model,
4 while moving towards, for example, a primary driver
5 system, would any interim changes prejudice ultimate
6 changes to a primary driver system?

7 I'm trying to get at the idea, sir --
8 like, in the sense that we don't know what government
9 will do. There's's a significant disconnect.

10 And -- and if one started taking steps
11 towards alleviating the cross-subsidy from the best
12 drivers to others, would that, in any way, interfere
13 if the government ultimately chose to go to a primary
14 driver system?

15 I'm just trying to get a sense of the -
16 - the complications, if any.

17 MR. LUKE JOHNSTON: Sure. My comments
18 before -- this isn't exactly what you asked, but
19 there's a lot of similarities between primary driver
20 and registered owner. I did state that by definition,
21 really, primary driver has to -- would be an
22 informational improvement over registered owner.

23 Directionally, they should produce
24 similar results.

25 So if we were to move on the -- this

1 information directionally towards targets, I don't
2 think that that -- doing so would prohibit us from
3 implementing primary driver, for example, effectively.
4 And it wouldn't create, you know, a massive rate shock
5 if we were to move to primary driver, if that's -- if
6 that's the question.

7 So I don't know. Maybe --

8 DR. BYRON WILLIAMS: Thank you.
9 That's helpful. And what I think I'm hearing is that
10 you wouldn't have a ricochet effect if one started to
11 -- to make progress on the vehicle discounts under the
12 existing model in the event that the ultimate decision
13 made by government was to go to the primary driver.
14 You wouldn't have that dislocating ricochet.

15 MR. LUKE JOHNSTON: I wouldn't expect
16 a -- a major ricochet effect between these two (2)
17 models versus some other model that, you know, maybe
18 lists drivers or is driver based or whatever.

19 These two (2) models are similar enough
20 that I -- I think you could make -- I wouldn't suggest
21 drastic movement, but I don't -- it wouldn't be
22 reasonable for me to say that gradual movement would
23 hinder the ability to implement primary driver or vice
24 versa.

25 DR. BYRON WILLIAMS: Why don't you

1 define "drastic" and "gradual movement" for me, Mr.
2 Johnston?

3 MR. LUKE JOHNSTON: It's -- well,
4 drastic is -- is really what you see in the analysis
5 in the sense that to give the higher relative
6 discounts, we're raising people's base rates by 23
7 percent. That's -- you know --

8 DR. BYRON WILLIAMS: Okay.

9 MR. LUKE JOHNSTON: -- I don't have a
10 threshold for drastic, but if that's not above the
11 threshold, I think I'd be surprised.

12 The next question I would ask is -- if
13 we were to move to this approach, is there are certain
14 rules in the rating model that describe how we should
15 move to target when we're different. So if you have
16 lots of data, move faster; if less, move slower. This
17 is the most you can move and -- and such. Whether
18 those rules appropriately handle this situation or not
19 I think is an important discussion.

20 So we know, as you've mentioned
21 earlier, DSR 15 has lots of drivers, lots of
22 credibility. That may say minus 15 percent on the day
23 -- day 1 based on our remaking methodology. Is that
24 appropriate in this situation? I would struggle to
25 say that it is, but that is what our rate-making model

1 would do.

2 So my current position is that we
3 should really think about, you know, if we are moving,
4 how to do that in a appropriate way that allows the
5 Corporation this information on a more gradual basis.

6 DR. BYRON WILLIAMS: So you gave me a
7 really good example of drastic.

8 In terms of gradual, sir, are you
9 thinking, for example, of the pace when Manitoba
10 Public Insurance sought to implement clear -- or, in
11 those days, VICC in the last 1990s and early 2000s?

12 MR. LUKE JOHNSTON: Yeah, noth --
13 nothing specific comes to mind. I -- I did state
14 earlier that those discussion should really be had
15 with our management and board in terms of creating a
16 recommendation, right?

17 So let's -- and this is purely
18 hypothetical, not my recommendation, but let's say
19 that we set a target in the future that, you know, we
20 would like to get to the targets within ten (10) years
21 and -- and we always moved one-tenth (1/10th) of the
22 way. That's an example of a potential gradual
23 approach that doesn't create major swings. That's not
24 my recommendation, but just -- just as a -- as an
25 example of how something might have been implemented

1 in the past with major dislocation.

2 DR. BYRON WILLIAMS: And -- and, sir,
3 if we -- so that's one (1) example, and another
4 example would be the pace in the late 1990s, early
5 2000s, in which Manitoba Public Insurance moved
6 towards the CLEAR/VICC rate group process.

7 MR. LUKE JOHNSTON: Yeah, I'm not
8 remembering that one completely, but even today,
9 there's rules about, you know, how, you know, fast
10 your rate group can go up and -- and things like that.

11 So a model such as that, where you, you
12 know, limit the, say, negative impact from DSR to a
13 certain level each year is -- would seem to be a
14 reasonable way of doing it as well.

15 DR. BYRON WILLIAMS: Okay. And one
16 (1) option to mitigate upward pressure -- pressure on
17 rates as we seek to remedy a historic cross-subsidy
18 might be in circumstances where a decrease is
19 warranted by AAP to give more of that decrease to the
20 better DSR levels.

21 I'm not saying one should, but that
22 would be an option that -- that could be considered?

23 MR. LUKE JOHNSTON: Cautiously, to the
24 extent that we'd want to ensure that other groups that
25 are decer -- deserving of that rate decrease are still

1 getting it, because that would be upsetting, I think,
2 for a certain class that, you know, maybe had better
3 experience over time and -- and deserve that rate
4 decrease. So we'd just -- I -- I understand the
5 approach; just we have to be cautious in doing that.

6 DR. BYRON WILLIAMS: And in the
7 context of the current Application, MPI may be
8 hamstrung in terms of an approach such as that given
9 the commitment that -- that the change in deductible
10 coverage might be revenue neutral, agreed?

11 MR. LUKE JOHNSTON: Yeah, there's --
12 if, in a --

13 DR. BYRON WILLIAMS: Rate -- rate
14 impact neutral, excuse me.

15 MR. LUKE JOHNSTON: Yeah, in a normal
16 year without deductible changes or capital releases,
17 we're talking about a small rate decrease, less than 1
18 percent, as high as negative 2 percent based on
19 interest rates. That's, I believe, what you'd be
20 talking about playing with.

21 And if -- if that adjustment is made
22 exclusively kind of on the DSR basis, giving more of
23 that quicker to the people that deserve it the most
24 and -- and collecting that from those that need to
25 increase, you could consider doing that.

1 DR. BYRON WILLIAMS: And in terms of
2 just one (1) other option, has MPI considered the
3 role, if any, in terms of releases of excess capital
4 in seeking to remedy the historic and ongoing cross-
5 subsidy?

6 MR. LUKE JOHNSTON: We -- we have not.
7 The -- our Capital Management Plan does assume
8 breakeven pricing for -- for all, and -- and the good
9 and the bad in each year, you know, can vary by class.
10 And so we don't do that, but, yeah, we have -- we
11 haven't had those discussions, and so I have no -- no
12 comment, really, on that.

13 DR. BYRON WILLIAMS: Just noting the
14 time, and I think this will be my last question, Mr.
15 Johnston, but might it be argued that those drivers --
16 sorry, those vehicle owners, relative to others, made
17 a larger contribution to excess capital?

18 MR. LUKE JOHNSTON: Ba -- based on the
19 data we're seeing here, that -- that is the case from
20 the -- from the numbers.

21 It is a very slippery slope to go down
22 that route just now. You know, one (1) class has a
23 good year, and they say, Well, I -- I should get more
24 than that class, and -- and such. So it wouldn't be a
25 good steady-state approach that we'd want to follow,

1 but I -- I understand your point at the -- the current
2 discount situation.

3 DR. BYRON WILLIAMS: Madam Chair, I
4 can finish my cross-examination. There's just one (1)
5 thing I'd like to discuss with My Learned Friends
6 offline. I don't expect to come back in terms of
7 cross, but I -- I'm reserving the right, with your
8 permission, to -- to come back on one (1) question, if
9 -- if need be.

10 THE PANEL CHAIRPERSON: Definitely.

11 DR. BYRON WILLIAMS: Thank you.

12 THE PANEL CHAIRPERSON: We will
13 adjourn now, then, and be back, please, at ten (10)
14 after 1:00. Thank you.

15

16 --- Upon recessing at 11:48 a.m.

17 --- Upon resuming at 1:10 p.m.

18

19 THE PANEL CHAIRPERSON: Okay. Good
20 afternoon. Mr. Williams...?

21 DR. BYRON WILLIAMS: I have no further
22 questions. Thank you.

23 THE PANEL CHAIRPERSON: Thank you.
24 Ms. Meek...?

25

1 MS. CHARLOTTE MEEK: Thank you, Madam
2 Chair.

3

4 CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:

5 MS. CHARLOTTE MEEK: Good afternoon,
6 Mr. Johnston. PUB Order 176/'19 required MPI to file
7 a pricing examination in the 2021 GRA, including the
8 financial impact on premium revenue and the cost of
9 modifying the system of the registered owner and
10 primary driver rating models.

11 Is that correct?

12 MR. LUKE JOHNSTON: Yes.

13 MS. CHARLOTTE MEEK: And we've looked
14 at the pricing review in your previous questioning
15 that was filed by MPI today. So, I'd like to go to
16 page 14 of that, which is Exhibit 25.

17 And just at the top of the page, line 1
18 there, it says:

19 "MPI did not conduct a pricing
20 examination using the primary driver
21 model mainly because MPI does not
22 have the information on the primary
23 drivers of MPI insured vehicles."

24 Is that correct?

25 MR. LUKE JOHNSTON: That's correct.

1 MS. CHARLOTTE MEEK: Okay. So, what
2 MPI is saying here is simply that MPI doesn't collect
3 that information from insurers at this time whether
4 they're the primary driver of the vehicle.

5 Is that correct?

6 MR. LUKE JOHNSTON: That's right.

7 MS. CHARLOTTE MEEK: Okay. Is it
8 possible for MPI to collect this information from
9 insureds?

10 MR. LUKE JOHNSTON: I think some form
11 of that question was asked earlier. My answer is that
12 I'm sure we could, but the -- in terms of the cost or
13 the storage of that data, IT implications, I can't
14 give you a very good answer on that, but...

15

16 (BRIEF PAUSE)

17

18 MR. LUKE JOHNSTON: I'll just leave it
19 at that. It's definitely possible, but costs and
20 other considerations, I don't have an answer for you
21 right now.

22 MS. CHARLOTTE MEEK: Okay. Yeah. And
23 you kind of anticipated some of my other questions.
24 You're not sure of the costs or the -- the -- maybe
25 the time frame that it would take for MPI to get that

1 information?

2 MR. LUKE JOHNSTON: A -- probably the
3 most realistic way to collect it would be through a
4 renewal cycle, so that would be, you know, over a
5 twelve (12) month period.

6 Every time someone renews, you, I
7 guess, in theory could say, you know, can you tell me
8 who the primary driver on each of these cars are. It
9 may not impact their -- their rate this year at all,
10 but you could ask the question in theory.

11 The part I don't know was from an IT
12 standpoint, how you store that data and any rules
13 around that.

14 MS. CHARLOTTE MEEK: And is there any
15 other data that MPI does not currently collect that
16 the Corporation believes would be necessary in order
17 to conduct a comprehensive analysis of the primary
18 driver framework?

19

20 (BRIEF PAUSE)

21

22 MR. LUKE JOHNSTON: So, well,
23 obviously, there's the -- the experience data once we
24 have the -- the model and, you know, if we had this
25 model in place.

1 But outside of just having the primary
2 driver and knowing their DSR, we would, in theory, be
3 able to start collecting that information and
4 gradually build up a loss experience profile of that
5 information, so I can't think of anything right now.

6 MS. CHARLOTTE MEEK: So, it is just
7 simply that -- that one (1) kind of piece of
8 information that MPI needs is just a declaration of
9 who the primary driver of the vehicle is?

10 MR. LUKE JOHNSTON: That's all I can
11 think of now, yeah.

12 MS. CHARLOTTE MEEK: Okay.

13 MR. LUKE JOHNSTON: I can't think of
14 anything else, yeah.

15 MS. CHARLOTTE MEEK: Thank you. And
16 if we could go to CAC-MPI-1-30, please, and page 3,
17 please, Kristen. The middle paragraph there says, "A
18 cost estimate." So, it says:

19 "A cost estimate and time line has
20 not been determined in the
21 absence..."

22 You know, actually, you've kind of
23 already answered this question, so never mind. We can
24 skip forward from that.

25

1 (BRIEF PAUSE)

2

3 MS. CHARLOTTE MEEK: I guess I could
4 put it to you. What information would be required for
5 you to give a cost estimate for the implementation of
6 a new DSR framework?

7 MR. LUKE JOHNSTON: So, the -- the
8 current -- modifying the current system would be
9 minor, probably mostly related just to promotional
10 items and policy manuals and such. The primary driver
11 I would expect to be the next least costly option
12 given that it's a relatively minor change in terms of
13 the structure.

14 Every other option, you know, beyond
15 that for changing DSR or the driver experience rating
16 piece is unknown to me right now.

17 So, I mentioned earlier the systems
18 that we've purchased for Nova may have certain things
19 out of the box, and those could be really cheap or --
20 and I don't know enough about that yet to -- to
21 comment.

22 But the more we change it, the -- the
23 more potential, I would assume, there is for increased
24 costs.

25 MS. CHARLOTTE MEEK: Okay. And the --

1 the first thing you said there was that the primary
2 driver model is the most similar to the -- the
3 registered owner model, so it would be kind of the
4 least costly of maybe other -- other models that we
5 could take on?

6 MR. LUKE JOHNSTON: Definitely in
7 terms of the rating piece. It's -- you know, it -- it
8 really would just be to change the question to who's
9 the primary instead of the registered owner, so it
10 shouldn't be expensive.

11 My one (1) note on that was just our IT
12 area would have to comment on the collection of the
13 data and stuff and how much that would cost or if we
14 could do it.

15 MS. CHARLOTTE MEEK: Thank you. And
16 if we could go to the application, please, part 6,
17 DSR, page 5.

18

19 (BRIEF PAUSE)

20

21 MS. CHARLOTTE MEEK: So, starting at
22 line 23 to 25 or -- yeah, so. So, there it says MPI
23 says:

24 "In particular, substantial changes
25 to the DSR should be planned to

1 coincide with the installation of
2 the new system to avoid having to
3 modify the existing system just
4 prior to its decommissioning."

5 MR. LUKE JOHNSTON: I see that.

6 MS. CHARLOTTE MEEK: Yes. And then if
7 we could go back to CAC-MPI-1-30, please, Kristen. At
8 page 2, kind of at the bottom here were MPI's
9 responses. Thank you. That's perfect for now.

10 So, MPI provided in their response --
11 excuse me -- some broad time line information relating
12 to the modules of Project Nova which may be impacted
13 to the change of the DSR system.

14 Do you see that?

15 MR. LUKE JOHNSTON: Yes, I do.

16 MS. CHARLOTTE MEEK: Okay. And so,
17 MPI provides a time frame between Q1 of 2021 all the
18 way up to Q2 of 2024 wherein changes to the DSR
19 framework could impact various modules of Project
20 Nova.

21 Is that correct?

22 MR. LUKE JOHNSTON: That's right.

23 MS. CHARLOTTE MEEK: Okay. And then
24 if we could go to the October 22nd transcript, please,
25 Kristen.

1

2

(BRIEF PAUSE)

3

4

MS. CHARLOTTE MEEK: And kind of --

5

so, starting on 985. If we scroll down to line 18, we

6

can see that it was Mr. Gabor presenting some

7

questions here.

8

If we go to the next page, starting at

9

line 2, the Chairperson was saying:

10

"I mean, I think what we have to do

11

is, is have an idea of exactly what

12

the time frame is when the decision

13

has to be made so that it can be

14

implemented in the most cost-

15

effective manner and not miss that

16

window."

17

So, what's the window? And then, if we

18

scroll down to line 20, Mr. Remillard provides the

19

following response. And he says:

20

"To answer your question, Mr. Gabor,

21

we would need to know by April of

22

2022 with some certainty as to the

23

direction that we are going or some

24

pretty strong assumptions so that we

25

could start building that out as

1 part of our build on Duck Creek."

2 Do you see that?

3 MR. LUKE JOHNSTON: I do.

4 MS. CHARLOTTE MEEK: And do you agree
5 with that response?

6 MR. LUKE JOHNSTON: So, I spoke
7 earlier about the time frames from the product and
8 pricing side of things. We would obviously want to
9 push for more clear direction much earlier than this
10 time period.

11 But I also noted, you know, should that
12 push result in a decision being made to go to
13 government for a new DSR methodology, so to speak --
14 so if it wasn't just about rates, for example --
15 there'd be -- need to be some time built in for that,
16 too.

17 So our timing from product pricing side
18 would be early in the next calendar year. Like I
19 would hope in -- within the -- within the first
20 quarter of the next calendar year that we'd be able to
21 hash that out and provide direction.

22 Obviously, depending on what path is --
23 is taken relating to government, that could be easier
24 or longer, but still to be determined.

25 MS. CHARLOTTE MEEK: So you're

1 basically saying the earlier, the better?

2 MR. LUKE JOHNSTON: From the Nova
3 standpoint --

4 MS. CHARLOTTE MEEK: Right.

5 MR. LUKE JOHNSTON: -- absolutely. We
6 talked this morning that -- a little bit about my
7 concern that movement on this current model somehow is
8 to the detriment of future models if that -- you know,
9 kind of describe it that way. I don't believe so, so
10 I -- I do think that moving is okay, moving it -- like
11 so in an extreme way, less so for more reasons than
12 just Nova.

13 But if -- if this model is showing a
14 certain group is -- has very excessive or inadequate
15 or whatever rates, it would be very unlikely that a
16 new model we move to wouldn't try to fix that same
17 particular issue, so, yeah.

18 MS. CHARLOTTE MEEK: Right. And I
19 think some of the comments that you just made coincide
20 with the comments of Mr. Remillard later on in this
21 transcript because he's kind of qualified it as you
22 did to say that there would also maybe be regulatory
23 amendments that would need to be made.

24 And something that he also said was
25 that the regulatory changes don't necessarily have to

1 be completed before the amendments to the DSR system
2 begin to be implemented, but that there would need to
3 be an agreement in principle with government.

4 And would you agree with that statement
5 as well?

6 MR. LUKE JOHNSTON: In principle would
7 be helpful. I just mentioned earlier that it -- it
8 becomes a risk, like a project risk, if -- if, for
9 whatever reason, government changes their mind or,
10 right, we go a certain path and they decide they don't
11 want to do that.

12 In principle, agreement would reduce
13 that risk, you'd think --

14 MS. CHARLOTTE MEEK: Right.

15 MR. LUKE JOHNSTON: -- but there's
16 still a risk.

17 MS. CHARLOTTE MEEK: Okay. And I
18 think Ms. McCandless pressed you on this point a
19 little bit this morning and had referred you to the
20 transcript and MPI's response regarding who has
21 jurisdiction to determine the DSR model.

22 Do you recall that line of questioning?

23 MR. LUKE JOHNSTON: I do.

24 MS. CHARLOTTE MEEK: And if we go to -
25 - if we could go back to CAC-MPI-130, please, Kristen.

1 And I think -- if we go to page 3, please, right at
2 the bottom, the last paragraph. So -- and then -- oh,
3 probably go on to the next page, Kristen, if we can
4 scroll down a little bit. Thanks. That's perfect.

5 And you see here that MPI's response
6 says that:

7 "If, at the end of the PUB review of
8 the DSR model, either MPI, the PUB,
9 or both recommend changing the
10 model, MPI will initiate the process
11 to have the Lieutenant Governor in
12 Council consider changing the
13 model."

14 Do you agree with that statement, Mr.
15 Johnston?

16 MR. LUKE JOHNSTON: Yes.

17 MS. CHARLOTTE MEEK: So where the
18 Board recommends -- makes a recommendation, you would
19 agree that MPI would initiate the process. Is that
20 correct?

21

22 (BRIEF PAUSE)

23

24 MR. LUKE JOHNSTON: Sorry, just -- my
25 -- my concern was that there's been recommendations

1 and such and orders before, and it didn't necessarily
2 mean that MPI ran over to government immediately and
3 said, Hey, we should do this.

4 And so here, if -- if we got a DSR
5 recommendation that wasn't in line at all with any
6 kind of plans or -- or information we brought to the
7 PUB and said -- let's say it said, you know, go to
8 some model that we've never even talked about, I would
9 obviously struggle with such a recommendation.

10 But to the extent that it's in line
11 with -- with the discussions that we've had, the -- it
12 would seem reasonable for MPI to -- to do this.

13 MS. CHARLOTTE MEEK: So maybe I could
14 be a little bit more specific in my question.

15 So where the Board recommends a change
16 to the DSR system, specifically to the Primary Driver
17 Model, would MPA -- MPI make that recommendation then?

18 MR. STEVE SCARFONE: Sorry, could you
19 repeat that question --

20 MS. CHARLOTTE MEEK: Sure.

21 MR. STEVE SCARFONE: -- Ms. Meek? I
22 was distracted.

23 MS. CHARLOTTE MEEK: Sure. Yeah. I
24 just wanted to be a little bit more specific in my
25 question to say that, where the Board makes a

1 recommendation, specifically a change in the DSR
2 system to the Primary Driver Model, would MPI then
3 initiate the process?

4 MR. STEVE SCARFONE: Yeah. So I think
5 the response is there before us where it indicates, if
6 at the end of this General Rate Application or, more
7 accurately, at the end of the Board's review of the
8 model, if either MPI, the Board, or both recommend
9 changing the model, the MP -- MPI would initiate the
10 process.

11

12 CONTINUED BY MS. CHARLOTTE MEEK:

13 MS. CHARLOTTE MEEK: Thank you. And
14 then where the Board does recommend a change in the
15 DSR system to the Primary Driver Model, will MPI
16 support the Board's recommendation to the Lieutenant
17 Governor in Council?

18 MR. STEVE SCARFONE: No, that's not
19 what that reads.

20 MS. CHARLOTTE MEEK: That would be my
21 new question.

22 MR. STEVE SCARFONE: Right. So
23 appreciating that, you know, the -- the recommendation
24 being made, unless it's the "both" that's contemplated
25 in that scenario, if it's something that MPI doesn't

1 necessarily agree with or rec -- or would recommend,
2 then the answer to your question is no.

3 MS. CHARLOTTE MEEK: So specifically
4 with the Primary Driver Model, MPI would not support a
5 recommendation?

6 MR. STEVE SCARFONE: We would not
7 endorse that. If the Corporation felt as though it
8 wasn't in the Corporation's best interest to adopt a
9 new model, then the Corporation wouldn't endorse that
10 recommendation or that initiation with government on
11 the -- on the Regulator's behalf.

12

13 CONTINUED BY MS. CHARLOTTE MEEK:

14 MS. CHARLOTTE MEEK: Does MPI believe
15 that the Primary Driver Model is not in the
16 Corporation's best interest?

17 MR. STEVE SCARFONE: Well, that's a
18 question for Mr. Johnston.

19 MR. LUKE JOHNSTON: Yeah. There's
20 just hesitation on my part. I've obviously talked
21 about that it's very similar to the -- to the
22 Registered Owner Model and could be considered an
23 improvement, but haven't had any discussions with our
24 -- our board or management or government about this
25 idea. So it's pretty hard for me to make a -- any

1 sort of guarantee with -- without doing that first.

2

3 CONTINUED BY MS. CHARLOTTE MEEK:

4 MS. CHARLOTTE MEEK: So just touching
5 on what you just said, there haven't been any
6 discussions internally within MPI about the
7 possibility or contemplation of a Primary Driver Model
8 being implemented at any point in the future?

9 MR. LUKE JOHNSTON: We've -- we've had
10 discussions the last couple of years at least about
11 some different versions of the model. So most of the
12 executive would have been exposed to that, less so
13 with our -- with our board of directors.

14 The -- the pricing examination itself
15 hasn't been brought to our board, and nor have we
16 created a full rate application with all that
17 information included. But that, obviously, can take
18 place, but I just -- I just don't know their position
19 on that and how we'd want to proceed as a Corporation.

20 MS. CHARLOTTE MEEK: From an actuarial
21 standpoint, would it be your position that it could be
22 financially detrimental in any way to the Corporation
23 to shift to a primary driver model in terms of the
24 returns on premiums that MPI would receive in that
25 model versus the Registered Owner Model that we have

1 right now?

2 MR. LUKE JOHNSTON: From an actuarial
3 standpoint, there shouldn't be any detrimental
4 financial impacts.

5 MS. CHARLOTTE MEEK: Thank you. And
6 if we can scroll up a little bit, please, Kristen, to
7 the middle paragraph again that starts with the cost
8 estimate. Thank you.

9 The last sentence here reads:

10 "If regulatory changes are required,
11 the expected time line from the
12 initial executive approval to
13 Cabinet approval of regularly --
14 regulatory change is approximately
15 twelve (12) months."

16 Do you see that there, Mr. Johnston?

17 MR. LUKE JOHNSTON: I do.

18 MS. CHARLOTTE MEEK: And do you agree
19 with that time frame approximately?

20 MR. LUKE JOHNSTON: Approximately. It
21 can -- it can vary greatly, but that's the team's I
22 guess best guess.

23 MS. CHARLOTTE MEEK: Thank you. So
24 working backwards then, from April of 2022, Madam
25 Chair indicated it needed a determination on the issue

1 back twelve (12) months would be to April of 2021 of
2 next year, is that correct?

3 MR. LUKE JOHNSTON: That math is
4 correct, yes. Yes.

5 MS. CHARLOTTE MEEK: Thank you.
6 Does that mean then, from MPI's perspective, that it
7 would require the Board to provide some direction at
8 this year's GRA regarding the DSR system for timelines
9 to be then coordinated to implement the new DSR system
10 concurrently with Project Nova?

11 MR. LUKE JOHNSTON: Did you say "next
12 year's GRA"?

13 MS. CHARLOTTE MEEK: This year's GRA.

14 MR. LUKE JOHNSTON: This year's.

15 So -- sorry, I'm thinking. This year
16 being the one we're in and then I'm thinking next --
17 next year if we were to provide -- if the Board -- MPI
18 were able to provide direction or recommendation, that
19 would be filed in -- as part of the next year's GRA,
20 and we might just be mixing words here, I -- this
21 year's GRA I would have no updates or anything to
22 share.

23 But next year's GRA it would seem very
24 reasonable.

25 MS. CHARLOTTE MEEK: Okay. Thank you.

1

2

(BRIEF PAUSE)

3

4

MS. CHARLOTTE MEEK: So, where a primary driver model was recommended by the Board, and assuming it went through all the appropriate channels in order to be successfully implemented, such that MPI has the information necessary to allow a DSR system to be implemented with the same coordination as Project Nova as we're hoping could possibly be the case.

11

Approximately when would the new DSR system be actually operational?

13

MR. STEVE SCARFONE: That's probably not a question for the actuary.

15

MS. CHARLOTTE MEEK: Okay.

16

MR. STEVE SCARFONE: Because it's -- as we've heard, that's largely dependent on Project Nova and the building -- building the new model, if one is adopted, into Project Nova as Mr. Remillard had indicated.

21

So I don't know, unless Mr. Johnston tells me he can answer that.

23

MR. LUKE JOHNSTON: No, I was -- I wasn't sure what I would say to that.

25

Just -- I would just add that, as we

1 already discussed, it doesn't mean we can't move along
2 the way, but the exact date when you will be able to
3 implement, I -- I don't know. I would assume some
4 time after the -- the timing works in terms of the
5 Project Nova rollout of the different modules.

6

7 CONTINUED BY MS. CHARLOTTE MEEK:

8 MS. CHARLOTTE MEEK: Okay, thank you.

9 And this might not be an appropriate
10 question for you either, then maybe I should have come
11 to the Nova panel, but in a circumstance where the new
12 DSR framework was implemented after Project Nova
13 became operational, if we weren't able to get it in
14 prior to Project Nova, do you have any idea of what
15 the earliest date that the new DSR system would be
16 operating if we had to implement it after that time?

17 MR. LUKE JOHNSTON: I -- I don't, but
18 obviously there would be some downside to that
19 approach in the sense, you know, you just put the
20 whole current model in and then shortly after change
21 it.

22 But that amount of change may not be
23 significant to go to primary driver, given we have a
24 new system that's supposed to do things easier and
25 such, but I don't have a -- a date I can give you.

1 MS. CHARLOTTE MEEK: Right. And the
2 downside being the cost effectiveness of doing it that
3 way?

4 MR. LUKE JOHNSTON: That would be one
5 (1) of the downsides, for sure yeah.

6 MS. CHARLOTTE MEEK: And could we
7 assume that if a new DSR framework is implemented
8 after Project Nova, that it would become operational
9 in a time frame that it would be much further away
10 than if it was implemented before the Project Nova?

11

12 (BRIEF PAUSE)

13

14 MR. LUKE JOHNSTON: Yeah, I'm not --
15 I'm not sure how to answer that one.

16 I guess the first line of questioning
17 was more about, you know, would the MPI support
18 primary driver or MPI's Board or government. That's
19 obviously step -- step 1, like do we want to do this.

20 And then we would move to the Nova
21 phase, implementation phase, and I wouldn't be the
22 right person to answer on the IT piece.

23 But then beyond implementation of Nova,
24 it's -- it's really almost impossible for me to say a)
25 why we wouldn't have just done it in the first place,

1 and then how long it should take after that, I
2 wouldn't really know until I got there.

3 So I -- I don't have an answer for you.

4 MS. CHARLOTTE MEEK: So just to
5 respond to your comment there, where you said the
6 question would be why we wouldn't have just done it in
7 the first place if there was going to be a change.

8 Would MPI's position be -- then be that
9 no change should be made in the DSR system once
10 Project Nova is implemented?

11 MR. LUKE JOHNSTON: I -- I don't know
12 the answer to that. I just -- to your kind of
13 hypothetical situation, I don't know why we didn't
14 just put it in the model in the first place and then,
15 you know, you're basically asking if we didn't put it
16 in, how long would it take after Nova was operational.

17 I don't know why we -- you know what I
18 mean? It's -- so I really can't -- can't say.

19 The preference would obviously be to
20 build it once and be done with it. But there's a lot
21 of other things have to happen before that decision
22 can move forward.

23 MS. CHARLOTTE MEEK: Thank you.
24 If we could go to then Exhibit 25, please, page 2.
25 That's perfect, Kristen, thank you.

1 This reads:

2 "At the individual level, the
3 registered owner model does not
4 consider the relative risk of the
5 vehicle based on the actual drivers
6 of the vehicle. Instead, the model
7 determines the relative risk and the
8 vehicle discount simply based on who
9 owns the vehicle."

10 Do you see that there, Mr. Johnston?

11 MR. LUKE JOHNSTON: Yes.

12 MS. CHARLOTTE MEEK: And you would
13 agree that the current DSR framework does not provide
14 a discounting framework that is based on an actual
15 statistical risk of the drivers driving the vehicle?

16 MR. LUKE JOHNSTON: For everyone, no.
17 For many people, sure, because they're the same owner
18 and primary driver would be the same, and we would
19 make that determination just, you know, based on the
20 number of households where there's just one (1) driver
21 and one -- but -- but for everyone, that's correct,
22 it's not tied to who actually drives it, necessarily.

23 MS. CHARLOTTE MEEK: Thank you. And
24 would you agree that while the discounting framework
25 is accurate, then for that one (1) individual who is

1 the primary driver, thousands of Manitobans are then
2 paying premiums unrelated to their actual risk
3 factors?

4 MR. LUKE JOHNSTON: Under the
5 registered owner model the -- so let me -- let me
6 backtrack a little bit.

7 The registered owner model actuarial
8 indications would say any -- the group of registered
9 owners that insure at that level have a certain loss
10 experience, and that includes everyone that -- that is
11 on those policies.

12 So, it -- it -- we collect for it, so
13 that's not -- not the issue. But I think your point
14 is more, you know, one (1) policy will just have one
15 (1) person at 15 and another one (1) could have a
16 whole family of people under there. Is that accounted
17 for any differently, and the answer is no.

18 So, it wouldn't charge a different rate
19 based on who else is driving besides the registered
20 owner.

21 MS. CHARLOTTE MEEK: Right. And I
22 understand what you're saying, that the primary
23 driver, the amount that they pay MPI from an actuarial
24 perspective has accommodated for the fact that there
25 may be other people driving the vehicle.

1 But for those people who are not paying
2 any premium, they're not paying anything based on
3 their risk factors for those people who are not the
4 registered owner.

5 MR. LUKE JOHNSTON: It is -- that's
6 where my hesitation is.

7 If mom or dad pay my premium, like for
8 that particular registered owner's risk level, they
9 are indirectly paying it because we've said, okay,
10 well, if everybody that registers at this level, we
11 need, you know, twelve hundred dollars (\$1,200) and --
12 and we're getting it, I -- I think your focus is more
13 on is it the right amount and if we knew that there
14 was a teenager in the house at DSR minus 10, would we
15 have charged more, or if there was a primary driver
16 model, that -- that identified that individual, we
17 charge differently, the answer is yes.

18 So in all -- in any actuarial analysis
19 we do, we're going to calculate what we actually need,
20 but could the model be more sound if there's
21 additional rating variables? Often, yes. And then in
22 this case, yes.

23 MS. CHARLOTTE MEEK: So would you
24 agree then that the current system creates a shortfall
25 in revenue for the Corporation that has to be made up

1 by increasing rates for those insureds who are paying
2 premiums?

3 MR. LUKE JOHNSTON: So again, the --
4 the pricing analysis we have here, there'll be no
5 shortfall in -- in rates because, by definition, we've
6 just essentially charged for the costs.

7 The -- if we're saying what should or
8 could they have paid, if we collected that
9 information, then -- I'm just trying to -- I think
10 what you're saying is, you know, should we have
11 charged more if there's risky drivers in the house.

12 And I'm saying no because that's not
13 even an option for me to -- to do that today, right?
14 Because I -- I don't have that information. If I had
15 it, then -- and it was -- we could use it as a rating
16 factor, then we could -- could.

17 But is it right for me to say that I've
18 overcharged anyone today because of the system we
19 currently have in place and -- and for drivers at plus
20 15, if I need twelve hundred dollars (\$1,200), I'm
21 going to get it. Have I overcharged anybody? I -- I
22 don't think that we have.

23 You're -- I think you're pushing more
24 for that you believe there's other rating factors that
25 could make the pricing better or more accurate for

1 everyone. That's possible, but not available right
2 now. Yeah.

3 MS. CHARLOTTE MEEK: So what I hear
4 you saying then is -- is within the limits or the
5 confines of the current system, you think the pricing
6 is appropriate. But you are limited, based on the
7 system that you're working with.

8 MR. LUKE JOHNSTON: Right. So the --
9 that is right. The -- the current Registered Owner
10 Model has discount levels. Those are not actuarially
11 sound. So to that point, there's obvious spots where
12 we're charging more or less than actuarial rate would
13 indicate.

14 So that part is true. The potential
15 for another model to do an even better job at that
16 hasn't explored and nor could I price that way
17 anyways.

18 MS. CHARLOTTE MEEK: Thank you.
19 Kristen, if we could go to CMMG-MPI-2-1, please.

20

21 (BRIEF PAUSE)

22

23 MS. CHARLOTTE MEEK: If we could go to
24 page 2. I'm looking at figure 1.

25 So this was an IR that CMMG was

1 requesting some information in relation to the
2 negative DSR levels and active and non-active licences
3 within those levels.

4 So the second column here provides us
5 the number of active Manitoba licences for each DSR
6 rating from zero (0) to negative twenty (20).

7 Is that correct?

8 MR. LUKE JOHNSTON: That's right.

9 MS. CHARLOTTE MEEK: And the total
10 provided there is a hundred and forty thousand seven
11 hundred and sixty-eight (140,768). Is that correct?

12 MR. LUKE JOHNSTON: Yes.

13 MS. CHARLOTTE MEEK: And this figure
14 also provides the non-active licenses with a total of
15 fifteen thousand nine hundred and thirteen (15,913).
16 Is that correct?

17 MR. LUKE JOHNSTON: That's right.

18 MS. CHARLOTTE MEEK: Okay. And we'll
19 also note there's a -- just a definition of the non-
20 active, which can mean cancelled, lapsed, prohibited,
21 prohibited with conditional, suspended, suspended with
22 conditional, and voluntary surrender.

23 Is that correct?

24 MR. LUKE JOHNSTON: That's right.

25 MS. CHARLOTTE MEEK: Okay. And then,

1 if we go to page 3, please, figure 2.

2

3 (BRIEF PAUSE)

4

5 MS. CHARLOTTE MEEK: This figure
6 provides the number of active licences that do not
7 have a vehicle registered for each DSR rating from
8 zero (0) to negative twenty (20). Is that correct?

9 MR. LUKE JOHNSTON: That's right.

10 MS. CHARLOTTE MEEK: And the total
11 provided for active licenses is seventy-nine thousand
12 two hundred and eighty (79,280). Is that correct?

13 MR. LUKE JOHNSTON: Yes.

14 MS. CHARLOTTE MEEK: Okay. And would
15 you agree that that's approximately 56 percent of all
16 the active licences between zero (0) to negative
17 twenty (20) that do not have any vehicle registered,
18 subject to check?

19 MR. LUKE JOHNSTON: I would agree with
20 that. My understanding, at the bottom of the scale,
21 is only about 50 percent of drivers have vehicles
22 registered.

23 MS. CHARLOTTE MEEK: And then, if we
24 can go to page 4, please, figure 3.

25

1 (BRIEF PAUSE)

2

3 MS. CHARLOTTE MEEK: And this figure
4 provides the number of active licences in the positive
5 DSR level range with more than one (1) vehicle
6 registered. And it provides a total of a hundred and
7 forty-seven thousand one hundred and eighty-seven
8 (147,187). Is that correct?

9 MR. LUKE JOHNSTON: That's right.

10 MS. CHARLOTTE MEEK: And we can see
11 then that a disproportionate number of those licences
12 that have additional vehicles are at the plus 15 DSR
13 level, meaning that they receive that 33 percent
14 discount?

15 MR. LUKE JOHNSTON: Sorry, I think the
16 question was disproportionate number of vehicles are
17 registered by these drivers? Is that --

18 MS. CHARLOTTE MEEK: Yes.

19 MR. LUKE JOHNSTON: Yeah.

20 MS. CHARLOTTE MEEK: At the -- at the
21 positive 15 level.

22 MR. LUKE JOHNSTON: That's right.
23 Subject to getting exact answer, I believe that rate's
24 around one-point-three (1.3), one-point-four (1.4)
25 vehicles per individual on average.

1 MS. CHARLOTTE MEEK: Thank you.

2 And then, if we can go to page 5,
3 please, Kristen, figure 4.

4

5 (BRIEF PAUSE)

6

7 MS. CHARLOTTE MEEK: And so, this
8 figure is giving us some of the additional revenues
9 that MPI would receive, where -- where each additional
10 vehicle that was registered was registered at the zero
11 (0) -- didn't receive a discount.

12 MR. LUKE JOHNSTON: Yes. Thanks for
13 refreshing my memory.

14 MS. CHARLOTTE MEEK: I had to refresh
15 mine as well. So the first column provides each of
16 the discount rates. We can see that?

17 MR. LUKE JOHNSTON: Yes.

18 MS. CHARLOTTE MEEK: The next column
19 provides the number of merit eligible vehicles in the
20 province as of August 1st, 2020?

21 MR. LUKE JOHNSTON: Yes.

22 MS. CHARLOTTE MEEK: And then, the
23 total there provides us with seven hundred and twenty-
24 five thousand two hundred and seventy-three (725,273).
25 Is that correct?

1 MR. LUKE JOHNSTON: That's right.

2 MS. CHARLOTTE MEEK: And then, the
3 next column provides the number of customers in the
4 province as of August 1st, 2020.

5 MR. LUKE JOHNSTON: Yes.

6 MS. CHARLOTTE MEEK: And the total
7 there is five-twenty-six eight-forty (526,840)?

8 MR. LUKE JOHNSTON: Correct.

9 MS. CHARLOTTE MEEK: Thank you.
10 Sorry, just for the record, five hundred and twenty-
11 six thousand eight hundred and forty (526,840). I
12 apologize.

13 MR. LUKE JOHNSTON: Yes. Yeah.

14 MS. CHARLOTTE MEEK: Thank you. So --
15 and MPI, in its calculations, took a -- to determine
16 the additional revenue that MPI would receive, used an
17 amount of one thousand five hundred and sixty-eight
18 (1,568) for the base amount that it indicated was the
19 average base premium. Is that correct?

20 MR. LUKE JOHNSTON: Yes.

21 MS. CHARLOTTE MEEK: Okay. And then,
22 we can see, in the far right column at the very
23 bottom, that this gives us a total additional revenue
24 that MPI would earn of 89.6 million. Is that correct?

25 MR. LUKE JOHNSTON: That's right.

1 MS. CHARLOTTE MEEK: Okay. And,
2 again, here we can see there's a disproportionate
3 amount of vehicles registered under the DSR 15 level
4 or at that 33 percent discount rate?

5 MR. LUKE JOHNSTON: That's right.

6 MS. CHARLOTTE MEEK: And so, would you
7 agree that almost half of all merit eligible vehicles
8 which received the maximum -- sorry, that -- that
9 amount of three-forty-seven (347) is almost half the
10 merit eligible vehicles, which receive the maximum
11 discount. Is that correct?

12 MR. LUKE JOHNSTON: Pretty close to
13 that, yeah.

14 MS. CHARLOTTE MEEK: Thank you. And
15 of the vehicles that are getting the 33 percent
16 discount, a hundred and eight thousand two -- six
17 hundred and twenty-eight (108,628) of those are
18 additional vehicles. Is that correct?

19 MR. LUKE JOHNSTON: That's right.

20

21 (BRIEF PAUSE)

22

23 MS. CHARLOTTE MEEK: And the
24 additional revenue that MPI would receive, if the
25 additional vehicles just at the 33 percent discount

1 level did not receive that discount, we can see is
2 \$56.2 million. Is that correct?

3 MR. LUKE JOHNSTON: In the
4 hypothetical scenario, yes. Yeah.

5 MS. CHARLOTTE MEEK: Thank you. So if
6 MPI was to receive this additional revenue, what kind
7 of impact would that have -- have on the requested
8 rate indication?

9 MR. LUKE JOHNSTON: So my
10 understanding of this request is -- is basically
11 saying if each registered owner was only allowed to
12 insure one (1) vehicle at the discount level they're
13 entitled to, and the remaining vehicles had to be
14 charged the base zero percent discount, that -- that
15 that would generate an extra \$89 million.

16 Obviously, that's not completely
17 realistic in the sense that if -- if we put such a
18 policy in place, you would assume that a secondary
19 driver at a different DSR level may be able to insure
20 vehicle number 2, and et cetera, et cetera.

21 But if, for any reason, we're --
22 something changed that made \$89 million of revenue
23 available, that should lower overall rates, all else
24 equal, by about 8, 8 1/2 percent.

25 MS. CHARLOTTE MEEK: Thank you.

1 And would MPI be able to provide, at
2 each discount level, the number of vehicles in column
3 'D' that are registered under Pleasure Use?

4

5 (BRIEF PAUSE)

6

7 MR. LUKE JOHNSTON: I guess, the first
8 question I'd have is which is the additional vehicle?
9 Like, if you have an all-purpose and a pleasure, is
10 the pleasure the additional vehicle?

11 MS. CHARLOTTE MEEK: I guess we would
12 be requesting that if there was a all-purpose or a
13 pleasure vehicle, that we would count one (1) of the
14 pleasure vehicles.

15

16 (BRIEF PAUSE)

17

18 MR. STEVE SCARFONE: The -- so the --
19 we're a little hesitant to accept it just because
20 we're not -- Mr. Johnston isn't aware of how much
21 work that might involve without talking to his -- his
22 team to see if that's something we could put together
23 in -- in a day or two (2).

24 MS. CHARLOTTE MEEK: Sure.

25 MR. STEVE SCARFONE: So maybe we can

1 take that under advisement. And then, we'll hear back
2 from the back row support probably before the end of
3 the day and let you know --

4 MS. CHARLOTTE MEEK: Thank you.

5 MR. STEVE SCARFONE: -- if that's
6 something we can provide.

7 MS. CHARLOTTE MEEK: Thank you.

8

9 --- UNDERTAKING NO. 33: MPI to provide, at each
10 discount level, the number of
11 vehicles in column 'D' that are
12 registered under Pleasure Use
13 (TAKEN UNDER ADVISEMENT)

14

15 MR. LUKE JOHNSTON: Yeah. And if --
16 if there's any questioning that can help us understand
17 what the purpose, I guess, of -- of the analysis is or
18 what that -- that would be helpful.

19 But -- yeah. Like, there's a lot of
20 different uses and stuff, so I would have to, I guess,
21 program something to pull out all the pleasure
22 vehicles and make that decision. But we'll -- we'll
23 look into that.

24 MR. STEVE SCARFONE: So Mr. Johnston
25 just made my relevance objection that I probably

1 should have made. But, yeah, he's just -- he's just
2 wondering what the purpose of it is and if we can
3 maybe get that from you. But we'll take it under
4 advisement.

5 MS. CHARLOTTE MEEK: Sure. So would
6 you like me to respond to the relevance?

7 MR. STEVE SCARFONE: Yes, if you don't
8 mind.

9 MS. CHARLOTTE MEEK: Sure. I suppose
10 what we're looking for is that because we don't have
11 the declaration of primary driver, it's possible, I
12 was thinking in my mind, that someone could have a
13 pleasure-use vehicle and an all-purpose-use vehicle
14 and they could be the primary driver of both of those.

15 So it would give us an idea if someone
16 has two (2) vehicles in their name and the second one
17 is a pleasure vehicle, that maybe they are the primary
18 driver of both of those vehicles.

19 MR. LUKE JOHNSTON: Okay, un --
20 understood. We'll -- we'll get back to you on that
21 one, I guess, yeah.

22

23 CONTINUED BY MS. CHARLOTTE MEEK:

24 MS. CHARLOTTE MEEK: Thank you. And
25 then I have another request. Would MPI be able to

1 provide a calculation to determine the additional
2 revenue that would be accrued if the additional
3 vehicles here -- so the hundred and ninety-eight four
4 hundred and thirty-three thousand -- were spread
5 across the discount levels in a similar proportion to
6 the count of drivers as included -- and including the
7 appropriate surcharges?

8 This is in relation to -- to your
9 previous comment, which was basically that the way
10 this chart currently is set up is kind of the worst-
11 case scenario, assuming that every secondary vehicle
12 would not get any discount at all.

13 So trying to have a better idea of if
14 the discount for the secondary vehicle was applied in
15 an amount proportionate to the number of vehicles that
16 we see at each discount level, it might give us a
17 slightly more accurate depiction of the additional
18 revenue that MPI might get from a Primary Driver
19 Model.

20 MR. LUKE JOHNSTON: So, you know, just
21 provide comments on the request just to try to be
22 helpful or -- or we'll see if we're doing it or not, I
23 guess.

24 The -- if we take the customer count
25 in, I guess, Column B -- those are unique customers

1 that have at least one (1) vehicle registered in this
2 case. The remaining population of available drivers
3 to insure the rest of the cars should be our -- our
4 full DSR scale minus these people that already have
5 one (1) car registered.

6 So I'm thinking, to respond to your
7 question, the best method would be to say, Take the
8 remaining vehicles and put them based on who doesn't
9 already have at least one (1) car. That might have
10 been what you were asking.

11

12 (BRIEF PAUSE)

13

14 MR. LUKE JOHNSTON: We'll accept that
15 undertaking. I don't know quite how much work that
16 is. It's not instant by any means, but should be
17 doable in the time we have.

18

19 --- UNDERTAKING NO. 34: MPI to provide a calculation
20 to determine the additional revenue
21 that would be accrued if the
22 additional vehicles were spread
23 across the discount levels in a
24 similar proportion to the count of
25 drivers, including the appropriate

1 surcharges

2

3 CONTINUED BY MS. CHARLOTTE MEEK:

4 MS. CHARLOTTE MEEK: Thank you. And
5 then one (1) last request: Would MPI be able to
6 provide the number of Manitoba licences in each year
7 between 2015 to 2019 with a registered vehicle which
8 had a negative DSR change and which in the following
9 year did not have a registered vehicle?

10

11 (BRIEF PAUSE)

12

13 MR. STEVE SCARFONE: So, yeah, if you
14 can repeat it, Ms. Meek, and -- and, again, it's not
15 that the Corporation doesn't want to be helpful to
16 your request. But these -- these are questions,
17 again, like I indicated yesterday, that could have
18 come earlier than, you know, today, two (2) or three
19 (3) days before we're done the hearing.

20 So Mr. Johnston tells me that's --
21 that's a lot of work at this stage to be asking, you
22 know, the employees to undertake. But if you can
23 repeat it again, and we'll see if we can help you out.

24 MS. CHARLOTTE MEEK: Sure. So I was
25 requesting that MPI provide the number of Manitoba

1 licences in each year between 2015 to 2019 with a
2 registered vehicle which had a negative DSR change and
3 which in the following year did not have a registered
4 vehicle.

5

6 (BRIEF PAUSE)

7

8 MR. LUKE JOHNSTON: Okay, so this is -
9 - yeah, it's really the flipping-your-vehicle
10 question. We'll attempt to do that. I'm -- in my
11 recollection, I feel like that's maybe been put on the
12 record before in previous hearings --

13 MS. CHARLOTTE MEEK: Okay.

14 MR. LUKE JOHNSTON: -- so if -- if it
15 was last year and I -- and I can find it and -- and
16 maybe, you know, knowing four (4) of the last five (5)
17 years is good enough, then obviously we'll try -- try
18 that first.

19 But we'll take that one on. I just ask
20 when the last day of the hearings were to -- to
21 understand the time frame, but we'll -- we'll try to
22 get that done, yeah.

23 MS. CHARLOTTE MEEK: Thank you. And I
24 -- and I can advise if -- if there's a shorter time
25 frame or less years, I'm -- I'm happy to consent to

1 the modification of the undertaking.

2 MR. LUKE JOHNSTON: Okay, well,
3 you'll, I'm sure, have discussions with Mr. Scarfone,
4 yeah.

5

6 --- UNDERTAKING NO. 35: MPI to provide the number of
7 Manitoba licences in each year
8 between 2015 and 2019 with a
9 registered vehicle that had a
10 negative DSR change and that in the
11 following year did not have a
12 registered vehicle

13

14 CONTINUED BY MS. CHARLOTTE MEEK:

15 MS. CHARLOTTE MEEK: Thank you. Okay,
16 and if we could go to CMMG-MPI-2-2, please. And we
17 can go to page 2, at Figure 1.

18 So this figure was providing the claim
19 count and the reported amount for PIPP claims in each
20 of those four (4) years. Is that correct?

21 MR. LUKE JOHNSTON: Yes.

22 MS. CHARLOTTE MEEK: And then if we go
23 to Figure 2.

24 So this is providing the PIPP claim
25 count and reported amount in the first column there

1 for claims where no vehicle was registered.

2 And I just wanted to clarify, is this
3 with no vehicle registered at any time between 2015 to
4 2019 or within each year?

5 And I should apologize because I think
6 it was a poorly worded Information Request by me.

7 MR. LUKE JOHNSTON: I -- I don't know.
8 The way the -- the column heading is described, it
9 sure sounds like it's no vehicles registered between
10 that time frame, but I don't know the answer. I'd
11 have to take that...

12

13 (BRIEF PAUSE)

14

15 MR. STEVE SCARFONE: Yeah, I guess all
16 we can answer is it certainly appears as though there
17 was nothing registered between those -- those years.
18 But we can -- I'm -- I'm just looking. I'd like to
19 see what the question reads in its entirety.

20 MS. CHARLOTTE MEEK: Yeah, the
21 question's worded in a way that that would make sense.

22

23 (BRIEF PAUSE)

24

25 MR. STEVE SCARFONE: Yeah, I think

1 that's -- that seems to me the logical interpretation
2 of that question, is just people that were on --
3 collecting injury benefits that didn't have a vehicle
4 registered in their name for five (5) years.

5 MS. CHARLOTTE MEEK: At any time for
6 those entire --

7 MR. STEVE SCARFONE: Yeah.

8 MS. CHARLOTTE MEEK: -- five (5)
9 years.

10 MR. STEVE SCARFONE: Yeah. And -- and
11 so we're just going to verify that that's, in fact,
12 how we interpreted and responded to that.

13

14 (BRIEF PAUSE)

15

16 MS. CHARLOTTE MEEK: Oh, okay.

17 MR. STEVE SCARFONE: Sorry. We'll get
18 back to Ms. Meek on that if she wants to carry on with
19 her cross, and we -- we should be able to get an
20 answer -- a definitive answer to that question.

21 THE PANEL CHAIRPERSON: If I could
22 ask, Ms. Schubert, could you scroll up just a bit so
23 we can see the narrative in advance of that figure?

24

25 (BRIEF PAUSE)

1 THE PANEL CHAIRPERSON: Thank you.

2 MS. CHARLOTTE MEEK: It seems to imply
3 the last five (5) years. Yeah. But I can --

4 MR. LUKE JOHNSTON: I'm -- I'm told
5 that's confirmed from the -- the individual that
6 worked on the question that it's no vehicle registered
7 in that time frame.

8 MS. CHARLOTTE MEEK: In those last
9 five (5) years. All right.

10 MR. LUKE JOHNSTON: Thanks for the --
11 for waiting, yeah.

12 MS. CHARLOTTE MEEK: Thank you. So
13 then we could assume that if it was provided for each
14 individual years, that the numbers would be
15 significantly higher for the claim count and the
16 reported amount for individuals who are making PIPP
17 claims who do not have a vehicle registered?

18 MR. LUKE JOHNSTON: It would be
19 higher, but significantly higher? I'm not sure. If -
20 - if it's, like, a mom and dad registering the car
21 type of thing, there may be no reason to -- for that
22 to change, but I don't know the answer to that.
23 Higher though, but has to be higher.

24 MS. CHARLOTTE MEEK: Would MPI be --
25 be willing to update that figure 2 to indicate the

1 amounts for each individual year?

2

3 (BRIEF PAUSE)

4

5 MR. STEVE SCARFONE: So, I'm just --
6 the same comment to you, Ms. Meek. I won't repeat
7 what I said earlier.

8 But we're just wondering if the -- if
9 the squeeze is worth it, or whatever that saying is,
10 if there's extra data that you expect to extract from
11 this that -- that's going to provide anything more
12 meaningful than what's already been provided.

13 Because Mr. Johnston's indicated it --
14 it would be an onerous ask to do a scan of everybody
15 in the -- you know, in the Corporation's database
16 that's -- that...

17 MR. LUKE JOHNSTON: Yeah. Like, I'm
18 considering these to be things we've got to turn
19 around the next couple days, so I just want to be
20 cautious. We've accepted a few.

21 Splitting out this data in the way
22 requested is a bit of work. You know, I'm told we can
23 do it but just that it's -- yeah, it's -- it's not a
24 simple, you know, pressing button type exercise.

25 MR. STEVE SCARFONE: So, again, let --

1 let's -- can I take it under advisement? And then
2 I'll -- because sitting here right now, I'm sure
3 there's people that are listening that are -- you
4 know, they're going to -- they're not happy about me
5 agreeing to these things.

6 So, I'd just like to confirm with
7 Luke's team whether or not that's something that they
8 can do, quite honestly, with -- within the next couple
9 days.

10 MS. CHARLOTTE MEEK: Sure. And in
11 terms of -- of proportionality, I would say that I
12 would usually want to request all of these figures for
13 each one be updated to each individual year, for
14 example, for CMMG-MPI-2-3, where I'd ask it in
15 relation to collisions claims.

16 But in order to -- appreciate the
17 position of the Corporation, I would say that figure 2
18 of CMMG-MPI-2-2 would be the most important one that I
19 would like to see.

20 MR. STEVE SCARFONE: Okay --

21 MS. CHARLOTTE MEEK: So, just having
22 that one (1) figure updated would be very beneficial,
23 I think, for the Board to have an idea of those
24 individuals without vehicles who are making PIPP
25 claims, which would be the most significant claims.

1 MR. STEVE SCARFONE: Okay. So, we'll
2 take that under advisement and let you know before the
3 end of today.

4 MS. CHARLOTTE MEEK: Thank you.

5

6 (BRIEF PAUSE)

7

8 MS. CHARLOTTE MEEK: So, working with
9 the -- oh, apologies.

10

11 (BRIEF PAUSE)

12

13 MR. STEVE SCARFONE: So, just if you
14 could, Ms. Meek, so that it's clear that -- they want
15 to start working on your request right away. So, if
16 you could read into the record what exactly the
17 undertaking is, and we're prepared to take it.

18 MS. CHARLOTTE MEEK: Sure.

19

20 (BRIEF PAUSE)

21

22 MS. CHARLOTTE MEEK: If MPI could
23 provide the total number and value of all PIPP's
24 claims from individuals without a registered vehicle
25 in their name at the time of the claim for each of the

1 last five (5) years.

2

3 --- UNDERTAKING NO. 36: MPI to provide the total
4 number and value of all
5 PIPP's claims from
6 individuals without a
7 registered vehicle in
8 their name at the time of
9 the claim for each of the
10 last five (5) years

11

12 MR. STEVE SCARFONE: Okay. Very good.

13 Thank you.

14 MS. CHARLOTTE MEEK: Thank you.

15

16 CONTINUED BY MS. CHARLOTTE MEEK:

17 MS. CHARLOTTE MEEK: So, working with
18 the information that we do have in this figure, Mr.
19 Johnston, would you agree that, subject to check, the
20 reported amount provided for claims without a
21 registered vehicle ranges from 8 1/2 to 15 percent of
22 the total PIPP claims for each of those years, between
23 2015 and 2019?

24 MR. LUKE JOHNSTON: I haven't done
25 that yet this year. Subject to checking, that seems

1 reasonable, yeah.

2 MS. CHARLOTTE MEEK: And if we can go
3 to CMMG-MPI-2-3, please, Kristen. So, again, here
4 figure 1 gives us the total collision claim count and
5 reported amount for each of those years, 2015 to 2019.

6 Do you see that, Mr. Johnston?

7 MR. LUKE JOHNSTON: Yes, I can.

8 MS. CHARLOTTE MEEK: And, again, when
9 we go to figure 2, this has provided us now what we
10 understand to be a collision claim -- claim count and
11 reported amount for drivers without a registered
12 vehicle at any time between 2015 and 2019.

13 Do you see that?

14 MR. LUKE JOHNSTON: Yes.

15 MS. CHARLOTTE MEEK: And would you
16 agree again, subject to check, that the reported
17 amount makes up for -- makes up about 12 to 15 percent
18 of the total reported amount in each -- in the years
19 between 2015 and 2019?

20 MR. LUKE JOHNSTON: Subject to check,
21 but I have, yeah, no reason to believe that's
22 incorrect.

23 MS. CHARLOTTE MEEK: And then if we
24 could go back to Exhibit 25, please, Kristen, at page
25 14, line 9, which reads:

1 "For collision losses where a driver
2 can be identified, 41 percent of the
3 reported losses are attributable to
4 claims where the driver is not the
5 registered owner."

6 Do you see that, Mr. Johnston?

7 MR. LUKE JOHNSTON: I do.

8 MS. CHARLOTTE MEEK: So, that's quite
9 a different percent amount than what we were just
10 looking at in the previous charts, which would
11 indicate that perhaps the new information might
12 provide that 40 percent of the claims are coming from
13 individuals who do not have a registered vehicle in
14 their name?

15 MR. LUKE JOHNSTON: I see. So, I
16 guess the -- one (1) of the main differences could be
17 the -- the requirement we spoke of, that you didn't
18 have a registered vehicle over the entire time frame
19 versus just at the time of loss. That may -- that may
20 be the difference, but, yeah, I -- I can't -- I can't
21 confirm that.

22 But I've -- this information should be
23 correct for this -- what's specifically said here.
24 The driver was not the registered owner at the time of
25 the claim.

1 MS. CHARLOTTE MEEK: Thank you. And
2 if we could go to CAC-MPI-1-32, please, Kristen. And,
3 Mr. Johnston, you're aware that MPI undertook a
4 motorcycle product review for this year's GRA.

5 Is that correct?

6 MR. LUKE JOHNSTON: That's correct.

7 MS. CHARLOTTE MEEK: And MPI did that
8 in collaboration with some CMMG members.

9 Is that correct?

10 MR. LUKE JOHNSTON: That's right.

11 MS. CHARLOTTE MEEK: And if we can
12 scroll down. Sorry, Kristen, I don't have a page
13 number, but there's -- oh, I do, sorry, page 5. Thank
14 you. Point 4, if we scroll down so we could see that.

15 MR. LUKE JOHNSTON: I see that.

16 MS. CHARLOTTE MEEK: There is a
17 discussion here about some modification to the claims
18 allocation methodology. Is that correct?

19 MR. LUKE JOHNSTON: Yes.

20 MS. CHARLOTTE MEEK: Are you familiar
21 with this document?

22 MR. LUKE JOHNSTON: I am. I'm just --

23 MS. CHARLOTTE MEEK: Reminding
24 yourself?

25 MR. LUKE JOHNSTON: I would have --

1 would have approved it went through it, but I'm just
2 remembering what this one is. But, yes, in general, I
3 am, yeah.

4 MS. CHARLOTTE MEEK: So, I just wanted
5 to ensure that we all have the same understanding
6 regarding the cost allocation methodology. I know
7 there's been some discussion of it, so I just want to
8 walk through it.

9 So, first, relating to loss cost for
10 collision and comprehensive claims. Those are applied
11 on a first-party basis, which means that all of the
12 losses are allocated to the vehicle the claim.

13 Is that correct?

14 MR. LUKE JOHNSTON: That's right.

15 MS. CHARLOTTE MEEK: And I understand
16 there's an exception for the motorcycle class.

17 Is that correct?

18 MR. LUKE JOHNSTON: That's right.

19 MS. CHARLOTTE MEEK: Okay. So, for
20 the motorcycle collision claims, a hundred percent of
21 the motorcycle claims for single vehicle accidents are
22 motor -- are allocated, sorry, to the motorcycle
23 class. Is that correct?

24 MR. LUKE JOHNSTON: That's right.

25 MS. CHARLOTTE MEEK: And then for

1 multi-vehicle claims where a motorcycle is involved,
2 50 percent of the collision costs are allocated to the
3 motorcycle class with the other 50 percent being
4 allocated to all other units.

5 Is that correct?

6 MR. LUKE JOHNSTON: That's right.

7 MS. CHARLOTTE MEEK: Thank you. And
8 then for PIPP claims there's a different methodology.
9 Is that correct?

10 MR. LUKE JOHNSTON: Correct.

11 MS. CHARLOTTE MEEK: Okay. And that's
12 kind of what is described here in point 4, the first
13 point being that any accident involving only MPI
14 insured vehicles, the total PIPP costs are then
15 allocated equally between all those vehicles that
16 involved in the collision.

17 Is that correct?

18 MR. LUKE JOHNSTON: That's right.

19 MS. CHARLOTTE MEEK: Thank you. And
20 any accident involving an MPI -- MPI vehicle, as well
21 as an unidentified offender or another injured party,
22 like a cyclist or a pedestrian, and a wildlife claim
23 are then split 50 percent of all PIPP costs going to
24 the MPI vehicles involved and the other 50 percent
25 then being spread equally across all classes.

1 Is that correct?

2 MR. LUKE JOHNSTON: That's right.

3 MS. CHARLOTTE MEEK: Okay. And these
4 changes were brought forward after a special hearing
5 which, in part, resulted from the unanticipated
6 impacts of the new no-fault system that it had had on
7 the motorcycle class.

8 Is that correct?

9 MR. LUKE JOHNSTON: That was the
10 outcome of -- I think we'd call the lost transfer
11 hearings, yeah.

12 MS. CHARLOTTE MEEK: Thank you. And I
13 believe, Mr. Johnston, you had talked during some
14 previous panels about the reason for this methodology
15 change which related to the impacts or risks posed by
16 different vehicles on the road.

17 For example, you discussed how
18 something like a large truck posed more danger to a
19 vulnerable road user, like a motorcycle or a
20 pedestrian on the road, and could cause more damage to
21 smaller vehicles.

22 Is that correct?

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

24 MS. CHARLOTTE MEEK: Thank you. And
25 then if we could scroll down to page 6, please,

1 Kristen. And here at the top there, MPI indicates:

2 "A Claims Cost Allocation
3 Methodology based on full third-
4 party at-fault cost allocation may
5 reduce motorcycle premiums."

6 Can you provide some further
7 explanation on what's being discussed here?

8 MR. LUKE JOHNSTON: Yeah. It's
9 emphasis on "may". When we had the loss transfer
10 hearings, I'd have to refresh my memory on -- on that,
11 but my recollection was that the final decision was
12 favourable to motorcycles relative to other options.

13 But in -- if -- what -- what this is
14 saying here is if we were to allocate PIPP costs
15 completely by -- based on fault, so if the
16 motorcyclist was deemed zero percent at fault, all
17 motorcycle injury costs would go to the other -- the
18 at-fault party.

19 That -- that may reduce motorcycle
20 premiums, and it's -- it's an interesting question.
21 To your point, MPI obviously understands if you want
22 to drive a tank down a road and just, you know, run
23 into things, the person in the -- in the -- the tank
24 would never be injured and they could cause other
25 injuries, and that wouldn't be appropriate.

1 The motorcycle side, a motorcycle
2 hitting a very large vehicle, probably much more
3 likely to injury the motorcyclist than the person in
4 the vehicle.

5 So it wouldn't be shocking, if only
6 PIPP was being considered, that the motorcyclists
7 would have more to potentially transfer in terms of
8 injuries than -- than the other vehicles. So that's -
9 - that's what's being referenced here or recognized
10 here.

11 MS. CHARLOTTE MEEK: And does MPI
12 track fault in all of its collisions data?

13 MR. LUKE JOHNSTON: We do.

14 MS. CHARLOTTE MEEK: I'm going to have
15 another undertaking here, but can MPI provide data for
16 collisions involving motorcyclists and provide claims
17 counts and reported amount of PIPP claims for those
18 claims where the motorcyclist was deemed not to be at
19 fault?

20

21 (BRIEF PAUSE)

22

23 MR. LUKE JOHNSTON: If I could just
24 have one (1) -- one (1) moment, please.

25 MR. STEVE SCARFONE: I decided to put

1 my mask on. We had a hundred and eighty-three (183)
2 cases today apparently, record-breaking. I'm not sure
3 if Mr. Johnston's safe.

4 That particular request, Ms. Meek,
5 is...

6

7 (BRIEF PAUSE)

8

9 MR. STEVE SCARFONE: Yeah. So, Ms.
10 Meek, what time period were you thinking about for
11 that? You didn't mention.

12 MS. CHARLOTTE MEEK: The last five (5)
13 years --

14 MR. STEVE SCARFONE: Okay. Just --

15 MS. CHARLOTTE MEEK: -- in each of the
16 last five (5) years.

17 MR. STEVE SCARFONE: So I think maybe,
18 Madam Chair, if we could get the Board's thoughts on -
19 - on these requests that are being made by the CMMG at
20 this late stage and whether they're appropriate when
21 they could have been asked during the discovery phase
22 of the proceeding.

23 THE PANEL CHAIRPERSON: Yes. One (1)
24 moment, please.

25

1 (BRIEF PAUSE)

2

3 MS. CHARLOTTE MEEK: Madam Chair, may
4 I have an opportunity to provide my comment on its
5 relevance?

6 I think it's important to note that the
7 previous DSR system when it was first -- or the
8 previous methodology when it was first brought in had
9 negative consequences to the motorcycle class, which
10 was why there was this special hearing about the loss
11 allocation.

12 And in that Decision, the Board noted
13 that the change had been made without a thought for
14 the impacts on the motorcycle class.

15 And so I want to raise this in relation
16 to the current DSR system that we are looking at and
17 how fair it is and how that might impact motorcyclists
18 specifically who pay such high premiums, and whether
19 or not MPI is pursuing an appropriate DSR system in
20 terms of the -- the fairness to all insured vehicles.

21 THE PANEL CHAIRPERSON: Thank you, Ms.
22 Meek. I don't think that we have any quarrel at all
23 with regard to the relevance of the information, but I
24 think that, to Mr. Scarfone's point, this is late in
25 the proceedings to be asking this question that could

1 conceivably and properly have been asked in the IRs.

2 The other question is, first of all,
3 the amount of work that it would take to produce a
4 report like that, and a definitional question as well
5 with regard to what does "at fault" mean. There's 100
6 percent fault, there's 50 percent fault.

7 There's an awful lot of factors that go
8 into this. So, Mr. Scarfone, I would ask that you
9 consult with your client and determine the amount of
10 work that would be required, whether this is one (1)
11 of those reports that could be produced by pushing a
12 button on a computer, or whether it's going to take a
13 significant amount of work.

14 If it's the latter, we may not be
15 inclined to --

16 MR. STEVE SCARFONE: So --

17 THE PANEL CHAIRPERSON: -- for the
18 undertaking.

19 MR. STEVE SCARFONE: Thank you, Madam
20 Chair. I can advise already that it is a significant
21 amount of work.

22 But the Corporation and I'm told by Mr.
23 Johnston certainly is -- is prepared to -- so it -- it
24 would seem as though, while Ms. Meek is drawn some
25 relevance to the Driver Safety Rating Program, it's

1 more to do, in our view, with the Cost Allocation
2 Methodology.

3 And if that -- if -- if the CMMG wants
4 to revisit that, then the Corporation is certainly
5 prepared to provide all the data that it requires to
6 do that perhaps in the next General Rate Application.

7 And so it's not something that the
8 Corporation doesn't want to provide, but is unable to
9 at this late stage of the hearing.

10

11 (BRIEF PAUSE)

12

13 THE PANEL CHAIRPERSON: Thank you for
14 that, Mr. Scarfone.

15 Ms. Meek, your comment with regard to
16 the Cost Allocation as opposed to the Driver Safety
17 Rating information that has been raised by Mr.
18 Scarfone?

19 MS. CHARLOTTE MEEK: I think,
20 considering Mr. Scarfone's comments about this being
21 relevant to the Cost Allocation Methodology, I think
22 CMMG would be agreeable to perhaps viewing this as
23 something to bring up in next year's GRA to examine at
24 that time when we have more fulsome information and a
25 bit more time.

1 THE PANEL CHAIRPERSON: Yes. Thank
2 you for that. Thank you, Mr. Scarfone.

3

4 CONTINUED BY MS. CHARLOTTE MEEK:

5 MS. CHARLOTTE MEEK: All right. If we
6 could scroll to page 9 of this document, please,
7 Kristen. And if we scroll to the bottom, the last
8 point there in the column second from the -- or from
9 the right, sorry, says:

10 "MPI plans to complete a review of
11 the Experienced Rider Program by
12 late fall 2019 and to share the
13 results of this review in the 2021
14 GRA."

15 Was this review completed?

16

17 (BRIEF PAUSE)

18

19 MR. LUKE JOHNSTON: I'm actually not
20 sure of the answer to this one. If I can get the
21 answer in the next thirty (30) seconds, I'll let you
22 know. Otherwise I'll have to take it away.

23

24 (BRIEF PAUSE)

25

1 MR. LUKE JOHNSTON: My staff is saying
2 that they'd have to confirm that with the road safety,
3 so we'd have to take that answer away. I don't know.
4 Yeah.

5 MS. CHARLOTTE MEEK: Thank you. That
6 MPI confirm whether or not a review of the experienced
7 rider program was completed.

8
9 --- UNDERTAKING NO. 37: MPI to advise if a review
10 of the Experienced Rider Program by
11 late fall 2019 was completed and the
12 results shared in the 2021 GRA

13

14 MR. LUKE JOHNSTON: I was going to say
15 that's the same question I think, but yes, that's the
16 undertaking. Yes.

17 THE BOARD CHAIRPERSON: Sorry, if I
18 could add. And if it was completed, do you want the
19 results?

20 MS. CHARLOTTE MEEK: Yes, please. If
21 you could file the results. Thank you, Mr. Gabor.

22 MR. LUKE JOHNSTON: Agreed.

23

24 CONTINUED BY MS. CHARLOTTE MEEK:

25 MS. CHARLOTTE MEEK: And then if we

1 could go the Application please, Kristen, part 6, DSR
2 page 9.

3 So right at the bottom, MPI gave some
4 information, this is about ICBC or the insurance -- I
5 believe it's the Insurance Corporation of British
6 Columbia.

7 MR. LUKE JOHNSTON: That's right.

8 MS. CHARLOTTE MEEK: Thank you. And
9 so MPI was giving some information about the scale
10 used by ICBC, is that correct?

11 MR. LUKE JOHNSTON: That's right.

12 MS. CHARLOTTE MEEK: And I think -- so
13 at line 19, MPI indicates that:

14 "Under the new system the vehicle
15 owner is required to list all
16 drivers when registering the
17 vehicle. Most of the vehicle
18 insurance premium is based on the
19 driving record of the principle
20 driver at 75 percent, and the
21 remainder of 25 percent is based on
22 the driving record of the highest
23 risk driver listed on the policy."

24 Do you see that there, Mr. Johnston?

25 MR. LUKE JOHNSTON: I do.

1 MS. CHARLOTTE MEEK: Do you know
2 whether the ICBC system prohibits individuals who are
3 not listed on the insurance as drivers of the vehicle
4 from operating the vehicle?

5 MR. LUKE JOHNSTON: I believe there's
6 a supplementary coverage for that, but I -- I'd have
7 to confirm that. Yeah.

8 MS. CHARLOTTE MEEK: And were MPI was
9 to implement a primary driver model, would MPI be
10 supportive of a DSR system that also required a
11 secondary driver or other drivers to also be listed?

12 MR. LUKE JOHNSTON: That's -- that's a
13 tough question. We do meet with ICBC, SGI, SAAQ
14 somewhat regularly. My understanding is this hasn't
15 gone very well.

16 The -- it's complicated. It's asking
17 for a lot of new information. Some pretty extreme
18 changes in rates and when I heard they were doing
19 this, I -- I was surprised because you could see --
20 you know, if we did something like this in Manitoba,
21 this is a -- it's a pretty big change.

22 If you -- if you go to the next
23 paragraph here on -- on line 3 it talks about, you
24 know, 3 decimal driver numbers and I believe if you
25 scroll down further, there's a -- comments about

1 driver's licence charges that can be, like, thirty
2 thousand dollars (\$30,000).

3 So, I really struggle to say that we
4 don't want to compare to what ICBC has done,
5 necessarily, but primary driver, I could see some
6 merit to that. Starting to list drivers and doing all
7 these creative rating things and points and such, I
8 think would be a bit too much for Manitobans right
9 now. So, yeah.

10 MS. CHARLOTTE MEEK: Thank you, those
11 are my questions.

12 THE PANEL CHAIRPERSON: Thank you, Ms.
13 Meek. Mr. Gabor...?

14 THE BOARD CHAIRPERSON: Kristen, could
15 we go to CAC-MPI-1-30? Right there.

16 So, this was the discussion about
17 regulatory changes. And the expected timeline from
18 the initial executive approval to Cabinet approval is
19 approximately twelve (12) months, correct?

20 MR. LUKE JOHNSTON: That's -- yeah.

21 THE BOARD CHAIRPERSON: Mr. Johnston,
22 you were here at last year's hearing --

23 MR. LUKE JOHNSTON: I was.

24 THE BOARD CHAIRPERSON: -- while we
25 were dealing with another regulation.

1 MR. LUKE JOHNSTON: Can you say that
2 last part again?

3 THE BOARD CHAIRPERSON: When we were
4 dealing with another regulation.

5 MR. LUKE JOHNSTON: Yes.

6 THE BOARD CHAIRPERSON: It was, I
7 believe, the Capital Management Plan regulation.

8 MR. LUKE JOHNSTON: Right, yes.

9 THE BOARD CHAIRPERSON: Do you know
10 the time frame from the initial executive approval to
11 Cabinet approval, what that -- what the length of time
12 was?

13 MR. LUKE JOHNSTON: Off the top of my
14 head, I don't.

15 THE BOARD CHAIRPERSON: Okay. Could I
16 have an undertaking that you find out what the time
17 frame was in the same -- using the same timelines as
18 this?

19 MR. STEVE SCARFONE: Yes, from the
20 approval of the Board of Directors to the Cabinet
21 approval?

22 THE BOARD CHAIRPERSON: Right, right.

23

24 --- UNDERTAKING NO. 38: MPI to advise what the time
25 frame was using the same timelines

1 as this from the approval of the Board
2 of Directors to the Cabinet approval.

3

4 THE BOARD CHAIRPERSON: I wanted to
5 ask you about this declaration or primary driver,
6 because you indicated that it would be -- if you went
7 -- if MPI went in that direction you would need a
8 declaration.

9 I assume that if you -- asking for a
10 declaration wouldn't be that complicated in the sense
11 that it's not a -- a difficult form, but you need to
12 have something behind that in terms of enforcement.

13 MR. LUKE JOHNSTON: That's right.

14 THE BOARD CHAIRPERSON: So you would -
15 - you would need something to provide some comfort
16 that the person was telling the truth.

17 MR. LUKE JOHNSTON: Agreed.

18 THE BOARD CHAIRPERSON: If somebody
19 files a false claim with MPI, what are the remedies
20 available to MPI?

21 MR. STEVE SCARFONE: So if under -- if
22 under the statutory declaration. So in the normal
23 course, Mr. Gabor, when an insurance claim is opened,
24 if -- if the adjuster was to regard it as non-
25 contentious, I think is the language they use, they

1 just make a decision on the claim.

2 If there's something that alerts them
3 to something more, something that needs to be
4 investigated, they will commonly call the customer in
5 for a statement or a statutory declaration.

6 And then if the investigation reveals
7 that something in that statutory declaration is false,
8 then they forfeit the claim under section 37 of the
9 Act.

10 THE BOARD CHAIRPERSON: Okay. I don't
11 know who -- if this question is to Mr. Scarfone or Mr.
12 Johnston.

13 I'm going to put it to Mr. Johnston,
14 but is there anything that would preclude MPI from
15 having a similar system in place to try and convince
16 people not to lie about who the primary driver is in
17 order to get a lower -- to get a better rating?

18

19 (BRIEF PAUSE)

20

21 MR. STEVE SCARFONE: So I -- I guess
22 again, maybe I should take this, Mr. Gabor.

23 The easiest way to -- to provide that
24 deterrent would be to add it as a condition of
25 coverage in the --

1 THE BOARD CHAIRPERSON: Right.

2 MR. STEVE SCARFONE: -- the coverage
3 regulation. Whereby if they made a false declaration
4 as -- like, for example, if someone is -- is telling
5 us that they're using a vehicle only for pleasure and
6 we find out they were in an accident on the way to
7 work, that would be a breach.

8 THE BOARD CHAIRPERSON: Right, it
9 would fall into the same situation.

10 MR. STEVE SCARFONE: Yes.

11 THE BOARD CHAIRPERSON: It would fall
12 into the same situation if, hypothetically, this isn't
13 true, I have a car registered in my name and I don't
14 drive it, my son drives it, and he lives at a
15 different address. It -- it falls into that same
16 situation. Thank you.

17 Mr. Johnston, would I be correct in
18 saying insurance is based on evaluating and measuring
19 risk and setting prices for premiums based on that
20 risk?

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

22 THE BOARD CHAIRPERSON: So if we went
23 into a different field from auto insurance, let's say
24 home insurance, when they're looking at the risk in
25 relation to what their premium would be, they're

1 looking at the house that will be insured, correct?

2 MR. LUKE JOHNSTON: That's right, yes.

3 THE BOARD CHAIRPERSON: And if I'm
4 looking at life insurance, you know, for example if I
5 want to place life insurance, they're looking at
6 factors that would relate to my health, correct?

7 MR. LUKE JOHNSTON: Maybe. There
8 could be group plans that reflect the health of the
9 entire corporation, for example, not mine
10 specifically, but that would be an example where it's
11 a group as opposed to, you know, me.

12 THE BOARD CHAIRPERSON: Okay. If I'm
13 looking -- if they're looking at my health though,
14 they're not looking at my wife's health or somebody
15 else in my house's health. They're looking at me?

16 MR. LUKE JOHNSTON: On an individual
17 basis for pricing, yes. On a group, it would be the
18 pricing of the group.

19 THE CHAIRPERSON: If I could --
20 Kristen, if I could go to page 3 of Exhibit -- MPI
21 Exhibit 49. And right at the bottom in that print is
22 other merit eligible vehicle types not used, i.e.,
23 motor homes and -- motor homes and motorcycles.

24 Now, would I be correct -- but they
25 don't use motorcycles because of the issue that the

1 registered owner -- that the driver may not be the
2 registered owner of the motorcycle.

3 MR. LUKE JOHNSTON: That is an issue.
4 But our issue was really the complexity of including a
5 bunch of very different rating factors in the larger
6 analysis. So motorcycle body styles, engine
7 displacements, all that -- like a --

8 THE CHAIRPERSON: So it goes beyond
9 that -- just that one (1) issue.

10 MR. LUKE JOHNSTON: But that is a real
11 issue, but -- yeah.

12 THE CHAIRPERSON: Okay. Kristen, if I
13 could go to the General Rate Application part 2, page
14 18 of 23.

15

16 (BRIEF PAUSE)

17

18 THE CHAIRPERSON: Okay. Right -- no.
19 if you could go up higher. This analysis -- that one
20 right there. Okay.

21 Mr. Johnston, I believe I had you look
22 at this -- this part before.

23 MR. LUKE JOHNSTON: Yes.

24 THE CHAIRPERSON: So when it says
25 here:

1 "Motorcycles registered for road use
2 by those without valid class 6
3 licences are assumed to be
4 registered on behalf of someone
5 else. This may result in a DSR
6 discount being applied to (some)
7 motorcycle policies based on the
8 driving record of someone who is not
9 licensed to operate a motorcycle.
10 This registration practice may be
11 used by customers in order to obtain
12 a higher DSR vehicle premium
13 discount. However, this practice
14 can result in inappropriate pricing
15 of risk."

16 That goes to the issue of trying to tie
17 the risk to the person who's actually driving the
18 motorcycle?

19 MR. LUKE JOHNSTON: Yeah. And this
20 one, there's really no dispute who the -- well, who
21 isn't the primary driver. There's no dispute.

22 THE CHAIRPERSON: And that was the
23 issue, I believe, before where we're talking about
24 seventy thousand (70,000) --

25 MR. LUKE JOHNSTON: Motorcycle

1 licences, yeah.

2 THE CHAIRPERSON: -- licences and
3 seventeen thousand (17,000) owners.

4 MR. LUKE JOHNSTON: That's right.

5 THE CHAIRPERSON: Okay.

6 MR. LUKE JOHNSTON: Yeah.

7 THE CHAIRPERSON: I -- would you -- I
8 just want to ask you. Do good drivers, who are
9 registered owners now subsidize bad drivers who are
10 not registered owners?

11 MR. LUKE JOHNSTON: Based on the
12 pricing analysis, that is the conclusion that you
13 would draw. The -- we -- I hope we've been fully
14 transparent on that, but there is a higher discount
15 and a lower price indicated based on that model.
16 Yeah.

17 THE CHAIRPERSON: In your surveys to
18 the public, have you indicated that statement to the
19 public? That, in fact, what happens is that good
20 drivers who are registered owners are -- are
21 effectively subsidizing bad drivers who aren't
22 registered owners?

23 MR. LUKE JOHNSTON: I'm not aware of -
24 - of us making that statement.

25 In this forum, I've definitely said,

1 pretty much every year, I think, that -- that those
2 discounts are by policy and they are not actuarially
3 sound. But on a public forum, we haven't gone out and
4 told them that.

5 THE CHAIRPERSON: And you wouldn't --
6 I -- I was going to ask you to draw a conclusion that
7 I don't think would be appropriate.

8 When we were talking about adjustments,
9 you raised, in the material and in testimony,
10 adjustments include other rating variables, like
11 territory, use, and rate group. Correct?

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

13 THE CHAIRPERSON: And those factors
14 are factors that go directly to -- to risk. The risk
15 is higher in certain territories, the risk is higher
16 is certain use -- with certain users and with certain
17 rate groups. Is that correct?

18 MR. LUKE JOHNSTON: That's correct.

19 THE CHAIRPERSON: Okay. And for the
20 adjustment, we talked -- you talked about the models
21 being the driver -- sorry, the registered owner or
22 primary driver are similar enough to make gradual
23 movement without drastic changes.

24 And I understand that in terms of
25 looking at the table and there's a 22 percent rate

1 increase or something like that.

2 Would the change, using your earlier
3 definition of rate shock of 2 percent, is that what
4 you're sort of looking at, which is if we're going to
5 adjust it moderately, that's the sort of moderation
6 we're talking about? Or is that a completely
7 different category?

8 MR. LUKE JOHNSTON: That could be --
9 we talked about a few different, you know,
10 possibilities for -- for doing this.

11 The -- something like that could --
12 could work, so we could -- like, so we mentioned -- my
13 discussion with Mr. Williams -- maybe we put a limit
14 on how much of a DSR change you can have in a
15 particular year until this is implemented. That would
16 be one (1) option.

17 THE CHAIRPERSON: In terms of the time
18 to take effect, are you talking about something -- if
19 you wanted to bring it in in a moderate fashion,
20 something like over a five (5) to ten (10) year
21 period?

22 MR. LUKE JOHNSTON: That would seem --
23 that would seem reasonable.

24 I guess, what -- what we didn't really
25 talk about much is the scale -- on an actuarial basis

1 really seems to be the most problematic on the
2 extremes. The -- you know, like, the very top and the
3 very bottom. The middle part is actually surprisingly
4 close to just the policy-based numbers that were put
5 in place. So there's not actually a ton of movement
6 that's required there.

7 Most of what would be happening is to
8 just gradually move that very top of the scale to a
9 lower rate. It would be at, I guess, the expense of
10 others. But it's not really at the expense of others,
11 if -- if they're paying too much. Right?

12 So -- but five (5) to ten (10) years
13 would seem very reasonable, recognizing that if we
14 went that route and we happened to have, as Mr.
15 Williams mentioned, a rate decrease anyways, that
16 could perhaps be moved forward faster.

17 THE CHAIRPERSON: Thank you, Madam
18 Chair. That's -- those are my questions. Thank you,
19 Mr. Johnston.

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

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

24 THE PANEL CHAIRPERSON: I have one (1)
25 question for you, Mr. Johnston. Just to confirm my

1 understanding of your evidence.

2 You were talking about the driver's
3 licence premiums and indicated that they were an
4 effective way of changing driver behaviour.

5 Would that same comment be applicable
6 to a Primary Driver Model, where primary drivers who
7 perhaps didn't have a good merit rating would then
8 have to pay more money to license their car?

9 MR. LUKE JOHNSTON: To the extent that
10 we could, you know, properly enforce that behaviour
11 and get that correctly identified, you would assume
12 that there would be more incentive to not just ride
13 under the cover of someone else's, you know, plus 15
14 rating, knowing that you're going to have to pay that
15 -- that bill as the primary driver.

16 So I would expect some form of
17 incentive there for -- for better behaviour. Can't
18 guarantee it, of course, but -- yeah.

19 THE PANEL CHAIRPERSON: Thank you.

20 Mr. Scarfone...?

21

22 RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE:

23 MR. STEVE SCARFONE: Thank you. So
24 the panel kind of stole my thunder and asked a lot of
25 the same questions I had.

1 But the -- the last question that you
2 just fielded, I think is similar to the one I put to
3 you yesterday, where -- perhaps you can answer it
4 again. Because we've seen that there's been a decline
5 in frequency over the past couple -- three (3) years.
6 And the Corporation has attributed that to -- at
7 least, in part, to the deterrent under the Driver
8 Safety Rating program.

9 And so, following up on Madam
10 Chairperson's question, do -- does the Corporation
11 risk losing that frequency reduction if it moves to a
12 -- to the Primary Driver Model?

13 MR. LUKE JOHNSTON: I -- I don't
14 believe that would be the case, especially if we're
15 moving to more sound pricing on an actuarial basis
16 rather than policy-based pricing.

17 MR. STEVE SCARFONE: Thank you. And
18 then I also had a question on the excluded data in the
19 pricing examination.

20 As I recall, Mr. Johnston, you used the
21 passenger vehicles and light trucks, and, you know,
22 Ms. Meek is there saying, Oh, you've again forgotten
23 about my motorcycle client, excluding them.

24 But I'm wondering, if you had included
25 some of the excluded classes, would that have rendered

1 your pricing examination less accurate?

2 MR. LUKE JOHNSTON: It definitely, per
3 my earlier point, made it more complicated, and adding
4 to that complexity could have impacted the results in
5 some way. It's a small group, but we focussed on this
6 kind of well-established, stable, largely credible
7 group so we could get more credible results, yeah.

8 MR. STEVE SCARFONE: So based on the
9 findings of the pricing examination, I think it's fair
10 to say that the Corporation has identified a problem
11 that -- that needs to be addressed, and I would
12 suggest to you, Mr. Johnston, that you say, Yes, we
13 want to move towards a gradual improvement. Some
14 might suggest there should be more urgency shown by
15 the Corporation with respect to the findings of your
16 examination. How would you respond to that?

17 MR. LUKE JOHNSTON: There's -- we --
18 we've discussed some of them. Per the comments I just
19 made, I actually was somewhat surprised that, for the
20 most part, the scale wasn't completely out of touch
21 with reality. It was really the upper edges and
22 perhaps some of the surcharge levels.

23 The biggest kind of, I guess, shocking
24 number is this 23 percent increase to the base rate
25 that you'd have to put through to -- to achieve

1 revenue neutral results, so in other -- to give all
2 those bigger discounts out to the -- the drivers at
3 the top of the scale. That's pretty extreme in terms
4 of customer support for -- and -- and government and
5 any PUB support for a new model. I would see that as
6 a pretty extreme scenario.

7 So as we've talked today, MPI doesn't
8 have a particular recommendation today in terms of how
9 to phase that in, so to speak. But there's several
10 reasonable options discussed, so MPI can look into
11 those and come back with a -- with a recommendation
12 from MPI's perspective.

13 MR. STEVE SCARFONE: Another similar
14 question that I had -- that Mr. Gabor asked you -- he
15 used the reserves regulation, I will use the
16 Compulsory Extension Review Project.

17 You were extensively involved with
18 respect to the suite of product changes with Basic?

19 MR. LUKE JOHNSTON: Yes, I was.

20 MR. STEVE SCARFONE: And do you
21 recall, sir, if you can, how long in terms of months
22 that took from board approval to Cabinet approval?

23 MR. LUKE JOHNSTON: I -- I can't
24 recall exact months, but I can tell you that it was a
25 pretty substantial process. And if not for the

1 persistence of Mr. Graham, I'm -- I'm not sure if that
2 particular proposal would have went through.

3 Even the final changes that were
4 approved, you'll note that those were made in the most
5 customer-friendly way possible, essentially, taking a
6 loss on -- or -- or a reduction in Extension profits
7 so we could deliver those revenue-neutral basis, such
8 that not a single customer was negatively impacted.

9 That is very similar to how DSR 1.0, I
10 guess, went down. Government did not want to see any
11 negative impacts, and the model had to be revised to
12 try to meet those objectives.

13 So we could perhaps provide the number
14 of months with that other undertaking, but I -- I
15 would assume it's well in the eighteen (18) to twenty-
16 four (24) month range, if I had to guess, yeah.

17 MR. STEVE SCARFONE: Thank you. You
18 mentioned the jurisdictional scan that the -- the
19 Corporation did, and you spoke briefly about the --
20 the province of British Columbia and how they assess
21 the risk of their drivers.

22 Are there any other comparable
23 jurisdictions that MPIC can look to, namely,
24 Saskatchewan for insight?

25 MR. LUKE JOHNSTON: Yeah, I mentioned

1 the public insurers. ICBC, in -- in my opinion, is an
2 example of just going a bit too far on the actuarial
3 side. It's, like, just complicated and, in some
4 cases, very extreme price changes.

5 SGI, I don't know if they've even had a
6 rate hearing since 2014 or 2015. It's pretty clear
7 that their numbers are not pulled out of actuarial
8 model based on how -- you know, the rounded 25 percent
9 and things like that.

10 So I would expect that they are in the
11 -- the same or -- or even farther off position as MPI.
12 At least MPI has come back and update rates every year
13 for the last however many years.

14 Quebec has been in contact with us
15 about using our model, learning how we developed it,
16 and -- and potentially -- not copying it, but -- but
17 learning from it. So we're working with them on -- on
18 that piece. So this will obviously -- our current DSR
19 proposals will be of interest to them.

20 MR. STEVE SCARFONE: And is it fair to
21 say, Mr. Johnston, from an actuarial standpoint,
22 meaning the professional standards that you have to
23 uphold in -- in carrying out your job, you're agnostic
24 as it concerns whether the Corporation uses one (1)
25 model over another?

1 MR. LUKE JOHNSTON: Obviously, you
2 know, in terms of coming to these hearings and having
3 to explain that, you know, we didn't use the actuarial
4 indications is, you know, something that if I didn't
5 have to do would make my job easier.

6 But, yeah, my -- my role as an actuary
7 to provide that opinion and other decisions such as
8 policy-based decisions or in other lines of business,
9 profitability considerations and such -- those --
10 those are made by MPI, MPI board, and, in some cases,
11 government.

12 MR. STEVE SCARFONE: Right. So those
13 other factors that you mentioned in your testimony,
14 including the public-interest factor?

15 MR. LUKE JOHNSTON: Yes, yeah.

16 MR. STEVE SCARFONE: So the decision,
17 is it fair to say, is not yours in terms of which
18 model the Corporation would adopt?

19 MR. LUKE JOHNSTON: It is not. I may
20 have some feedback into that, but it is not my
21 decision alone to make, that's for sure.

22 MR. STEVE SCARFONE: What about the
23 customer's viewpoint, sir? Is that a factor too in
24 ease of understanding the current model?

25 MR. LUKE JOHNSTON: It should be. We

1 have done surveying on that, and I spoke today about
2 some of the opinions of customers. We know customers
3 kind of don't know what they don't know, you know.
4 You know, for the -- there could be a better model out
5 there; they just never seen it. And so maybe they
6 would like it better if they knew about it, so I
7 appreciate that. But, for the most part, they like
8 their -- their discounts, simplicity of the model.

9 But again, I reiterate, they -- they do
10 consistently say that, you know, you should pay for --
11 pay your own way, so that's a pretty consistent
12 message we hear from them as well.

13 MR. STEVE SCARFONE: And that message
14 that you just related was received from the customers
15 before the pricing examination was -- was carried out,
16 correct?

17 MR. LUKE JOHNSTON: That's right.

18 MR. STEVE SCARFONE: And so to follow
19 up on Mr. Gabor's question, is there -- do you -- are
20 you aware of any intention by the Corporation to share
21 with its customers the results of the pricing
22 examination?

23 MR. LUKE JOHNSTON: Well, obviously,
24 the --

25 MR. STEVE SCARFONE: Not in this

1 forum, obviously --

2 MR. LUKE JOHNSTON: -- yeah, this
3 forum, obviously, yeah.

4 MR. STEVE SCARFONE: -- but perhaps as
5 Mr. Gabor indicated.

6 MR. LUKE JOHNSTON: Today, I'm -- I'm
7 not. There's a lot of other things that we'd have to
8 figure out from the customer, I guess, relation
9 standpoint, anything from how -- like, how that's
10 communicated both if we're doing focus groups or
11 something like that.

12 But also even in the policy guides and
13 stuff that we present, I -- I don't know that we're
14 going to update this or want to update a DSR scale
15 with precise, you know, 57.2 percent, you know, at
16 plus 15 or if, you know, we -- if we move to such a
17 model, we'd say, okay, well, this is, you know, let's
18 just say 50 percent, you know, close enough for
19 marketing purposes and -- and communication purposes.

20 So, there -- there's things like that
21 and -- and many other aspects that would have to be
22 discussed with -- or shared with customers.

23 MR. STEVE SCARFONE: So, one (1) last
24 question. Back to the pricing examination. Ms.
25 Schubert, if you could pull it up to figure 5 again.

1 (BRIEF PAUSE)

2

3 MR. STEVE SCARFONE: So, that
4 particular figure, Mr. Johnston, shows, as I think
5 you've described, that the discounts are not properly
6 refrec -- reflected across all DSR levels?

7 MR. LUKE JOHNSTON: That's right.

8 MR. STEVE SCARFONE: And so, you spoke
9 with My Friend, Mr. Williams, about how to remedy
10 that, whether it be a gradual or an accelerated.

11 Is there something that prevents you
12 from doing it in an accelerated fashion under your
13 actuarial rules?

14 MR. LUKE JOHNSTON: Actuarial rules in
15 complete isolation of any regulatory rules within our
16 rate making methodology? No. There's the -- if -- if
17 we calculated these indicated values and another
18 insurance company just wanted to use them immediately
19 and didn't -- wasn't worried about price shock and
20 such to customers, they -- they could do that.

21 MR. STEVE SCARFONE: Okay. And so,
22 what that would amount to, and I'm not suggesting that
23 it should occur, but the -- the customers at the very
24 top of that scale would most certainly notice a
25 considerable reduction in their rates while those that

1 are at the bottom would notice an increase, correct?

2 MR. LUKE JOHNSTON: That's -- that's
3 right. And -- and the reason that there's more
4 increases there is because, as was identified earlier,
5 so many of the drivers are at the top.

6 So, every -- you have to hand out a lot
7 more of -- of those two hundred and twenty-one dollar
8 (\$221) negatives than you do the -- the positive. So,
9 that's why it -- the -- the benefit flips from
10 negative to positive at around DSR 10, 11.

11

12 (BRIEF PAUSE)

13

14 MR. STEVE SCARFONE: And then lastly,
15 is it fair to say that the Corporation, at least at
16 this stage, with consideration to Nova, other
17 stakeholders, the regulator, the government is leaning
18 toward maintaining the existing model but changing it
19 or is the Corporation leaning toward adopting a new
20 model entirely?

21 MR. LUKE JOHNSTON: That's -- that's a
22 tough one. I opened with some comments on that. We -
23 - there -- there's going to be a lot of good reasons
24 to use some form of the current model or Primary
25 Driver Model or something that isn't too dramatically

1 different than what we're doing today.

2 I think that's -- everyone recognizes
3 that. But that doesn't mean we should just drop any
4 review of other models or understand the capabilities
5 of -- of our new systems in -- in making that
6 determination.

7 So, that is what we want to do by early
8 next year, make sure that, you know, we've looked at
9 all the options fairly, and then make a determination
10 from there.

11 MR. STEVE SCARFONE: Thank you. Just
12 give me one (1) second, Madam Chairperson.

13

14 (BRIEF PAUSE)

15

16 MR. STEVE SCARFONE: Thank you. Those
17 are all my questions on re-direct.

18 THE PANEL CHAIRPERSON: Thank you, Mr.
19 Scarfone. Thank you, Mr. Johnston. I believe we'll
20 see you back tomorrow.

21

22 (PANEL STANDS DOWN)

23

24 THE PANEL CHAIRPERSON: Ms.
25 McCandless, can you talk about what the plans are for

1 the next two (2) days? I know that we have Mr.
2 Johnson -- Johnston, as I've stated, and Mr. Wennberg
3 on rate making and Vehicles For Hire for two (2) days.

4 MS. KATHLEEN MCCANDLESS: That's
5 right. And I believe Mr. Wennberg is there for the
6 rate making and Vehicles For Hire. They're being
7 dealt with together. Yes.

8 MR. STEVE SCARFONE: Sorry, I -- I'm -
9 - I realized I -- I'm so -- I'm terrible at doing
10 this. I've neglected to mark more exhibits, so I was
11 -- I've got to do that.

12 MS. KATHLEEN MCCANDLESS: Okay. First
13 we'll sort out tomorrow. So, Mr. Wennberg is coming
14 back with Mr. Johnston for rate making and Vehicles
15 For Hire?

16 MR. STEVE SCARFONE: Yes.

17 MS. KATHLEEN MCCANDLESS: And we have
18 that scheduled until Thursday. I had had some email
19 discussion with Mr. Williams. We have not canvassed
20 it with MPI yet, but we always have -- set aside time
21 towards the end of the Hearing before the Intervener
22 evidence to do any followup on answers to
23 undertakings.

24 So, tentatively, we would be looking at
25 that for Thursday after the conclusion of the Vehicles

1 For Hire evidence.

2 And that's, essentially, it for the
3 next couple of days, although there has also been
4 discussion among the Interveners about the order of
5 their cross-examination for the next panel. And I'm
6 not sure where that's been left off at this point, so
7 perhaps Mr. Williams could speak to it.

8 DR. BYRON WILLIAMS: I'll do my best.
9 I can just indicate time wise, I think my -- my
10 friend, Ms. Meeks, (sic) has about an hour for the
11 next panel.

12 Mr. Hacault, Maitre Hacault, has around
13 four (4) hours, and I probably have half an hour. So,
14 I think between us, we've agreed I'll go last. And
15 you may be blessed with not having to see me tomorrow.
16 And then that will lead right into the undertakings
17 discussion.

18 We're still figuring out, I think,
19 whether it's Ms. Meeks (sic) or Mr. Hacault among the
20 -- Maitre Hacault among the Interveners, which order
21 they go in, so if that helps.

22 THE PANEL CHAIRPERSON: Yes, that
23 helps, thanks, and sets out sort of a plan for the
24 next couple of days.

25 MS. KATHLEEN MCCANDLESS: And Mr.

1 Watchman will be cross-examining the next panel on
2 behalf of the Board, so you -- I will not be in the
3 room tomorrow, but I will be on the premises.

4 THE PANEL CHAIRPERSON: Okay. Thank
5 you very much, Ms. McCandless.

6 MR. STEVE SCARFONE: Ms. McCandless,
7 when you mentioned just now -- I seem to recall Mr.
8 Wennberg leaving yesterday saying good luck with the
9 rest of the Hearing, but he is scheduled, I noticed,
10 to be here tomorrow.

11 So, is he -- is he -- do we envision
12 him answering questions on -- certainly not on rate
13 making, on -- on Vehicle For Hire? Is that the -- I'm
14 trying to --

15 MS. KATHLEEN MCCANDLESS: Well, that
16 was my understanding based on the panel members.

17 MR. STEVE SCARFONE: Yes, I -- that's
18 what -- but I'm thinking that maybe only Mr. Johnston
19 need be here, yeah.

20 DR. BYRON WILLIAMS: And might I ask?
21 Is -- is it contemplated that the rate making and --
22 and Vehicles For Hire would be one (1) presentation
23 and panel?

24 MS. KATHLEEN MCCANDLESS: It sounds
25 like it's one (1) witness, so.

1 (BRIEF PAUSE)

2

3 MR. STEVE SCARFONE: That's -- that
4 was my understanding, as well. So, I think the reason
5 that we had the Personal Injury Protection Plan on
6 there -- which has now been fully addressed, so I
7 don't believe Mr. Wennberg is scheduled to appear
8 tomorrow.

9 THE PANEL CHAIRPERSON: Okay. Well,
10 certainly, I mean, that's up to you, Mr. Scarfone.

11 MR. STEVE SCARFONE: Yeah.

12 THE PANEL CHAIRPERSON: So, I guess,
13 Mr. Johnston, the rest is up to you.

14 MR. STEVE SCARFONE: I just didn't
15 want My -- My Learned Friends to have questions.
16 Like, I'm -- I'm pretty sure they have no question for
17 Mr. Wennberg on Vehicle For Hire and -- yeah.

18 DR. BYRON WILLIAMS: And is... Yeah.
19 And it's just one (1) panel? Like, that's --

20 MR. STEVE SCARFONE: Yes.

21 DR. BYRON WILLIAMS: Okay.

22 MR. STEVE SCARFONE: So, just before
23 then, if -- if there's nothing else, I -- I do need to
24 mark a couple further exhibits.

25 THE PANEL CHAIRPERSON: Yes. Please

1 proceed.

2 MR. STEVE SCARFONE: So, MPIC Exhibit
3 number 53 is the -- the summary of publically
4 available mobility data that MPIC said it would
5 provide. It wasn't by way of undertaking, so we're
6 just going to mark it as an exhibit. And I have a
7 copy of that available.

8

9 --- EXHIBIT NO. MPIC-53: Summary of publically
10 available mobility data

11

12 MR. STEVE SCARFONE: MPI Exhibit
13 number 54 was a calculation of the new money yield
14 that Mr. Cathcart asked the investments panel to
15 provide.

16

17 --- EXHIBIT NO. MPIC-54: Calculation of the new
18 money yield that Mr.
19 Cathcart asked the
20 investments panel to
21 provide

22

23 MR. STEVE SCARFONE: MPI Exhibit
24 Number 55 is details with respect to money spent to
25 date on Project Nova.

1 --- EXHIBIT NO. MPIC-55: Details with respect to
2 money spent to date on
3 Project Nova

4
5 MR. STEVE SCARFONE: And MPI Exhibit
6 Number 56 is a confidential undertaking and a response
7 thereto to share the sensitivity analysis undertaken
8 with respect to the Legacy system modernization
9 business case. And there's two (2) appendices to that
10 particular response.

11

12 --- EXHIBIT NO. MPIC-56: A confidential undertaking
13 and a response thereto to
14 share the sensitivity
15 analysis undertaken with
16 respect to the Legacy
17 system modernization
18 business case

19

20 MR. STEVE SCARFONE: I believe that
21 updates MPI on its exhibits.

22 THE PANEL CHAIRPERSON: Thank you, Mr.
23 Scarfone. So, we'll adjourn for the day and see
24 everyone tomorrow at 9:00.

25

1 --- Upon adjourning at 3:00 p.m.

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4 Certified Correct,

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8 Donna Whitehouse, Ms.

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