MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2021/2022 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

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

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 28, 2020

Pages 1658 to 1928

APPEARANCES

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

TABLE OF CONTENTS

LIST OF EXHIBITS

LIST OF UNDERTAKINGS

LIST OF UNDERTAKINGS (cont'd)

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

THE PANEL CHAIRPERSON: Good morning, everyone. We are now at item number 11 on the proceedings, MPI Rate Making and the Vehicle for Hire -- for Hire Panel, Mr. Johnston.

Mr. Scarfone...?

MR. STEVE SCARFONE: Thank you, Madam Chair. Just before we begin, I can advise Ms. Meek that -- so yesterday a number of undertakings were taken under advisement. And so happy to report that the Corporation's going to provide answers in a timely manner, hopefully, for all of those undertakings. So those we expect will probably come in the next day or two (2).

And then, as Madam Chair indicated, we have this morning Rate Making and the Vehicle for Hire Panel, which is -- the sole member of that panel is Mr. Johnston. But he does have his back row support available to answer any questions that counsel have of him.

MPI PANEL NO. 9 re Ratemaking/Vehicles For Hire

LUKE JOHNSTON, Previously Affirmed

EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: And, Mr. Johnston, do you have a presentation this morning that you'd like to make to the Board?

MR. LUKE JOHNSTON: I do.

MR. STEVE SCARFONE: And, sir, do you adopt the content of that presentation as part of your examination-in-chief here this morning?

MR. LUKE JOHNSTON: Yes, I do.

MR. STEVE SCARFONE: All right. And you're still under oath, if you're ready to proceed.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Sorry, Mr. Scarfone. Are you going to mark that as an exhibit?

MR. STEVE SCARFONE: I -- I will. I think I -- after -- I'm going to do it after Mr. Johnston's presentation 'cause I think there's a couple of others that I have to mark in advance of that one.

THE PANEL CHAIRPERSON: Okay. Thank you.

CONTINUED BY MR. STEVE SCARFONE:

MR. LUKE JOHNSTON: Okay. Good morning. I -- I see a hand up over there, so --

DR. DARREN CHRISTLE: Mr. Scarfone, is there an electronic copy for Ms. Schubert of the pres --

MR. STEVE SCARFONE: Electron -- I have hard copies.

DR. DARREN CHRISTLE: She just -- she just received it.

MR. STEVE SCARFONE: She did? Okay. Good.

DR. DARREN CHRISTLE: Yeah. Thank you.

MR. STEVE SCARFONE: Does anybody require hard copies? Mr. Gabor...? Okay.

(BRIEF PAUSE)

CONTINUED BY MR. STEVE SCARFONE:

MR. LUKE JOHNSTON: It looks like everyone's ready. Okay. Okay. So the presentation today is on Ratemaking and Vehicle for Hire, so I'm going to start with ratemaking.

So as -- as you're aware, our

ratemaking is done on a break-even zero profit percentage basis following accepted actuarial practice. For this year's updated GRA, the break-even rate indication is negative 3.8 percent, recognizing that approximately 3 percent of that decrease is due to a coverage change, not from a change in the break-even rate.

MPI then applies its Capital Management Plan which is a new feature of the Basic rating program, and this year, largely stemming from additional favourable experience from the COVID situation, we are indicating a capital release of 5 percent, 'capital release' meaning a decrease in rates.

The combination of these two (2) factors result in an 8.8 percent average decrease to ratepayers' average rate in '21/'22.

In terms of Basic rates, I've been doing this for many years, and we obviously have debates on -- on many different subjects. But one (1) thing that you can't dispute is that the MPI Basic rate method -- methodology has been extremely stable over time.

If you look at the Benchmarking section of our application -- perhaps we can go there; sorry, I didn't warn you in advance, but I'll -- I'll -- I believe it's Section 2.2 in the -- in the Benchmarking section. There's a Statistics Canada comparison of automobile insurance rate inflation over time. I'll just let you get to that. So if you could just scroll down to the chart.

So this is not MPI's data. This is Statistics Canada, and the attempt being made by Statistics Canada is to calculate the average growth in automobile insurance rates adjusted for coverage and other factors for -- for consistency.

You can see that Manitoba, there's really no comparison anywhere to the rate of growth and stability since 1998. We are right at the bottom, and this rate Application will only lower that -- that trend.

This is published information from Statistics Canada, so again, this is not MPI data. But you can see Saskatchewan is also on the bottom piece of that graph, and then Ontario and Alberta would be on the -- on the upper end. Thank you for that.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: You can go to the next slide. I think I already talked about this.

So in terms of Basic rates, MPI would characterize the most recent year as a continuation of our fiscally prudent operations. We did have some rate pressure in some of the more recent years, largely stemming from collision severity and a little bit from growth in long-term injury claims.

We seem to have those factors under control, at least over the last couple of years and -- and looking forward; that has brought our rate indication close to zero again.

If not for significant declines in interest rates in recent years, we would likely be asking for -- we wouldn't likely -- we would be asking for a -- a larger rate decrease.

Claim costs per vehicle, excluding product changes, decreased by 0.8 percent in the -- this year's Application compared to the previous year. So that is a decrease despite regular inflationary pressures.

Total expenses per vehicle unit increased by 1.3 percent, lower than the rate of inflation assuming normal inflation around 2 percent. That's not what it is today, but over the long run it's been around 2 percent.

The rate indication was updated in our October update. Initially, we filed a negative 5.5 percent break-even rate indication, but, per some of the recent years, we've established a process to update interest rates later in the cycle, so we're not -- so we're not as at risk from that factor.

So unfortunately, interest rates declined which impacted our rate indication. You can see the new money yield fall -- fell from 2.58 percent from the time of our original filing to 1.94 percent in the update.

As mentioned, we're applying for a capital release of 5 percent. That is in addition to the $110 million rebate that was already paid. So at the rebate hearing, there were definitely questions at that time whether MPI was being too aggressive in its proposals to rebate that amount of money and if it would put the financial condition of MPI at risk.

To be clear, at that time it was very uncertain. We didn't know the length of the COVID-related reductions. They were all estimates. But as of today, we can -- we can make this statement more confident -- confidently that there are excess funds very likely to be available, and so we've applied for the 5 percent decrease per the Capital Management Plan. Next slide.

This slide here is a little bit busy, but what it's showing is the components of the average rate. So, if a customer was provided this full table, they could look in the third column under '20/'21 and see that they have a sixty-one dollar and ninety-five ($61.05) cents charge for operating expenses, for example, in -- in MPI's rate, our proposed average rate, and with all the other factors listed.

As you're aware, in -- in our renewal notices we have started providing this information to customers, not at this granular -- granular level but in a pie chart format showing collision, injury, operating expenses, commissions, things like that, so customers can have at least a general understanding of that.

If you go to the far right column, what is being shown here is how the per unit cost has changed compared to the previous Application.

So, if you make the general assumption that costs -- there's inflation over time and -- and costs generally raise over time, you would expect an average growth here for many of these items around inflationary levels.

You can see that's not always the case. For claims, the -- the decrease is mostly related to product changes, as previously mentioned, but we have had some generally lower growth rates on the expense side.

I guess three (3) lines from the bottom you can see the impact of discounting. So, this is the interest rate impact.

Last year, because of higher discount rates, we effectively reduced the rate requirement by seventy-three dollars and fifty ($73.50) cents to reflect investment income earned. Because of lower interest rates, that number is now into fifty-nine dollars and thirty-four ($59.34) cents.

So, ratepayers are -- are, essentially, paying an extra fourteen dollars ($14) on average because of the lower interest rates.

If you roll up all the costs on the above table, it indicates that the required rate can decrease by 1.2 percent.

However, based on prior years' experience, we know that the average rate will -- will experience growth due to natural upgrade, new vehicles coming into fleet and such, and so that gives us an extra 2.6 percent revenue. And that's how we arrived at the 3.8 percent decrease.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: This is basically a higher level summary of the previous slide, so I think we can -- we can go to the next slide.

The updated rate filing for the 8.8 percent rate decrease is split by major class as shown in the table below. You can see that private passenger vehicles were paying -- for example, were paying one thousand one hundred and eighty-four dollars ($1,184). That rate's expected to fall to one thousand and seventy-three dollars ($1,073) next year.

There is a minor decrease for commercial and public vehicles. Without the 5 percent release, these classes would get -- be getting roughly inflationary rate increases, and then around 1 to 2 percent.

Motorcycles, you see the average rate is expected to rise from eight hundred and forty-seven dollars ($847) to eight hundred and eighty-seven dollars ($887). We'll have some discussions on this. This group is, obviously, impacted more by the interest rate decline and that's one (1) of the main reasons for the -- for the larger increase in average.

Trailer is payable at sixty-eight dollars ($68) and off-road vehicles seven dollars ($7). In total, the average rate, all classes combined, is falling 8.8 percent to eight hundred and twenty-six dollars ($826).

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So, this slide talks about that interest rate sensitivity I just mentioned. If you go to the table on the right, I think earlier in the week I might have quoted motorcycles at 85 to 90 percent of their losses being PIPP.

This table more accurately shows that number as 92.6 percent of motorcycle claims costs are PIPP related compared to 30.6 for passenger vehicles. Because of that, because of the long-term nature of injury claims, the interest rate impact is -- is more significant.

You can see that for passenger vehicles, 10.7 percent decrease fell to 9.3 percent decrease when we update interest rates as a 1.4 percent impact. However, for motorcycles, the rate indication basically doubled, from 3.2 to 6.9 percent, and that's just a result of discounting calculation.

For the motorcycles specifically, there was a concern raised in last year's hearing that the combining of all losses together for injury claims, the estimate of that could be improved by splitting serious losses and non-serious losses.

MPI agreed that this could improve the methodology and provided some analysis on that. The rate Application has now been updated to separate out serious losses and attempt to forecast those separately and more accurately. This change for -- unfortunately, for motorcycles was adverse and caused about a 4 percent rate increase.

The other piece on motorcycles, as mentioned in previous days, is that there's virtually no impact from the product changes, or very small impacts, so while everyone is getting about a 3 percent decrease from product changes, motorcycles are not getting that.

So, that's -- I would just say not that there's anything really to highlight there other than, if we're making comparisons, you should compare it to the impacts excluding product changes if you want a truly fair comparison.

Taxicab Vehicle For Hire and passenger Vehicle For Hire; both these groups have a fairly low number of units, in the five hundred (500) to seven hundred (700) range.

The -- we use a similar ratemaking methodology for these class -- vehicle classes, and -- and for all vehicle classes really. Taxicabs have a lot of historical experience. So, although the group is small, there is decades of experience to support the rate indication.

As -- I'm not sure if we discussed this. But when Vehicle For Hire was introduced and competition was brought into the market, it was unclear how that would impact that taxi loss experience.

And so, at least initially, MPI proposed to offer DSR discounts to the taxi group which effectively reduced rates by about 20 percent, not knowing the impact on competition.

To date, recognizing that COVID has impacted some of the frequency numbers, we haven't seen any dramatic change in taxi loss experience to suggest that the effective competition has, you know, drastically reduced their -- their claims frequency. So that -- we'll talk about that, I'm sure.

For passenger Vehicle for Hire, this was implemented a few years ago. We had a -- I guess a couple of decisions in terms of how to initially price this group.

One (1) method could have been, I suppose, to just charge the same rate as taxis. And when we looked in terms of jurisdictional scan, we didn't see really any evidence that anyone was doing that or that there's any indication that that should be the -- the price charged.

What we found through that scan was that approximately 20 percent increase over the all purpose rate was about the average that was being charged in other jurisdictions. So that was our starting point for -- for the initial rate.

Since that time, the loss ratios for this group have been higher than 100 percent. But the -- the loss costs are still nowhere near that -- the level of taxis. So just to be clear.

So, if we put full weight on the two (2) years of experience from a passenger Vehicle for Hire, yes, we would probably want to raise rates from the levels they are today.

But we'd likely be in the twenty-five hundred (2,500) to three thousand dollar ($3,000) range breakeven versus eight (8) to ten thousand (10,000) range for taxis. So there's still a difference and the data is still fairly new, but there's no indication right now that we should have priced passenger Vehicle for Hire at the same level as taxis.

And yeah, just a summary that we have a -- a proven process in the methodology, regulatory process. The program itself I think the earlier side on benchmarking really shows or demonstrates that.

We are coming with a 3.8 percent break-even rate indication and -- and a capital release, which is a good result in light of some of the significant economic shocks and pandemic situation. So I think that's good news for -- for everyone.

Vehicle For Hire. I already spoke about this briefly. So the -- the new Vehicle for Hire model was introduced in 2018.

MPI is in the process of reviewing this framework and determining if there is a need for Vehicle for Hire 2.0, so to speak.

The -- I can tell you that discussions with some of the Ubers and Lyfts of the world, at least some are using our program, but they're not thrilled at how it's set up.

And to their credit, they agreed to use MPI's model, despite some of their objections. In turn, however, MPI has also agreed to -- to work with these companies and taxis to find a solution that works better for -- for everyone involved.

So that's what we're doing right now. We're just at the early stages of that, I guess the stakeholder consultation. And we've had some meetings with these groups.

MR. STEVE SCARFONE: Mr. Johnston, I was looking to see if it was included there on your -- on your slide, sorry to interrupt.

But maybe perhaps it might be useful just to explain for the Board what the model is that you make reference to in -- and how it's currently arranged for these customers.

MR. LUKE JOHNSTON: So the taxis -- I'll start with taxis. Taxis are basically assumed to -- to operate relatively consistently, often, you know, throughout the whole day. It could be multiple operators. And there -- historically have been flat rated for that reason.

The -- and the loss experience reflects that assumption in a lot of ways that if a vehicle was being operated significantly more than a typical all-purpose vehicle, you -- you'd expect to see higher claims. So that's -- has been the experience of taxis.

For the other traffic network companies, or TNC-type vehicles, our research has shown that this is more of casual employment. Obviously, we recognize that if somebody wanted to, they could operate these vehicles twenty-four (24) hours a day.

What we've done on that, for those vehicles, is create a time band model which allows them some flexibility in terms of when they want that coverage.

Most customers are picking all four (4) time bands. However, we don't know if that's because they really need it, or if the price increase isn't really big enough to, you know, why not just buy them all and not have to worry about that. So that -- that could be a factor.

MR. STEVE SCARFONE: Yeah, thank you. So I don't mean to interrupt. Maybe just one (1) follow-up question and then, of course, I'll let you carry on with your presentation.

But -- so you mentioned that when the Vehicle for Hire was first being set up, the

Corporation looked at what other jurisdictions were doing. But did the Corporation also give consideration to what you just said the different business models of those two (2) companies?

(BRIEF PAUSE)

MR. STEVE SCARFONE: Yeah, so you indicated that when Vehicle for Hire came in, the Corporation looked to see what other jurisdictions were charging those customers.

But was another factor what you just described, and that is how the different business models are, that is one is more casual, one is a full-time.

MR. LUKE JOHNSTON: Yeah, that's -- that's correct. And -- and despite perhaps not getting the initial rating bang on, again they were estimates, we still stand by the -- the general view on how the vehicles are operated. As mentioned, the loss experience of TNC operators is still significantly lower than -- that taxis.

One other, I guess, fairly obvious consideration we've talked about DSR and how that relates to Nova. We -- while we're actively working with companies to -- to understand products that may work better for them, I don't want to over-promise something that's not going to be doable in the near term. So we're trying to make that clear up-front.

But similar to DSR, we're going to see what type of capabilities we have through Nova and I guess make an informed decision on -- on cost benefit.

I do expect that for the taxi group specifically, they may have trouble with any kind of longer time frame, they -- right, they believe they have an issue now and want more swift action.

But I can tell you, we are actively engaging with them and helping them understand as well what options maybe can be done without significant IT expenditures versus -- versus higher cost options.

Okay. That's it. Thank you.

MR. STEVE SCARFONE: Just a couple of questions for you before the other lawyers ask you questions, Mr. Johnston.

At page 10 of the presentation, it's not on there, but you mentioned that the loss ratio is currently over 100 percent.

Could you just explain what that means in terms of rates and collisions and claims?

MR. LUKE JOHNSTON: So the pure loss

ratio, which is what I was referencing, would -- would simply be the claims costs divided by the premiums collected. So if that's over 100 percent, we're not collecting enough premium.

So the -- my recollection is that passenger Vehicle for Hire, the first few years -- I guess, depending on the territory and such -- is in the hundred and thirty (130), 140 percent range.

So it's not indicating that these rates need to double or triple by any means, but at least the initial indications are that the rate should increase.

Our rate-making methodology will obviously respond to that. However, it's important to note that because of the size of that group it'll take longer to respond because our methodology has built in not to -- you know, to overreact to changes in small -- you know, to -- to -- cost changes in small vehicle groups.

So, if this was a large group of vehicles, rates would move quicker. But they do move slower because of the size of the group.

MR. STEVE SCARFONE: Thank you. And just a quick rate-making question. Just so everybody's clear on what you indicated. I think you said that but for interest rates having fallen, the Corporation would have been seeking even a lower rate indication.

So is it fair to say that the reason for that -- and we heard from Mr. Bunston that there's a lot of factors at play. But simplifying it, is it fair to say that the drop in interest rates would affect the investment income, which then lowers the -- or puts an increase in -- on the rate indication?

MR. LUKE JOHNSTON: That's right. For -- as you're aware, for our claims liabilities, we have a bond, a fixed income portfolio, and we use the discount rate derived from that portfolio as a basis for predicting investment income in the future.

My view on interest rates -- and I'm sure others probably share -- share to this -- several years ago, it seemed like we couldn't get any lower. Just -- right? Like, it just -- it kept falling and falling.

And, I guess, the -- the good news, if there is any, on that is -- my view is that while the rates -- you know, we have built in the lowest possible interest rates you could imagine and it can only go up from here, right? And so, as you know, that hasn't happened.

But yet again, we're at another application with the lowest interest rates we've ever seen. And we're obviously hoping that, you know, if these interest rates can return to some -- something a bit more normal, that would be great news for the rate indication.

So to the extent that, you know, we have -- we're having to increase rates, all else equal from interest rates, it would be -- go the other way if things improve. So we're definitely hoping that's the case.

One, I guess, good story from all this is, in the absence of, you know, some of the changes MPI's made related to expenses or claims costs and improvements, we're able to still give a decrease despite so much pressure from interest rates.

So if it was going the other -- you know, if claim costs were going the other direction, this result could be really adverse. So we're very fortunate that claims and expense reductions have been occurring at the same time as these low discount rates because the rate impact could have been much more significant.

MR. STEVE SCARFONE: Thank you. If you're hoping for a rise in interest rates, you must be mortgage free, so congratulations.

Those are all the questions I have for Mr. Johnston.

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

CROSS-EXAMINATION BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Thank you, Madam Chair. Good morning, Mr. Johnson -- Johnston, rather. Sorry.

So I just -- I'm going to ask a few questions about a couple of topics on ratemaking. And then, I'll move on to Vehicles for Hire in a more general fashion.

So with respect to ratemaking, I just wanted to start with the motorcycle class. And Kristen, if we could bring up PUB Order 176/'19, Directive 1312.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And you mentioned this, Mr. Johnston, that one (1) of the directives of last year's GRA was that the Corporation shall consider an investment strategy or other strategy to ameliorate the effective interest rates -- interest rate changes on the motorcycle class, including the inclusion of equities or other growth assets in the reserves supporting long tail liabilities and report on the results of that review in the 2021 GRA. You recall that?

MR. LUKE JOHNSTON: I do.

MR. ROBERT WATCHMAN: Now, in this GRA, the Corporation filed a risk appetite statement. You recall that?

MR. LUKE JOHNSTON: I do.

MR. ROBERT WATCHMAN: And we don't need to go there. I'm sure you -- you know that.

Under the investment risk category, the statement says there's no appetite for equity exposure in the Basic claims portfolio.

MR. LUKE JOHNSTON: That's correct.

MR. ROBERT WATCHMAN: And in the course of Information Requests, the Intervener, Coalition of Manitoba Motorcycle Groups, CMMG, in a question -- they questioned the Corporation as to how the Corporation could reconcile the significant impact of interest rates on the motorcycle group with that risk statement. Do you recall that?

MR. LUKE JOHNSTON: I do.

MR. ROBERT WATCHMAN: And I'll ask you if -- we won't have to go there, rather. Instead, Kristen, if we could go to PUB-MPI CI 210. And just, for the benefit of the record, that's designated a CI, or Confidential Information Request, but the response provided by the Corporation was made public. So this is all on the public record.

MR. LUKE JOHNSTON: Okay.

MR. ROBERT WATCHMAN: So if we could just look at the preamble first. And this preamble summarizes the response that the Corporation gave to CMMG concerning that reconciliation between those two (2) points.

And if we could just look at that. It's:

"MPI indicated that a reasonable consideration would be to apply interest rates at points -- points on the yield curve that correspond to the duration of the liabilities for discounting purposes. Such an approach would provide a more appropriate discount rate for policy cash flows.

The motorcycle class has a very large

composition of personal injury protection plan claims that have a very long tail and, as a result, are more impacted by long term interest rates.

As of today, the yield curve is significantly flat, and so, there would be no substantial benefit in using that approach in the near term."

So is that a fair summary of the Corporation's position?

MR. LUKE JOHNSTON: Correct.

MR. ROBERT WATCHMAN: Now, if we could look at the first question there. The question asked by PUB was:

"Please estimate the average duration of the motorcycle major use classification claims reserves."

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And if we scroll down to the anser to 'A', we'll see that the answer given was:

"Using an overall investment yield of 1.93 percent, the estimated average duration of the claims for the motorcycle major class for the rating year 2021/'22 is eight-point-eight-nine (8.89) years."

Do you see that?

MR. LUKE JOHNSTON: Correct.

MR. ROBERT WATCHMAN: And you see -- and you see that there's a disconnect between the question asked and the answer given?

MR. LUKE JOHNSTON: So I -- I believe the disconnect you're referencing is duration of the currently held reserves in the motorcycle pool versus the rating year duration. I -- is that --

MR. ROBERT WATCHMAN: Yes.

MR. LUKE JOHNSTON: I see that now. I -- obviously, we didn't see it when the question was asked. Perhaps we answered the question we -- we thought you were asking instead of the one you actually asked.

So if that's the case, yeah, we -- we could get the right answer for you, but that -- that is the expected duration of the motorcycle policy claims policy cash flows for the rating year.

MR. ROBERT WATCHMAN: Okay, and just -- so just to -- for the record, do you know what the answer is in terms of the duration for the reserves?

MR. LUKE JOHNSTON: I don't know off the top of my head, but what I can tell you is the overall claims liability reserves generally have a duration in the ten (10) to eleven (11) year range, and most of those are lifetime claimants. You know, the -- the majority of those claims are for losses that occurred more than five (5) years ago.

I would anticipate, if we took all motorcycle reserves currently existing, that we -- we'd probably be upwards of ten (10) to twelve (12) years. That's a -- that's a -- a guess, but that would be consistent with other classes.

MR. ROBERT WATCHMAN: Thank you. Could -- could we have an undertaking, then, to provide the average duration of -- of the motorcycles major-use classification claims reserves.

MR. STEVE SCARFONE: Yes, Mr. Watchman.

--- UNDERTAKING NO. 38: MPI to provide the average duration of the motorcycles major-use classification claims reserves

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: And as you indicated, we would expect the average duration of the reserves to be longer than that for the rating year, correct?

MR. LUKE JOHNSTON: Yes, we would.

MR. ROBERT WATCHMAN: And -- and essentially, because the rating -- sorry, the duration for the rating year would include things like collision and short-term -- short-tail claims.

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: Now, just -- and just staying with that question, it -- it indicates that the overall investment yield was 1.93 percent. Do you see that?

MR. LUKE JOHNSTON: One point nine six (1.96) percent. I'm -- is -- are you referencing Part B?

MR. ROBERT WATCHMAN: No --

MR. LUKE JOHNSTON: The 1.93 percent? Pardon me, sorry.

MR. ROBERT WATCHMAN: One point nine three (1.93) percent.

MR. LUKE JOHNSTON: Yeah, I see that.

MR. ROBERT WATCHMAN: Because that's the overall investment yield, and that's based upon a ten (10) year duration? Is that correct?

MR. LUKE JOHNSTON: Yeah. We -- this -- the assumption we've made is that monies available from policy cashflows to support claims liabilities will be invested in the Basic claims portfolio, so we use that -- that new-money yield rather than a shorter-duration yield, for example.

MR. ROBERT WATCHMAN: And so if I understand that, what you're saying is that the ten (10) year duration would better match the overall Basic claims reserves.

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: Now, would you expect the motorcycle major class reserves to have a longer average duration than the Basic claims reserves duration?

MR. LUKE JOHNSTON: Probably slightly longer, if I had to just kind of do it on my -- my intuition, I guess we'd say. There will still be shorter-duration injury claims on the passenger vehicle side and some physical damage claims that would lower overall duration.

If we looked at PIPP duration in isolation, I would expect all classes to be more similar in -- in average duration because, again, the only reason you'd still be a claim if you ha -- happened more than, you know, two (2) to five (5) years ago would be if you were a long-term claim. So I'd -- I'd expect those -- PIPP duration to be pretty similar regardless of vehicle.

MR. ROBERT WATCHMAN: Would you be able to calculate the new-money yield matching the duration of the motorcycle class reserve duration -- average duration of the motorcycle class reserves?

MR. LUKE JOHNSTON: Yes, we would. So this would fall -- essentially, it'd just be another column next to the undertaking that you've already requested. So there is a -- a similar expected investment yield on the duration of the motorcycle reserves, which would be slightly different than what you see here.

MR. ROBERT WATCHMAN: And do you have a sense as to just how sensitive the intecrated -- the indicated rate for the motorcycle class is to the new-money yield?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: We provided -- if you could just go to my presentation. I can't remember the slide. I can -- but...

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: Slide 9?

MR. LUKE JOHNSTON: So slide 9, yes. Thank you.

So let's maybe just keep it simple and say that the new-money yield fell by about half a percent. It's a -- the real number's point five six (.56) percent, but that...

So half a percent appears to be worth around 3 1/2 percent, just -- just for a ballpark, whereas it's closer to 1 percent for private passenger vehicles. So, if we wanted to do real general terms, about three (3) times the rate of -- of passenger vehicle if that appr -- if that approximation is good enough for you, yeah.

MR. ROBERT WATCHMAN: So if -- if the -- if the new-money yield -- well, first of all, you would expect that the longer the duration, you would start to see an increase in the slope of the new-money yield. Is that correct?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: An -- an increased impact, if that's what you're getting at? Yeah.

MR. ROBERT WATCHMAN: Well, no, what I'm saying -- I -- I think you're anticipating my next question is that the new-money yield, the further it goes out, the expectation is, is that it won't be a flat curve, but rather, it will start to slope upward.

MR. LUKE JOHNSTON: That would make sense, yes, yeah.

MR. ROBERT WATCHMAN: And so it is possible that if the motorcycle class reserves average duration is higher than that for overall Basic claims, it could actually indicate a higher new-money yield. Is that correct?

MR. LUKE JOHNSTON: Correct.

MR. ROBERT WATCHMAN: And depending on how much of an increase, if any, there is, you could then determine what the indicated motorcycle rate should be.

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

MR. ROBERT WATCHMAN: All right. Can we have that, then, as part of the undertaking as well?

MR. LUKE JOHNSTON: We can. So the undertaking, as I understand it -- calculate the duration of motorcycle reserves, apply an appropriate new-money yield to that based on that duration, calculate the impact on the rate from using the -- I guess, this implied or hypothetical new-money yield on the -- the current application, and see what the change in the rate is.

MR. ROBERT WATCHMAN: Yes.

MR. LUKE JOHNSTON: We can do that.

--- UNDERTAKING NO.39: MPI to add to previous Undertaking Number 38, calculate the duration of motorcycle reserves, apply an appropriate new-money yield to that based on that duration, calculate the impact on the rate from using this implied or hypothetical new-money yield on the current application, and see what the change in the rate is.

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Thank you.

So I'm going to change topics now, still with respect to ratemaking, and I just wanted to see if there was a connection between the con -- comprehensive hail claims re-insurance that the Corporation has put -- now put in place and whether that affects the rate-making calculation.

And so again, just in -- in summary, the re-insurance program the Corporation put in place was on an annual aggregate basis that the Corporation retains the first $35 million of hail claims, correct?

MR. LUKE JOHNSTON: That's correct. There's -- we've a million-dollar deductible, but every time we have a hailstorm, essentially the losses are put into a bucket. And once that bucket gets above 35 million, re-insurers start to -- to pay for the -- anything above that.

MR. ROBERT WATCHMAN: And that -- that re-insurance coverage would take you up to as much as $300 million?

MR. LUKE JOHNSTON: That's correct.

MR. ROBERT WATCHMAN: And that reflects a 1:100 hail event or a 1:100 year event?

MR. LUKE JOHNSTON: Yeah, there's definitely some debate on that. The -- the 300 million would more accurately reflect potential impact from a -- a single storm. So there would be some differences in what 300 million means on an aggregate basis versus single-storm basis. But I don't know the -- off the top of my head modelling for the aggregate basis. But it would, I guess, be slightly more likely than a one -- one (1) storm, yeah.

MR. ROBERT WATCHMAN: Now, and earlier this week, I believe that you indicated that at -- at the time of placing that re-insurance, the Corporation did some modelling both internal and external.

Do you recall that?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And so, if I can describe it this way, prior to placing the reinsurance, the Corporation carried out some cost benefit analysis?

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

MR. ROBERT WATCHMAN: And I -- I would take it that the cost benefit analysis involved some sort of retrospective analysis based upon hail claims experience?

MR. LUKE JOHNSTON: That's right. Like, the most, I guess, high level cost benefit analysis I could give would be that we used to have a per event retention.

What that meant is, so if we -- if MPI kept the costs of say the first $15 million of every hailstorm, we could essentially have five (5) or six (6), you know, hailstorms below 15 million that could add up to 40, 50, $60 million and get absolutely nothing from -- from reinsurers. And that's actually what had happened in a few years.

So it -- we went to reinsurers and -- and basically said this -- this isn't working, this isn't helping us at all, right. What we really want is to smooth the net income volatility when aggregate hail gets above a certain amount. And -- and they told us that there's no way that anyone's going to sell us that product, and we found a way to -- to get that, but that -- that was the process.

MR. ROBERT WATCHMAN: Now do you recall whether the modelling indicated estimated average annual savings for -- due to the recovery of hail claims?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Well, we would have -- would have had estimates on the claim side. The premium side's a little harder to predict as based on what they want to sell it to us for, so there's obviously a decision there.

The biggest benefit was, you know, on the volatility side to essentially snip off some of the more extreme outcomes, as I mentioned. We were protected from single large severity, but we weren't protected from a series of low frequency, so definitely a calculated benefit in terms of expected loss costs due to protecting from both of those factors now.

MR. ROBERT WATCHMAN: And do you know, is that expected benefit factored into the rate making methodology?

MR. LUKE JOHNSTON: Yes, but probably not in the way that you would think. So the -- as we talked about in the forecasting or the claims incurred section, our forecast for hail annual losses is well below the -- the reinsurance aggregate limit.

So we're not -- we're definitely not forecasting to use the reinsurance, so that component goes into the rate in the comprehensive section.

Then, as you know, we go to the market and buy the reinsurance coverage, and that has a cost, and that cost is -- is passed on to ratepayers through a per unit charge on their rate if -- if -- for the classes that have comprehensive coverage.

The -- the benefit from MPI and -- and ratepayers' side is reduced volatility. So to the extent that past hailstorms have caused unfavourable variances to budget that had to be recouped through the RSR and such, those would be either eliminated or -- or significantly reduced. So that's the benefit to -- to ratepayers.

So no obvious rate reduction from that. Actually, the rates would have went up slightly with the purchase of that coverage but improved rate stability.

MR. ROBERT WATCHMAN: Okay. So there's improved rate stabil -- stability and the cost of the premium is included in rate making but the anticipated benefit is not?

MR. LUKE JOHNSTON: That's correct, because we are forecasting expected values. So what I mean by that is, let's take a more extreme example. MPI doesn't buy any hail or reinsurance at all. Our forecast for hail is still the same because we're forecasting roughly twenty (20) something million dollars in hail.

So same forecast, same claim costs to pass on to ratepayers but enormous amount of risk accepted. One (1) hailstorm, you know, if it did have the 300 million or doesn't -- it could be a much -- a hundred million would significantly drain capital and -- and cause a rebuilding fee.

So that -- that's the way it translates to the ratepayers in terms of risk, but no obvious benefit in -- in the rate calculation.

MR. ROBERT WATCHMAN: Okay. Kristen, if we could go to figure CI53. And so this is the Basic hail severity analysis?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And if we look at the 2021 and 2022 and go across to the left-hand margin, we see that you're forecasting hail claim severity between forty-two hundred (4,200) and forty-three hundred dollars ($4,300) in the '21/'22 time period?

MR. LUKE JOHNSTON: Approximately, yes.

MR. ROBERT WATCHMAN: And if we go back, Kristen, to CI40. And this is a ten (10) year historical comprehensive hail claim count?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: So if we -- if we take the claim severity of forty-two (42) to forty-three hundred dollars ($4,300) and we determine how many claims you would -- that would get you to the $35 million retention, it's something in the order of about eighty-three hundred (8,300) claims?

MR. LUKE JOHNSTON: I'll -- I'll take your word for that.

MR. ROBERT WATCHMAN: Yeah.

MR. LUKE JOHNSTON: Sure. Yeah.

MR. ROBERT WATCHMAN: Yeah. Sub -- subject to check --

MR. LUKE JOHNSTON: Yeah.

MR. ROBERT WATCHMAN: -- of course.

MR. LUKE JOHNSTON: Yeah.

MR. ROBERT WATCHMAN: It is my math. And if we look though in the second to last column there, the total claim count, you can see that in that ten (10) year time period you -- there would have been three (3) years in which the claim count exceeded the eighty-three hundred dollars ($8,300)?

MR. LUKE JOHNSTON: That's true.

MR. ROBERT WATCHMAN: So again, if added up the recovery, that had this policy been in place in those years, it comes to about $30 million, according to my calculation, or about $3 million a year?

MR. LUKE JOHNSTON: Can you just repeat that just so I make sure I got it, sorry?

MR. ROBERT WATCHMAN: So if -- if we take the average severity that you're forecasting and we multiply that by the claim count for each year, in three (3) of the years, you're going to have severity that exceeds the $35 million retention?

MR. LUKE JOHNSTON: I see. That would -- that would make sense, yes. Yeah.

MR. ROBERT WATCHMAN: And if we add up the recovery on the basis of the current reinsurance policy, it comes to -- over the ten (10) years, comes to about $30 million or $3 million a year on average?

MR. LUKE JOHNSTON: I see. Yes, that --

MR. ROBERT WATCHMAN: So is that a valid way of quantifying the estimated benefit from the policy?

MR. LUKE JOHNSTON: It could be. So I guess the suggestion being made here is should the historical results have been adjusted for the -- what would have been the minimum, I guess, benefit from having this new aggregate reinsurance program in place and removed from the calculation of the average, and then passed on to ratepayers.

MR. ROBERT WATCHMAN: And so at -- at -- again, subject to check, if the saving was about $3 million a year, that would translate into roughly a .3 percent reduction in rates.

Is that correct?

MR. LUKE JOHNSTON: Yeah, like, appro -- approximately. For the passenger vehicle class, that would be pretty close.

MR. ROBERT WATCHMAN: So -- and in terms of accepted actuarial practice, so my understanding is, is that there's a determination as to the probability of an event, and then a best estimate calculated of both the cost and the savings.

Is that --

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: -- a fair description?

MR. LUKE JOHNSTON: Yeah, that's true.

MR. ROBERT WATCHMAN: So not including the benefit, is that in accordance with accepted actuarial practice?

MR. LUKE JOHNSTON: Yeah. If you were expecting a -- a benefit, you -- or -- or reinsurance coverage, the correct way to do it would obviously be to not double count, so to speak, I think is what --

is what your concern is.

Yeah. Like we can take this -- we can take this one away and have -- give it a bit more thought. In -- in general, our view was that this forecast is considerably below that threshold, but, to your point on the prior years' adjustments, we can have a look at that and give I guess a more complete answer if -- if you want.

MR. ROBERT WATCHMAN: Okay. Thank you.

THE COURT REPORTER: Is this an undertaking then?

MR. STEVE SCARFONE: Yes, that's the undertaking. Mr. Watchman, could you read the undertaking into the record, or do you just want to go by what's been dis -- discussed between you and Mr. Johnston?

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: Perhaps Mr. Johnston could describe the undertaking.

MR. LUKE JOHNSTON: Yeah. I -- if I missed these questions in an Information Request, I apologize, but I believe there's valid points being raised, and I just -- I'd rather take it away and give a more complete answer to the question.

But the undertaking, as I understand it, is for MPI to review specifically to see if the information in Figure CI40 and determine if historical experience, particularly the claim counts, should be adjusted for the impact of a new aggregate reinsurance program, and if the forecast should be adjusted downward based on the expected benefits of that program.

MR. ROBERT WATCHMAN: Thank you.

--- UNDERTAKING NO. 40: MPI to review the information in Figure CI40 and determine if historical experience, particularly the claim counts, should be adjusted for the impact of the new aggregate reinsurance program, and if the forecast should be adjusted downward based on the expected benefits of that program.

MR. LUKE JOHNSTON: That's the longest undertaking ever, but I want -- I want to make sure my staff know exactly what is being asked of them, yeah.

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: When you review the transcript, if it doesn't seem right, you can -- you can let us know.

So with that, I'm going to now move on to vehicles for hire, and I just thought it -- it might be helpful to do somewhat of a recap of the vehicle for hire rates from the outset.

And, Kristen, if you could bring up PUB Order Number 11/18, and as -- I know you'll recall, Mr. Johnston, in late 2017, the Corporation made an application for interim rates for vehicle for hires due to the coming into force of the local Vehicles for Hire Act as of March 1st, 2018.

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And now one of the issues that the Corporation faced is that there was a lack of experience at that time to develop the rating models.

MR. LUKE JOHNSTON: That's true.

MR. ROBERT WATCHMAN: And, Kristen, if we could go to page 5 in that Order, just below 3.1, down the page a bit. And in that first paragraph:

"The Corporation stated that, where possible, pricing of its policies in the application was based on known experience -- "

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN:

"-- and that pricing of future policies will incorporate claims experience to ensure that customers are paying appropriate premiums."

Do you recall that?

MR. LUKE JOHNSTON: I do.

MR. ROBERT WATCHMAN: And so what the Corporation did in terms of the starting rates, and you spoke about that this morning, but essentially the starting rates, certainly for the passenger vehicles, were done judgmentally, correct?

MR. LUKE JOHNSTON: Judgmentally in the sense that we didn't have any of our own data, but guided to some extent by the jurisdictional scans that we had available.

MR. ROBERT WATCHMAN: And as you indicated, for the private vehicles it was determined that there would be more risk than all-purpose, but that there would be lower risk than the taxicab classification.

MR. LUKE JOHNSTON: Yeah. Those were

seen as the -- the bounds of the potential experience, right? It has to be -- it'd be strange to think that it'd be less than all-purpose, and, based on what we know about taxis, also unreasonable to assume more than taxis, so somewhere in between those two numbers, for sure, yeah.

MR. ROBERT WATCHMAN: Right. And as you indicated, pursuant to a jurisdictional scan, you determined that the average rate would be 20 percent above the all-purpose rate for passenger vehicles.

MR. LUKE JOHNSTON: As a starting point, yes, yeah.

MR. ROBERT WATCHMAN: And one other category I -- I do want to look at, if you could scroll down to page 13, Kristen, heading 3.8, Accessible Vehicles for Hire.

And in this part of the -- the Order describes the Corporation's request with respect to accessible vehicles for hire. And if we scroll to the top of the next page, the last two (2) sentences at the top paragraph:

> "The Corporation assumed there would only be very minor changes in loss exposure for accessible VH -- VFH because of the unique nature of the

insurance use. It has several decades of accessible vehicles claims experience that is used to set wheelchair livery bus rates."

Do you see that?

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And skipping ahead, so the rates were approved on a preliminary -- or on an interim basis, confirmed in the next GRA. And in the last GRA, the rates were confirmed again based on this ratemaking methodology, correct?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: Now one (1) of the things the Board noticed -- noted right from the outset -- if you could go to page 19, Kristen, to the last paragraph on that page. So this was, you know, the first interim order on VFH rates:

"The Board is concerned with respect to the financial impact of the provision of VFH insurance, and in particular that such insurance not be subsidized by other Basic customers."

Do you see that?

MR. LUKE JOHNSTON: I do.

MR. ROBERT WATCHMAN: And just while

I'm there, avoiding cross-subsidi -- subsidization is an actuar -- actuarial principle under the rate-setting framework?

MR. LUKE JOHNSTON: Subsidiza -- like "cross-subsidization" or -- or words like that are used in the actuarial literature, if that's your question, yeah.

MR. ROBERT WATCHMAN: So -- and the idea, though, is to -- the principle is to avoid subsidization across classes?

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

MR. ROBERT WATCHMAN: Now if we could turn to PUB/MPI-188 and go to Figure 1 there. And this is -- you made reference to this earlier, Mr. Johnston, and this is the loss ratio calculation for the two (2) full years of claims experience the Corporation had as of February 29th, 2020?

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: Okay. And just -- just while I'm there, the February 2020 date -- so March wasn't included in this, March 2020. And as we know, the Corporation started to feel the impact of COVID-19 sometime in March 2020. Is that correct?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And -- and throughout this -- the -- the current rating year, similarly, the -- the COVID pandemic has had an effect on the Corporation's claims experience?

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And is it fair to say that the claims experience from February 2020, and certainly for this current rating year, is not going to be useful to the Corporation?

MR. LUKE JOHNSTON: I'm sorry, not going to be useful, did you say?

MR. ROBERT WATCHMAN: So in terms of developing claims experience.

MR. LUKE JOHNSTON: It's going to be pretty -- pretty difficult to -- to use in terms of making projections in a post-pandemic world.

MR. ROBERT WATCHMAN: So the -- this year is going to be something of an outlier, you would expect?

MR. LUKE JOHNSTON: That would be my expectation, yes.

MR. ROBERT WATCHMAN: And unfortunately, the way things seem to be going, there's the potential that the next rating year may also be an outlier?

MR. LUKE JOHNSTON: I hope not, but I can't exclude that possibility, yeah.

MR. ROBERT WATCHMAN: Okay. So now if we look at the last column, the -- the loss ratio, and as you indicated, if you have a loss ratio in excess of 100 percent, you're clearly not charging enough premium.

MR. LUKE JOHNSTON: That's true.

MR. ROBERT WATCHMAN: And just -- and as I understand it, that loss ratio is just the incurred versus the earned premium?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: So does that take into consideration things like operational costs?

MR. LUKE JOHNSTON: It would not. You'd -- it is slightly different depending on the class, just depending on the weight of those items, but I would expect a -- a loss ratio more in the 70 to 80 percent range to -- to truly break even net of all costs.

MR. ROBERT WATCHMAN: Right. So the only point I was trying to understand there is that even with 100 percent loss ratio, you're -- you're still not charging enough premium?

MR. LUKE JOHNSTON: Correct.

MR. ROBERT WATCHMAN: And so if we look at the first three lines, this is the passenger vehicle -- passenger vehicle for hire --

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: -- category, and we see that the loss ratio is clearly above 100 percent for both of those loss years.

MR. LUKE JOHNSTON: That's -- that's right.

MR. ROBERT WATCHMAN: And then the next three lines, 4 to 6, is with respect to light trucks?

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And so what's happening here is that these two classifications are being subsidized by other basic ratepayers?

MR. LUKE JOHNSTON: In terms of a -- a two years of experience, the losses are greater than the premiums, and that can obviously happen to any class just by chance.

So the -- the question is whether I guess this is -- is chance or a reflection of their true experience.

The -- the units are low, per year, but the loss ratio is significantly higher than what we would expect if -- if this was a true break even forecast.

So I struggle a little bit with the word "subsidization", because subsidization implies some sort of knowing intent in advance of the rate setting that, you know, we're just going to not charge this group enough money. And I -- I don't think that MPI had that intent at all.

The question now for MPI and then the Board is -- is a rate-making methodology moving fast enough to respond to loss experience.

So ever class has loss experience every year that pushes the rates up or down, or the same. And we have rules how to respond to that. We don't call, you know, one or two years of -- of higher loss ratios subsidization of MPI's -- you know, that anyone is doing anything wrong here.

But at what stage does this information become so compelling that its -- you know, how can we believe that this isn't subsidization? That -- that's how I would describe the issue.

MR. ROBERT WATCHMAN: And, yeah, and I think you're perhaps anticipating where I'm going with this.

But before I -- I get there, but the

Corporation accepts that the starting rates for the passenger Vehicle for Hire classifications were not appropriate?

MR. LUKE JOHNSTON: I -- I can't say that. There's 452 cars in the first year, right?

So -- and the total incurred of a million dollars, one claim could be a million dollars, right?

Like, so I can't say that with certainty and any actuary would say with only 450 vehicles and then obviously a much smaller number of claims, that they -- they can't have full confidence in that statement.

But I'm quite willing to say that with consecutive loss ratios in this neighbourhood, the -- the likelihood that there's some subsidization is high.

But we still have to appreciate the volatility of a -- a small vehicle group like this can have in such a short time frame.

MR. ROBERT WATCHMAN: So, Kristen, could we go to --

THE CHAIRPERSON: Sorry, Mr. Watchman, can I interrupt for a second? I just have a question on this page, so I didn't want to leave it.

Mr. Johnston, when I look at the loss ratio for these different columns, a lot of them are pretty stable from -- from 18 to 19. But then I look a line 4 and 5 where it went from -- loss ratio went from 212 percent to 26 percent.

If you look at the other loss ratios, there really isn't that much difference. I mean, is there a change in methodology or -- or what happened here? Because this is -- this is completely different than all the other -- all the other categories.

MR. LUKE JOHNSTON: Yeah, well, in fact, you actually raised a very good point.

That line 4, there's 10 vehicles, right? So I can't tell you anything about that -- that experience with that information right now. I can tell you what actually happened and -- and how we -- which direction we should nudge the -- the rate.

But every -- every vehicle class in our -- in our pool takes into account what actually happened. So in this -- let's just do line 1 because that's -- has more -- let's use line 2 then, it has 746 vehicles.

Our rate metho -- making methodology would say, okay, losses were greater than premiums, we'd better raise the rate.

But should we raise the rate 50 percent instantly? Well, probably not because there's only 700 cars. What if -- what if there's only -- what if there's one big claim in there and that's not reflective of the true costs in that group?

So we're following the rate-making methodology in that regard.

The issue with this group is, unlike taxis, taxis have decades of the ups and downs, right? We've got ten year average serious losses, we've got average frequency, we've got good winters, bad winters, all these things. This group has whatever happened in the last couple years, and I'm pretty sure that this hasn't even normalized yet, right? All the different companies aren't here and -- and we don't totally know what it's going to look like.

But -- so I don't -- I can't make a definitive statement that this group definitely has a one hundred and, say, twenty-five (125) percent loss ratio. But the likelihood is high, and the rate-making methodology will of course move toward that rate, but in a -- at a certain speed.

And I think the most important thing for this hearing is -- is that the speed at which it's moving to the target appropriate? MPI hasn't judgmentally said move it faster. We just said use the rate-making methodology we have.

THE BOARD CHAIRPERSON: Thank you. Sorry.

CONTINUED BY MR. ROBERT WATCHMAN:

MR. ROBERT WATCHMAN: No. And I was just going to move away from this screen just for a moment and come back to it.

But, Kristen, if we could go to information request TC(MPI) 2.2.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And so in this information request we scroll down to the first question:

"Please confirm that the passenger VFH did not have an appropriate starting rate as approved on a final basis in PUB Order 159-18."

And if we scroll to the answer, the answer is:

"Based on the actual claims experience as at February 29th, 2020, passenger VHF did not have an appropriate starting rate. However, this experience was very low -- has very low credibility given the size of the passenger VFH pool."

MR. LUKE JOHNSTON: That's a -- pretty much a shorter answer for what I described initially.

MR. ROBERT WATCHMAN: Now if we could go back, Kristen, to MPI 188, and I just wanted to go down to lines 10 to 12, which is the Accessible Vehicle For Hire.

You see that there?

MR. LUKE JOHNSTON: I do.

MR. ROBERT WATCHMAN: And we go to the last ratio column and you'll see that the loss ratio is very high.

And this was a category, as I touched upon when we referred to the original order, was one where the Corporation said that they had considerable experience.

MR. LUKE JOHNSTON: That's true.

MR. ROBERT WATCHMAN: And so can you explain, is there any reason that you would know for that loss ratio being so high?

MR. LUKE JOHNSTON: Specifically, no.

Like -- like, I'd have to look into it.

Two (2) things, I guess, jump out here. Obviously, the -- the unit size isn't particularly large, but there was a significant increase in units, almost a doubling of units in 2019, which suggests that maybe this isn't the same group that existed in MPI's history. I wouldn't expect a doubling of units in a one (1) year period.

So I -- I can't comment on all the whys without looking at the data more closely, but the unit growth is definitely unexpected.

MR. STEVE SCARFONE: Sorry, just to -- what line was that, Mr. Watchman?

MR. ROBERT WATCHMAN: It's lines 10 through 12.

MR. STEVE SCARFONE: Oh, thank you.

MR. LUKE JOHNSTON: Sorry, just -- yeah. I'm talking, but I'm not referencing anything. Line 10, so a hundred and twelve (112) earned units or basically vehicles suddenly grew to two hundred and one (201) roughly in the following year.

If this was truly a stable class with stable experience over long periods of time, you wouldn't expect units to double in a year. So that would be -- would require some more research from our end.

MR. ROBERT WATCHMAN: Now, for sake of completeness, Kristen, can we go to PUB/MPI-235.

(BRIEF PAUSE)

MR. ROBERT WATCHMAN: And in this instance, it's item (d). Oh, sorry. Figure 1 is good. Maybe just scroll up a bit.

So this was an update with respect to the loss ratio that the Corporation provided?

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And we see here, for private passenger the overall total for the classification, the implied ratio is now down to 80.5 percent.

I think it's -- it's the passenger vehicles and the light trucks, broken down by territory, but the overall implied loss ratio is eighty-point-five (80.5)?

MR. LUKE JOHNSTON: I'd have to see the initial question. But this, to me, looks more what a target type loss ratio would be for break even.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Expected loss, yes, so part (b).

This is what we spoke of earlier. If rated correctly, what loss ratio would we target for break even? And I -- I suggested it's, you know, in the 70 to 80 percent range. For this -- for this group, we'd expect that to be around 80 percent to -- to break even.

If -- if we misinterpreted the question there, then we'd -- we'd have to update that.

MR. ROBERT WATCHMAN: And -- no.

If we scroll down to the answer to (d), maybe it -- perhaps it'll make a little more sense because the -- the conclusion -- the Corporation's response was that there was no significant difference in implied loss ratios based on the 2021 GRA filing structure as between the VFH passenger vehicle and the public major class.

MR. LUKE JOHNSTON: Yes.

MR. ROBERT WATCHMAN: And so this is -- but this response is -- is now we're being influenced by the COVID pandemic?

MR. LUKE JOHNSTON: Yeah. I -- I

don't believe so. Maybe I can take that one away, but I think we're talking about different things here.

Just looking at the answer, there's no way that those loss ratios would all be exactly basically the same. This is -- this would be the loss ratio implied in the rate setting piece. If -- if we're looking for an update on the experience, that's obviously something that we have -- we may have provided in IRs. But that -- this would not be -- be that.

MR. ROBERT WATCHMAN: No, and -- and I think that's -- that's fine for our purposes.

If we could just go back to PUB/MPI-188, Kristen.

Now you -- you touched upon this, Mr. Johnston, and I don't know if I cut you off, but even with a -- a low credibility weighting, and that's what you give to this experience data given the short period of time and given the relatively small number of units, but even with relatively low credibility weighting, does the Corporation have a view as to how many years in a row would you see a loss ratio that is clearly inappropriate before the Corporation would take some action to correct it?

MR. LUKE JOHNSTON: Historically, the

guidelines we've used have been the rules established through this rate-making methodology. So the most maybe similar comparison I could give would be motorcycles. They're -- you know, early post-implementation of PIPP, there were some pretty large indications.

And my memory probably isn't perfect, but a lot of the reasons why we decided, you know, certain caps or experience adjustment limits and -- and such were appropriate were so that groups, like motorcycles, for example, in that scenario would have some limit to the amount of increase you could -- you could apply in a year.

We're doing -- we're applying that same approach here. But I think the question is -- from -- from you is that should we deviate from that approach and when.

Yeah. At this stage, credibility is low. We are moving. But as more data comes in, it would seem unreasonable to -- to let this, for example, just ride at a 130 percent loss ratio for ten (10) years straight. I'd want to see improvements in that every year.

So if we mixed -- we move on it this year and it falls to, say, 110 percent or something like that, that would at least show progress. If there's no progress at all, that would be disappointing. We may have to recommend a different action or have PUB make a recommendation on approach.

MR. ROBERT WATCHMAN: And, Kristen, if we could just scroll up to the response, and this is something that you've touched upon and so I'm coming to it now, that in the second sentence there:

"Although certain rating classifications may have different loss ratios in the short time, all rating classifications eventually move toward the indicated break even actuarially required rate as a result of the rate making methodology."

Correct?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And so the question becomes, well, eventually how long -- how long is eventually?

And in a response to an Information Request from the Taxi -- Taxicab Coalition, do you recall the indication was that, based upon the data you have to date, for passenger vehicles it would require a 56 percent rate increase to move towards the actuarially indicated rate. Do you recall that?

MR. LUKE JOHNSTON: I do.

MR. ROBERT WATCHMAN: And that would be going forward beyond the -- the next rating year. So beyond the '21/'22 year?

MR. LUKE JOHNSTON: Yeah. If we change the rate, it would obviously continue on. But again, I -- I have to caution you about making such statements with such certainty. That 56 percent is the required amount when we're talking about several hundred vehicles.

I -- like, as I mentioned, I believe the likelihood is very high that a rate increase of -- of a larger magnitude is required, but I can't peg that at that level of detail right now.

But to your point, yes, if we changed rates today by 56 percent, that would continue on and be adjusted as -- as per the rate-making methodology.

MR. ROBERT WATCHMAN: So -- yeah. And -- and what I'm trying to focus in on here is the different things that might influence how long it would take to get to the indicated rate. And -- and my understanding is, is that giving a low-credibility weighting to the experience data of something like 10 percent, it would take something like ten (10) years to get to the indicated rate. That's correct?

MR. LUKE JOHNSTON: Likely, yes, yeah.

MR. ROBERT WATCHMAN: And the other complication, which you did touch upon as well, is that various capping rules would come into effect?

MR. LUKE JOHNSTON: That's correct.

MR. ROBERT WATCHMAN: And so if -- if the experience data was given full credibility, there is an annual cap of 15 percent for experience adjustment?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: So again, this -- such a rate change to get to the indicated rate would take something like five (5) years?

MR. LUKE JOHNSTON: Yeah, it would -- it would take less than ten (10), but, yeah -- but slightly faster.

MR. ROBERT WATCHMAN: And -- and then again, there is an overall cap on rate changes, pursuant to PUB Order 148/04, which is 20 percent?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: So again, you were talking about -- this couldn't be done in three (3) years based upon the current rate-making methodology.

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: So now I understand that since the initial hearing on Vehicle for Hire rates, since that time both Saskatchewan Government Insurance and Insurance Corporation of British Columbia have adopted policies that allow them to provide coverage for Vehicles for Hire?

MR. LUKE JOHNSTON: That's right.

MR. ROBERT WATCHMAN: And -- but I understand that their program is different, where they issue a blanket policy to the transportation network company?

MR. LUKE JOHNSTON: There are forms of that, yes, yeah.

MR. ROBERT WATCHMAN: And so I take it that you wouldn't be able to receive experience data from SGI or ICBC that would enable you to gain better experience?

MR. LUKE JOHNSTON: So to the extent the rating is done as part of the public insurance program, I -- I wouldn't expect much resistance from them in terms of general information. Anything that's optional or, you know, calculated outside those programs would be more difficult to obtain. But if it's in the public insurance realm, we could probably get assistance from them.

MR. ROBERT WATCHMAN: Now am I correct in thinking, though, if -- if the -- if the Corporation offered such a blanket policy, it wouldn't be restricted by the capping rules that apply to the rate making -- current rate-making methodology, at least for the initial blanket policy?

MR. LUKE JOHNSTON: Yeah, that's -- that's a difficult coverage question in terms of what that even looks like for Basic insurance and how that -- or if it's offered through Basic, how that would flow through this hearing process and be approved. I can tell you that those types of discussions are exactly what's happening right now, like how -- how could we even do that, along with other things like per-kilometre rating and then all -- and those type of matters.

Everyone -- every group is a little different. So, for example, certain groups may not want anything to do with the blanket policy and just keep it with the owner-operator. Some people have kilometres that they track, some don't, and all this stuff. So we're -- we're working to find models that everyone can use but are also fair to everybody.

MR. ROBERT WATCHMAN: Okay. Now you

indicated in your evidence that the Corporation is currently undergoing a review to consider a new design for the -- for this category. Is that...?

MR. LUKE JOHNSTON: That's right. Basically based on what I described, yes, yeah.

MR. ROBERT WATCHMAN: And will that review be completed in time for the next GRA?

MR. LUKE JOHNSTON: I have no doubt that meeting with stakeholders will happen, and the -- my -- my caution and -- and I'll even call it a frustration, I guess, is -- I'll use the CMMG meetings as an example. Good meetings, good ideas, lots of potential product changes, and then MPI saying, Well, I don't think we can do these right now because -- because of Nova.

So the -- all the groups we're working with obviously understand we're doing Project Nova. And I mentioned earlier for taxis, specifically, are there things we can do in the near term that are not IT intensive that address some of their concerns, and similarly for -- for TNCs? But we are unfortunately dealing with the same Nova-related concerns.

But I don't -- I don't want people to think that Nova's being blamed for us not doing these things. Nova is the way we're going to be able to do these things, right? Like, if we don't do that project, we're going to continue to have trouble making product changes that customers want. So that -- you know, that -- that's one (1) of the big reasons why we're doing Nova.

But -- but -- that was a long answer, but just to give you a sense of what -- what we're trying to do.

MR. ROBERT WATCHMAN: Does the Corporation have a -- a view as to whether or not a technical conference on Vehicle for Hire might be of benefit as part of that review?

MR. LUKE JOHNSTON: Today, I don't, but that topic can obviously be raised with stakeholders. And -- and I -- I can't recall historically how we organized everyone, but obviously we have contacts, and that topic could be raised to see if that would be of -- of benefit.

MR. ROBERT WATCHMAN: Okay, thank you. Madam Chair, perhaps it would be a convenient time to break, and then I will just check my notes, and I probably don't have anything more for Mr. Johnston.

THE PANEL CHAIRPERSON: Thank you, Mr. Watchman.

Yes, let's take a break. We'll come

back, please, at ten to 11:00.

--- Upon recessing at 10:36 a.m.
--- Upon resuming at 10:51 a.m.

THE PANEL CHAIRPERSON: Mr. Watchman, do you have any further questions?

MR. ROBERT WATCHMAN: No, Madam Chair. Those were all our questions. Thank you, Mr. Johnston.

THE PANEL CHAIRPERSON: Thank you. I understand Ms. Meek will be crossing next.

MS. CHARLOTTE MEEK: Thank you, Madam Chair.

CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Good morning, Mr. Johnston.

MR. LUKE JOHNSTON: Hello.

MS. CHARLOTTE MEEK: I would like to focus my questioning today on the methodology change that MPI has used this year relating to loss development, and specifically, the creation of separate loss development factors for serious and non-serious losses.

MR. LUKE JOHNSTON: Okay.

MS. CHARLOTTE MEEK: Kristen, if we could start with the Application part 1, the overview. Go to page 7, please.

So, here MPI was providing some explanation, just under this chart, for the differences in the indicated rate change for the motorcycle class versus other major classes, correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Okay. And at line 5, MPI notes the following:

> "Furthermore, PUB Order 176/'19, directive 3.3, requires MPI to recognize the differences in loss development between serious losses and other losses.
>
> As losses involving motorcycles are disproportionately serious losses, the result is a negative impact on the rates payable by the motorcycle class."

Do you see that there?

MR. LUKE JOHNSTON: I do.

MS. CHARLOTTE MEEK: Okay. And if we could actually go to that -- excuse me -- Board Order, please. This is Board Order 176/'19 at page 30, section 3.3. This is what MPI was referencing. And this is the Board making some comments on serious losses versus other losses.

Is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: Okay. And so, it reads as follows:

"In respect of accident benefits other index and weekly indemnity, the Corporation uses a common set of loss development assumptions in the analysis of serious versus other losses for deriving rate indications for the private passenger, commercial, and public major use classes.

In its evidence, the Corporation agreed that there are observed differences in loss development patterns between serious versus other losses with serious losses typically being slower to emerge and that the Corporation's analysis approach does not fully recognize these differences.

While indicating that there may be limitations as to what remedies are possible to address this issue due to sparseness of the data, the Corporation undertook to review its current approach in this regard for the 2021 GRA."

Is that correct?

MR. LUKE JOHNSTON: Yes.

MS. CHARLOTTE MEEK: So, this was not an Order or a recommendation by the Board. Is that correct?

MR. LUKE JOHNSTON: It was not an Order, as -- as far as I can remember, but a pretty, I guess, clear statement on the evidence being that there are differences in these two (2) groups and that there is at least some expectation that MPI should correct that issue.

MS. CHARLOTTE MEEK: Sure. So, the Board was basically making a note of the difference -- differences between serious and -- and other losses and the possibility of -- of there being some implications on the rate-making process.

Is that correct?

MR. LUKE JOHNSTON: Correct. MPI confirmed that that was a valid argument and should be addressed.

MS. CHARLOTTE MEEK: Right. And MPI also noted that there would be limitations to this approach, correct, specifically noting the sparseness of the data.

Is that correct?

MR. LUKE JOHNSTON: That's true.

MS. CHARLOTTE MEEK: Okay. And MPI went ahead and modified its methodology in this regard from last year's GRA to separate out serious and non-serious losses and apply different loss development factors to those, correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: Okay. So, I'd just like to start by reviewing some of the basics regarding the concept of loss development with you, Mr. Johnston.

MR. LUKE JOHNSTON: Sure.

MS. CHARLOTTE MEEK: From what I understand, loss development refers to the difference between the final losses that are recorded by an insurer versus what an insurer's latest estimate was.

Would you agree with that definition?

MR. LUKE JOHNSTON: That's a good description, yes.

MS. CHARLOTTE MEEK: Okay. And more specifically, loss development is attempting to account for the fact that some claims take a long time to settle and that estimates of total losses will have to be adjusted as claims are finalized.

Is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: Okay. And loss development factors are factors that insurers take into account to determine the losses that they may face for the policies that they're insuring.

Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Okay. And for long-tailed claims which are paid out over multiple years, loss development factors are -- I'm going to start calling them LDFs -- help the insurer to estimate the final amount of the claim which is required for the insurer to determine the reserve amount that needs to be held.

Is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: Okay. So, LDFs

help the insurer determine the ultimate loss amount which, in turn, then has an impact on the determination of the rate indication.

Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Thank you. And would you agree that, ideally, LDFs are selected using a large pool of data that is demonstrating consistent patterns?

MR. LUKE JOHNSTON: Yeah, that would be ideal really for any forecast or -- or assumption, yeah.

MS. CHARLOTTE MEEK: Thank you. So, then if we could go to PUB-MPI-2-10, please. I think it will be right on the bottom, kind of page 1 to 2. Yeah, that's perfect for now. Thank you, Kristen.

So, this IR was requesting the depiction of the calculation for LDFs for serious claims as it had not appeared in the GRA.

Is that correct?

MR. LUKE JOHNSTON: I believe so, yes. Yeah.

MS. CHARLOTTE MEEK: And so, in MPI's response, MPI notes as follows:

"Note that MPI did not select loss

development factors, LDFs, for serious losses based on these loss development triangles.

MPI calculated serious LDFs by coverage using the ultimates for non-serious losses and for total losses per the report of the appointed actuary because the ultimates for total loss must balance to the corresponding figures in the report."

Do you see that?

MR. LUKE JOHNSTON: Yes.

MS. CHARLOTTE MEEK: Okay. And so, in this Application, the externals -- external actuary report provided the ultimate loss amount.

Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Okay. So, if we could go to part -- I think it's part 7, the external actuary review, or is it part 8? I'm not sure. Sorry, so it's part 8, external actuary review.

This is attachment B, the actuary report of March 2020. This is page 29.

So, the third column from the left you can see is titled, "The estimated ultimate claim," so column 7 there.

MR. LUKE JOHNSTON: I see that.

MS. CHARLOTTE MEEK: This is where the external actuary provides the estimated ultimate claim. Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Okay. And this is the number that was used by MPI to select LDFs. Is that correct?

MR. LUKE JOHNSTON: This would be the -- so the -- basically, what's happening in the valuation is we're establishing estimated ultimate claims costs for previous years.

And what we're saying in the answer is that it would, obviously, not make sense for us to use different ultimate loss estimates than we just calculated in the actuarial evaluation.

So, the -- if we were to split serious and non-serious, the total still has to add up to -- to the -- the estimated ultimate for this -- for everything to reconcile between ratemaking and financial statements and valuations.

MS. CHARLOTTE MEEK: Right. Okay. So, you've anticipated my question a little bit here. So, these are the -- the estimated ultimate claims that were used. And you were noting that the external actuary didn't provide ultimate -- or estimated ultimates for serious and other than serious losses separately.

Is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: Okay. Thank you. Kristen, could we go to PUB-MPI-2-10, please, back to that same IR, appendix 1, page 1?

So, if we can scroll down to where it says, "Loss development factors," the second kind of triangle there. Thank you.

So, MPI, as a response to this Information Request, provided the LDFs for serious losses. And these are ones that MPI noted were not used by MPI. Is that correct?

MR. LUKE JOHNSTON: That's right. They're, like, the net result, I guess. Yeah. Yeah.

MS. CHARLOTTE MEEK: Okay. So, if we look at the LDF for the development period, the twelve (12) to twenty-four (24) months. So you can see the -- the development periods are listed all along the top. And then the -- each year is listed along the columns down the side.

So if we follow in the twelve (12) to

twenty-four (24) month period down each year gradually, following that column, would you agree that the LDFs provided here have quite a large variation, with a low of one point four eight nine nine (1.4899) to a high of three point eight six six five (3.8665)? Is that correct, subject to check?

MR. LUKE JOHNSTON: I definitely agree with the numbers presented. Just know that MPI specifically didn't use estimates in this time frame for that reason. So we -- with the -- we excluded the most recent two (2) years, but no objection to your -- the volatility.

MS. CHARLOTTE MEEK: Right. So you're just noticing, yes, the last two (2) years, there -- there tends to be more volatility because those ones haven't -- haven't developed?

MR. LUKE JOHNSTON: I guess what I -- what I mean is the most recent loss year will be at twelve (12) months' development. So in other words, the last year we just had, it's -- there's been twelve (12) months since it started.

And the second more recent loss year we'll be at twenty-four (24) months of development. We are agreeing that those two (2) years loss estimates are highly volatile and could create inappropriate or -- or undesirable impacts to the rate indication for that reason. Like our objective is obviously best estimate, but also to control volatility.

We've basically removed those two (2) years from the analysis. Those are the only two (2) years that would use Loss Development Factors in the twelve (12) to twenty-four (24) or the twenty-four (24) to thirty-six (36) columns that you see.

So those -- while those are volatile, you're basically confirming what MPI believes, that we shouldn't use those in the estimate of serious losses, so we haven't.

MS. CHARLOTTE MEEK: Sure. Okay. So maybe I could rephrase my question. I -- I see what you're saying about the last two (2) years. So even if we exclude the last two (2) years, there's still quite a bit of volatility in the numbers as we scroll down that column.

So the variation then would be one point four eight nine nine (1.4899) to the max of two point five six one six (2.5616) in the year '16/'17?

MR. LUKE JOHNSTON: Just to be clear, the -- excluding the last two (2) years actually means excluding those two (2) columns, twelve (12) to twenty-four (24) and twenty-four (24) to thirty-six (36) be -- because the 2019 loss year would -- is the only year that would use the twelve (12) to twenty-four (24) month development assumption, and the 2018 loss year is the only one that would use twenty-four (24) and after.

So those -- you'll see estimates for 2018 and 2019 in the material for motorcycles, but -- which are based on these development factors in the -- in the two (2) columns you see here. But we exclude those in the calculation of rates for the very reasons you're noting: high volatility.

So just to be clear, when I say "the last two (2) years," I don't mean the '17/'18 row and the '18/'19 row. I mean the entire column of experience is excluded from making estimates that affect motorcycle rates.

MS. CHARLOTTE MEEK: Okay. Thank you. So maybe we can just look at a different column then. We can look at a different development --

MR. LUKE JOHNSTON: Yeah.

MS. CHARLOTTE MEEK: -- period, so, for example, like the forty-eight (48) to sixty (60) month. I don't think I'll be able to do it on the fly, but we're still seeing some variability, but slightly less, as you noted, from year to year as you scroll down the column. Would you agree?

MR. LUKE JOHNSTON: Yes. And -- and there's for sure volatility, but if -- this is actually a really good demonstration of centralized reserving.

After thirty-six (36) months, you can see in the table below those averages are a lot more consistent and a lot closer to one (1). And if you go beyond ten (10) years, so one hundred and twenty (120), you can see those averages are quite a bit closer to one (1) and a lot more stable. That's the effect of centralized reserving, and the projections are much more stable once -- once that starts happening.

So some volatility, agreed, but a comparison of those averages actually shows a lot more stability than you might expect for serious losses, and obviously, a lot more stability than -- than the first two (2) columns.

MS. CHARLOTTE MEEK: Okay. Thank you. So you noted some of the averages along the bottoms, and you were saying that they were coming closer to one (1).

Is one (1) what you would want to see

in the averages?

MR. LUKE JOHNSTON: This is I believe Accident Benefits, Other Index. I can't see the top, but --

MS. CHARLOTTE MEEK: If we could scroll up to the top a little bit, Kristen. Yes.

MR. LUKE JOHNSTON: Accident -- okay. The -- in a -- in a perfect world, we would estimate this once under centralized reserving, get it right, and, on average, these would all be one (1).

We know that's not possible when you're dealing with, say, sixty (60) lifetime injured claimants. Some are going to deteriorate or, you know, need higher levels of personal care, die, things like that.

So these will never be one (1), but the objective is that, especially when we get to ten (10) years and after, that these should be closer to one (1). And we'd expect a little more volatility between thirty-six (36) months and sixty (60) months, which is what you're seeing with some additional development, and then they start approaching closer to one (1).

MS. CHARLOTTE MEEK: Okay. And I'd like to take a look at how the LDFs progress along in each year, so going along the row. So, for example, if we took just a random row. I just want to see which one I had.

So if we did like the '08/'09 year, the Loss Development Factors are gradually trending down, but then they sometimes jump back up. Is that correct?

So as you look in '08/'09, as you go from twenty-four (24) to -- twenty-four (24) to thirty-six (36) and along that -- that row, would you agree that, in different years, sometimes they go -- gradually increase and then gradually decrease or jump up and down?

MR. LUKE JOHNSTON: Definitely happens. Again, in the early stages, it's really unknown. Once we get to thirty-six (36) to kind of sixty (60) month range, those estimates from a case reserving standpoint are improved. And at least in these examples, usually means that they're increased, but it's not always the case, as you see. A number less than one (1) would mean we lowered reserves.

Claimants will -- will die as well, and if they have, you know, a multi-million dollar reserve, that reserve will immediately be dropped the day they die, essentially. So that is the most common reason for, you know, a number like point nine one

(.91) just showing up because somebody deceased.

MS. CHARLOTTE MEEK: Okay. And would you say that that kind of variation in Loss Development triangles is unusual?

MR. LUKE JOHNSTON: No. I -- we -- for -- for weekly indemnity and -- and for -- and for Accident Benefits, Other, we try to look at the collective experience of what we call the entile -- entire tail period. So, you know, what is the, you know, average Loss Development Factor of all claims that are more than ten (10) years old?

We know sometimes claimants are going to die or there's going to be relapses and such, but, on average, collectively for all those years, we -- you know, we -- at least on weekly indemnity, we've seen a -- a development of close to one (1) which would suggest our -- on average, our case reserving's correct. But in any individual year, for sure there's some volatility because of the small number of claimants.

MS. CHARLOTTE MEEK: Right. So -- so what you reference there, the variation or volatility that we're seeing might be an indication of the sparseness of the data that MPI had noted in that IR that we looked at previously?

MR. LUKE JOHNSTON: Beyond five (5) years after the accident, you are talking fifty (50) to a hundred (100) claims per year. So we're -- we are in a low-frequency/high-severity world. So again, we look at those results collectively, both in evaluation and in ratemaking.

So in ratemaking, the reason we do, you know, the ten (10) year average and -- and things like that are to get at the -- a more credible sample and -- and to try to smooth out some of this year-to-year noise, if you will, and -- and create a stable estimate.

MS. CHARLOTTE MEEK: Right. So you're saying, because there's a small number of claims that might be serious and they are of such high value, that could create that kind of variability that we're seeing?

MR. LUKE JOHNSTON: Agreed. And -- and as you're obviously aware, that then goes down into the class level, motorcycles being an example, where there's even fewer claimants because specific to motorcycles.

But again, we're trying to make a global appropriate assumptions and then use longer run averages to -- to get at an estimate of the true value.

MS. CHARLOTTE MEEK: Okay. And if we could go to part 6 of the Application, ratemaking appendix 9, please, page 25.

So, if we scroll down to look at the loss development factors, so this is the LDFs for private passenger class for Basic collision, correct?

Sorry, we scrolled past the title there quickly.

MR. LUKE JOHNSTON: Yes.

MS. CHARLOTTE MEEK: Thank you. So on the left again is the year, and along the top are the development periods, correct?

MR. LUKE JOHNSTON: Yes.

MS. CHARLOTTE MEEK: And again, if we look at the development period column, I've done it for the twelve (12) to twenty-four (24) month, but maybe we can look at another column seeing as we'd kind of indicated not to use those ones.

We're seeing pretty small fluctuations, for example, in the 36 to 48 month column, as you scroll down each year, pretty small fluctuations in the LDFs for -- for 36 to 48 month period?

MR. LUKE JOHNSTON: Yeah, that's -- and that's not -- that's what you'd expect for collision. This -- this is shown on a yearly basis but really collision within about three (3) to four (4) months we're 99 percent certain what we've -- what that month has cost us.

We see volatility in the twelve (12) to twenty-four (24) month numbers is really -- maybe we had a, you know, a snowstorm like a week before the year ended and some of those claims trickled into the following year.

But after that, you're basically seeing salvage recoveries and -- and subrogation impacts and stuff, so almost nothing really.

MS. CHARLOTTE MEEK: Right, thank you.

And -- and again, if we do the same as what we did for the other chart, if we look at one (1) year and follow it along as it develops through the periods, again there's pretty limited volatility here.

Would you agree with that?

MR. LUKE JOHNSTON: Yes, except for a few kind of straggler claims that are still unsettled, most of this is fully developed within a short period of time.

MS. CHARLOTTE MEEK: Right. And would you agree that the LDS we see in this list, loss development triangle, are more what you would expect to see in this kind of analysis?

MR. LUKE JOHNSTON: I would not. I would expect to see development factors relative to the coverage in question, really.

So for -- for collision, absolutely, I'd expect something like this. For long-term injury benefits, you could argue that other insurers would see even more volatile experience than what MPI experiences. We -- we have a fortunate situation of having very clearly defined coverages and rules under the no fault program. We have the entire population. We've had it for decades.

That's why we can do things like centralize reserving and -- and make long-term estimates with -- with more confidence.

But it will be -- it will be very coverage dependent. Something with very low severity, or sorry, low frequency, high severity claims like third-party liability would be all over the map in terms of development, but that's what we'd expect.

MS. CHARLOTTE MEEK: Would you agree that you would see more stable LDF patterns where you have a larger pool of data that you're working with?

MR. LUKE JOHNSTON: Definitely.

MS. CHARLOTTE MEEK: Thank you. And

in the previous IR that we had looked at with the loss development factors for serious losses at MPI indicated they were not using, MPI indicated they did not use those again, as we said before, because the ultimates for the total losses must balance to the corresponding figures in the report.

That's correct, right?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: So as we discussed previously, the external actuary report did not separate out ultimates for serious or non serious losses, and therefore, MPI had to kind of artificially create or imply the serious losses. Is that correct?

MR. LUKE JOHNSTON: That -- that is what we said.

Just to be -- to add to that, I guess, so we're not using the most two (2) recent accident years, so all the minor claims that have been settled aren't really part -- a concern, I guess, from this analysis.

All that's really left in the valuation in terms of unpaid or reserves, is the serious losses, right? Like, there's -- there's going to be some that don't reach the threshold, the five hundred thousand (500,000) threshold we've described.

But for the most part, after the first few years, we're, essentially, estimating what our remaining liability is on those loss years, and for the most part, those are -- are serious losses.

So, taking the net between the ultimate and -- and the non-serious losses is a -- I'm -- perhaps an imperfect approximation.

Like, I agree with you that the preference would be to have a valuation with separate triangles, so we can show that consistency and not do this subtraction method. But for the most part, there's not much in terms of non-serious losses anyways beyond the first couple of years.

MS. CHARLOTTE MEEK: All right. And I think you kind of jumped ahead to where I was going. So if we can go to PUB-MPI-1-14, please, Appendix 1. And we go to page 3. Scroll down, we can zoom out a tiny bit maybe, Kristen, please. Thank you.

So this is what you were alluding to. This is the calculation of the method that MPI has used in order to determine the serious loss development factor, is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Okay, and just bear with me, I'm just going to go through this a little bit, maybe for my own sake.

So what has happened here is we've got column C, which provides us with the non-serious claims incurred. Is that correct?

MR. LUKE JOHNSTON: Yes.

MS. CHARLOTTE MEEK: And column D is the loss development factor that MPI has selected for non-serious losses, is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: And then the ultimate non-serious claims in column E are determined by multiplying those columns together, is that correct?

MR. LUKE JOHNSTON: Correct.

MS. CHARLOTTE MEEK: Okay. And then MPI calculated serious incurred claims in column F by calculating the difference between the total incurred claims and the non-serious incurred claims.

Is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: And similarly, serious ultimate claims were determined the same way by the difference of total ultimate claims and non-serious ultimate claims. Is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: Okay. And the loss development factor for serious claims in column H was determined by dividing serious claims by the serious incurred claims -- or sorry, serious ultimate claims by serious incurred claims. Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: Thank you.

And would you agree that generally LDFs over the course of time should be expected to gradually trend upwards?

MR. LUKE JOHNSTON: Trend? I guess to be clear what you mean by time, as we develop 12, 24, 36, et cetera, I would expect them to trend towards 1. Like that would be the, you know, all claims are settled. Maybe that's not your question though.

MS. CHARLOTTE MEEK: No. So let me refine my question a little bit.

For the serious loss development factor that we're looking at in column H here, over the course from year to year, would you expect that the LDFs would gradually trend upwards?

MR. LUKE JOHNSTON: Downward. Sorry, one (1) more time. I'll -- I'll get it this time. Sorry.

MS. CHARLOTTE MEEK: Okay. So in

column H, when we're looking at the serious loss development factor that is applied in each year, as we go from year to year, would you anticipate that the Loss Development Factor would gradually increase upward?

MR. LUKE JOHNSTON: Okay, so I'm just thinking about -- of it differently, but yes. Going from oldest year to newest year --

MS. CHARLOTTE MEEK: Right.

MR. LUKE JOHNSTON: -- going from the newest year to the oldest year, you would expect it to gradually trend downward. That's how that works in my brain.

MS. CHARLOTTE MEEK: Okay, thank you. So would you agree that a shift in LDF factors showing a reversal from one year to the next would be unusual?

MR. LUKE JOHNSTON: Not necessarily. So, a lot what drives development for MPI specifically is reserving practices.

So we get big bumps in development the year -- the first year of centralized reserving, which is the year that we basically say, okay, this claim is still here and it's time to put up a more significant lifetime reserve based on what we know.

And then from that point on, for MPI

again, not all insurers will reserve the same way, the development would really just be the -- the noise, if you will, between individual claimants, healing or passing away or -- or having changes in their -- in their needs, but those -- from that point on -- should decline towards one (1), in -- it would be my expectation.

MS. CHARLOTTE MEEK: All right.

MR. LUKE JOHNSTON: Maybe a different way to -- to explain this.

My point earlier on non-serious claims was if you can see that, starting in '06 and '07 and -- and going down, that factor of one-point-zero-zero-zero (1.000) basically means that we've settled all these claims. There's nothing -- like, it's -- that's the number. There's nothing left.

So all that's really left is the -- is the serious column. And for the more recent years, you can see actually favourable developments expected. In other words, MPI is putting up reserves on some of these claims early. And on average, they're being closed for better than initially expected. And that's why you get numbers less than -- less than one (1).

But again, we don't -- we wouldn't use the information in the '18/'19 and '19/'20 years because of the -- the volatility.

MS. CHARLOTTE MEEK: Okay.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: Would you agree, Mr. Johnston, that loss development patterns of serious and other than serious claims are different and, as a result, should be evaluated differently?

MR. LUKE JOHNSTON: That would be better than -- than not doing so. I agree. Yeah.

MS. CHARLOTTE MEEK: Why did MPI not have the external actuary provide ultimate losses separately for serious and non-serious losses?

MR. LUKE JOHNSTON: It really pertains to what -- what I just discussed.

In the first couple years, the truth is we have almost no clue what's going to happen with the injury claims. We have counts and some initial reserve estimates, but the big money is in how many of these claims become lifetime.

So in our valuation, what we actually do for the first two (2) to three (3) years is we look at multiple different methods and take the highest indicated number as the estimate.

After that initial stretch, it effectively becomes a serious loss estimating exercise of what's -- of the claimants that are still around after twenty-four (24) to thirty-six (36) months. So it -- it -- that's how it's handled in terms of the split.

But I -- I have to agree, obviously, that creating two (2) different triangles would give a more precise answer than what we currently do.

MS. CHARLOTTE MEEK: Thank you. And I'd like to just look at the impact, a little bit, of this methodology change. If we could go to part 6, RM Appendix 8, page 2. So this is figure RM APP 8-11.

So if we -- line 9 and below provides us with the impact of the change in methodology for the LDFs and how that impacted each major class.

Is that correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: Okay. And notably, this is based on the original filing, is that correct? These numbers are based on the original filing?

MR. LUKE JOHNSTON: Yes. That's my understanding, yes.

MS. CHARLOTTE MEEK: Right. Would MPI

be able to undertake to provide this same figure, but updated to the October update?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Sorry, I'm just thinking what would have actually changed in this undertaking and --

MS. CHARLOTTE MEEK: If it would be the same or not?

MR. LUKE JOHNSTON: -- nothing really -- yeah. The -- the claims forecasting itself should be the same. Like, the -- the raw claims. Not worrying about interest rate or discounting.

The only difference to any of these numbers should be the new interest rate.

MS. CHARLOTTE MEEK: Right.

MR. LUKE JOHNSTON: So my expectation would be everything would slide kind of down to the new indicated -- or up -- to the new indicated rate and be similar in magnitude.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I -- I do expect a

similar magnitude. It will not be exactly the same numbers. If -- if you're willing to accept that, great. But to get the exact impact, we'd, of course, have to redo it.

MS. CHARLOTTE MEEK: Sure. And, you know, I was going to ask for a different undertaking, which might be more relevant. So let me get there first.

So under line 11 here, under the motorcycle column, it indicates that where LDFs were separated out, it will increase motorcycle premiums by an average of seventy-three-point-five-six (73.56). Is that correct? Seventy-three dollars and fifty-six cents ($73.56), is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: And under private passenger, along the same line, it will decrease premiums by an average of a dollar-sixteen ($1.16). Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: And commercial vehicles will experience an average decrease of a dollar-seventy-eight ($1.78). Is that correct?

MR. LUKE JOHNSTON: Correct.

MS. CHARLOTTE MEEK: And the public

class begin the notable benefit of twenty-one ninety-six (21.96). Correct?

MR. LUKE JOHNSTON: Correct.

MS. CHARLOTTE MEEK: Okay. And then, the impact on the rate indication is demonstrated along line 13. Is that correct?

MR. LUKE JOHNSTON: That's right.

MS. CHARLOTTE MEEK: With private passenger receiving a rate reduction of 0.1 percent. Correct?

MR. LUKE JOHNSTON: Yeah. Yes.

MS. CHARLOTTE MEEK: Commercial receiving a rate reduction of 0.2 percent. Correct?

MR. LUKE JOHNSTON: Correct.

MS. CHARLOTTE MEEK: Public receiving a reduction of 1 percent. Correct?

MR. LUKE JOHNSTON: Yes.

MS. CHARLOTTE MEEK: And, finally, motorcycles receiving a rate increase of 8.7 percent. Correct?

MR. LUKE JOHNSTON: That's correct.

MS. CHARLOTTE MEEK: Okay. And I just -- in your presentation this morning, I wasn't able to reconcile that 8.7 percent increase that we saw there with your -- your slide 9. Could you go to slide 9 of the -- the presentation this morning. And maybe you can just provide some explanation for this.

Here, you had said:

"Rate making methodology changes separate loss development factors for serious losses and determination of indicated per premiums, rate change of plus 4.2 percent."

Can you provide some clarification?

MR. LUKE JOHNSTON: If you go back to the previous slide, so the -- or, pardon me -- not slide. RM 8-1.

So one (1) of the methodology changes we made was favourable for motorcycles to the -- to the tune of 4.5 percent. And the other change was unfavourable eight-point-seven (8.7). The overall combination of those two (2) is four-point-two (4.2).

MS. CHARLOTTE MEEK: Right. So -- so the impact then of just the -- the separate loss development factor is 4.2 percent. Is that what I should understand?

MR. LUKE JOHNSTON: The -- no. the impact of both of these changes together is four-point-two (4.2). The impact of only the serious loss piece is eight-point-seven (8.7).

MS. CHARLOTTE MEEK: Okay. Thank you.
MR. LUKE JOHNSTON: You're welcome.
MS. CHARLOTTE MEEK: Would MPI, please, provide an update of basically the rate indication? So I can refer you to -- like, MPI Exhibit Number 27 RM1, the indicated rate change updated to October 9th, 2020, but removing the methodology change of separating out serious versus non-serious losses?

(BRIEF PAUSE)

MR. STEVE SCARFONE: Have we done that already? I would know, Ms. Meek, because I'm sure you've, like, paid more attention to this than -- than we are.
MS. CHARLOTTE MEEK: I don't think we have it updated with the -- the October update.
MR. STEVE SCARFONE: Okay.
MS. CHARLOTTE MEEK: But if -- if it is there, then please feel free to direct me, so maybe --
MR. STEVE SCARFONE: If it's not, I think that's something that we could -- we could do. Just one (1) second.

MR. LUKE JOHNSTON: Yes, we can -- we can do that undertaking.

--- UNDERTAKING NO. 41: MPI to provide re MPI Exhibit Number 27 RM1, the indicated rate change updated to October 9th, 2020, but removing the methodology change of separating out serious versus non-serious losses.

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

THE PANEL CHAIRPERSON: Thank you, Ms. Meek. Mr. Hacault...? Maitre Hacault, sorry.

CROSS-EXAMINATION BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Yes, good morning all. It's nice to be here in person as opposed to video link. But -- and good morning, Mr. Johnston, good to meet you.

MR. LUKE JOHNSTON: Good morning.

MR. ANTOINE HACAULT: As you know, I act on behalf of the Taxi Coalition. So Mr. Williams estimated my time was going to be about four (4) hours, so -- and that's probably about right, Madam Chair.

So I'll try and see if I can cut around noon, at a logical break, and -- and then, perhaps resume after the noon break. Would that be acceptable?

THE PANEL CHAIRPERSON: Sure, that's fine. Thank you.

CONTINUED BY MR. ANTHONY HACAULT:

MR. ANTOINE HACAULT: Okay. Mr. Johnston, I'm going to be covering some -- probably what would be considered a little bit of technical stuff, to get down into the weeds a little bit. And I apologize for that. It's going to be a bit tedious.

But what I plan on doing is understanding a bit more about relatives and -- and how that goes into making rates.

I'll have a couple questions on Driver Safety Rating as it relates to passenger Vehicles For Hire and the taxi group; some questions on the fleet incentive; and some questions on the Vehicle for Hire framework review that you're doing and how that's going to fit into your Nova plans. And then, last general area that I'm going to cover is more specific to passenger Vehicle for Hire.

I'm not going to cover all of what Mr. Watchman did, but I'm going to take you back to some of the initial assumptions, some of the current data, and see what kind of understanding or lack thereof we have with respect to that new class that's come into Manitoba.

So with that general introduction, I'll start with the issue of understanding relatives. And here, hopefully, I've educated myself enough not to ask too many stupid questions, but you'll apologize and help me if I do, sir.

I started the -- my review of that by looking at the rate-making chapter, at page 19, if you could bring that up, Ms. Schubert.

And here the Corporation, in its material, is explaining to me that:

"The determination of the required rates for all vehicle groups..."

-- so I'm going to stop there --

...is done using the relativity approach."

So this is an approach that is applied distinctly to the different groups of insurance coverage that we have, sir. Is that correct?

MR. LUKE JOHNSTON: That -- that's correct.

MR. ANTOINE HACAULT: Okay. And then you indicate there's a more -- I don't know if it's you, but the Corporation indicates there are a more thorough discussion of this approach in RM.4.4, and I'll go through some of that.

Then there's a very generalized statement indicating:

> "Briefly, the relativity approach compares the risk of each vehicle group to all other vehicle groups within the major classification. The rel -- this relative risk is then used to determine the required rate for the vehicle group."

So let's start -- which groups do we have -- and we've seen them quite often in the slides -- that have the separate analysis?

MR. LUKE JOHNSTON: So what's -- I'll start off with, I guess, the highest level general comments.

When we talked the other day about the minimum-bias procedure related to DSR, we talked about use, territory, rate group, and now DSR being part of that.

And when we say "minimum bias," we are looking at the relative differences from those factors within a group of vehicles -- in this -- in that -- in this example of DSR, private passenger vehicles -- and attempting to find the optimal relative differences, be it between Winnipeg drivers and rural, or all-purpose and pleasure, anything that we have a rating factor for.

The same approach applies to different major classes, but other major classes have different rating variables. To use the example would be motorcycles or its body style and engine displacement and decl -- declared value. No difference in how we apply the approach, just different -- different rating factors.

The -- that may be all you need, but if -- if you need me to expand, let me know.

MR. ANTOINE HACAULT: I'm going to try and take us through some examples. I'm better when I have examples than just general discussions. But...

And then, I'd like to take you to page 46 of this same rate-making explanation, and that was the heading RM.4.4 that we just saw, which was indicated to be a more detailed explanation. And you were providing some of that explanation in your answer just now, sir.

MR. LUKE JOHNSTON: That's right. Yeah, these are, for the most part, the examples I discussed.

MR. ANTOINE HACAULT: Okay, and if I go to lines 13 to 18, this concept is commonly used in the insurance industry, and the example that you use is if a group, on average, costs twice as much more to insure when compared to the population, it will have a relativity of two (2).

So when we use the word "population," is that, like, a sample size or a -- a grouping? How do we understand that word, sir?

MR. LUKE JOHNSTON: In -- in MPI's case, we are talking about the population in the sense that it's all the entire group of vehicles in that class; that is -- it's not a sample, it's everyone.

So for major class -- for any major class, really, if there is a vehicle group that is consistently exhibiting losses that are twice as high as the average of everybody else in the population of that class, that would be a relativity of two (2). So we'd --

MR. ANTOINE HACAULT: Okay.

MR. LUKE JOHNSTON: -- if you come to MPI and you say, Well, I'm doing this thing and driving this type of car, and -- and our history says that's two (2) times as risky as average, then that's what the minimum-bias procedure would come up with and say two (2) -- relativity of two (2).

MR. ANTOINE HACAULT: And then on that same page, if I go to line 20, MPI runs three (3) steps for each major class, and MPI has assumed that the territory distribution -- so that's Territory 1, the city --

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: -- and then other territories are each distinct and independent. So we see that in the tables that we're going to be looking at, correct?

MR. LUKE JOHNSTON: That's right, and that -- that just means that we don't assume that the -- you know, the -- say, the motorcycle territory relativities or the public-use territory relativities are the same as what they are for private passenger vehicles, for example, yeah.

MR. ANTOINE HACAULT: Okay. And we'll see this in a little bit more detail as to how it was done for passenger Vehicles for Hire and the small subsets.

But MPI has determined for that small subset, passenger Vehicles for Hire, the actual or raw relatives, and what's -- what's that, sir?

MR. LUKE JOHNSTON: Yeah, the -- the raw relativities would be what comes out of the minimum-bias procedure, so the difference between actual and the -- the raw relativity.

If -- if there's a request that just says, you know, Give us the experience of taxis in Territory 1. Well, sure, we just give you the actual experience in a table: losses, units and we've done that in a few cases here.

The raw relativities would be running that minimum-bias model and saying, Okay, well, you know, there's taxis, but they're in territory -- this territory, and these people are driving, and all these kind of things that could -- should be normalized before determining what their relative risk is.

So that's what the raw -- and the raw relativity is just unadjusted, just as it comes out of the model, no rate caps or credibility or anything.

MR. ANTOINE HACAULT: Okay. And then there's a second step in that analysis, and you're calling it "determining the current relativities."

How does that relate to this raw data that you get?

MR. LUKE JOHNSTON: Yeah, the current would reflect the currently -- the current population and the relative risk that's present, I guess, in that population.

So if we are charging two (2) times, relative two-point-o (2.0), for a certain group, that would show in the current and as a -- as kind of a current state presentation.

If the raw relatively indicated, you know, 2.01, we'd say, well, hey, that's pretty -- pretty close so no need for any kind of drastic change. If they're very different, that will trigger rate changes in either direction.

MR. ANTOINE HACAULT: And we're going to discuss that more, as to how it applies to the passenger Vehicle for Hire. We'll see that the raw -- the initial number is lower, correct, and the current relativities that you have on your small sample set for two (2) years are higher?

MR. LUKE JOHNSTON: I -- I guess, the reverse of that. I'd guess the current relativities are lower and the raw's higher, but --

MR. ANTOINE HACAULT: Okay.

MR. LUKE JOHNSTON: -- but that -- maybe that was a test, yeah.

MR. ANTOINE HACAULT: Yeah. Okay. And -- and then -- and then you'd want to know where you're going to go for the new relatives?

MR. LUKE JOHNSTON: That's right, yeah. And I -- if you want me to talk about that, I can, but there's a process for that, as well.

MR. ANTOINE HACAULT: Yeah, we'll get to actual examples. And then there's some kind of a fancy formula at page 49 of -- of this that only actuaries understand, but it makes sense when we go through the tables, sir. It just looks like gobbledygook there.

But this is the formula that you apply to determine these new relativities?

MR. LUKE JOHNSTON: That's right. It's -- it's really just saying that we adjust for -- adjust out permeated operating expenses and other things that shouldn't impact relative risk. We're focussed only on the relative risk piece for making the relativity adjustment.

After that's made, then we would add in other things, like per unit expenses and other things that shouldn't be different between a taxi and a regular car, for example.

MR. ANTOINE HACAULT: Okay. So, perhaps we can go to table 16, page 1159, of the PDF.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Okay. Yeah, I had -- thank you very much. If you could expand a little bit. I -- my eyes are having trouble seeing those numbers. Thank you.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: If we try to understand this formula that you just talked about, sir, we'll see that for -- and let's just focus on the all-purpose passenger vehicle because that was the category to which you added 20 percent in the initial analysis for the passenger Vehicles for Hire.

So, if we go down five (5) lines and we see, "All-purpose passenger vehicle," we'll see that there's a heading, "Number of Vehicles." So, that's the number of vehicles in -- in your pool or population? What's the right terminology?

MR. LUKE JOHNSTON: That would be, without going into great detail, we basically pull a count of the population at a certain point in time. I believe November 1st for this group.

So, there would be two hundred and thirty-seven thousand (237,000) roughly territory 1 all-purpose passenger vehicles when we ran the model, yeah, or pulled the data.

MR. ANTOINE HACAULT: Okay. And if I'm applying this formula that we just looked at, as I understand the formula, going down that line, we will look at the class average, which is a thousand -- one hundred and eighteen dollars and forty-eight cents ($1,018.48) firstly. And then we'll subtract the class operating expenses.

Is that right?

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

MR. ANTOINE HACAULT: Okay. That gives us a number to which we then -- we keep on going down the -- the line of numbers. There's a combined relatively, and we looked at that.

It's one point two one eight seven (1.2187)?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: So, what's that number mean?

MR. LUKE JOHNSTON: That would be the relative risk, I guess, of this particular line, all-purpose passenger vehicle, territory 1, relative to the average of risk of this population; 'risk' being loss costs.

MR. ANTOINE HACAULT: Okay. So, as a starting point, you've taken out some operating expenses out of your class average. And then you multiply this relatively, and it gives you a number, but that number in the formula you still have to add back --

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: -- the operating expenses. And if we do that, we get your indicated rate at a thousand three hundred and forty dollars and fifty-eight cents ($1,340.58) --

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: -- correct? And we saw that -- when we started down this line, that they were paying an average rate of one thousand three hundred and ninety-eight dollars and eighty-five ($1,398.85) cents.

How do those two (2) numbers relate?

MR. LUKE JOHNSTON: So, the -- the new indicated rate would reflect the -- the difference between the -- the current average rate plus drift divided by the new -- let me start over.

I wouldn't go through all these columns, but there's a current average rate. And we expect that rate to grow naturally from the drift assumption.

So, you see six point four four (6.44). We, of course, to do a fair comparison, have to show what we think the rate will actually be when we're doing the -- the -- in the rating period.

The new calculated rate relative to the old rate with natural growth is indicating a decrease of negative 9.85 percent.

MR. ANTOINE HACAULT: Okay. And, Ms. Schubert, if you can bring the table down just a bit so we see the full headings. The other way, please.

So, we just looked at a formula which gave us the indicated rate of one thousand three hundred and forty dollars and fifty-eight cents ($1,340.58). Are you following on that table so far?

MR. LUKE JOHNSTON: Yeah.

MR. ANTOINE HACAULT: Okay. Then there's another column that says, "Balanced indicated rate," and it goes up slightly to one thousand three hundred and forty-two dollars and twenty-four cents ($1,342.21).

What's the difference between those two (2)?

MR. LUKE JOHNSTON: So, every time we do a rate adjustment, the -- there's going to be calculated impacts. Those -- the -- the total of all those changes in terms of premiums may not add up exactly to the total required premiums necessary.

So when we say 'balance,' we essentially proportionately balance every rate back to the -- to total premium requirement, and it's -- as to your point, it's -- it's usually a pretty small adjustment, but it can make -- it can be different or -- or larger for smaller classes.

MR. ANTOINE HACAULT: And if we circle back to the very first page I showed to you, sir, and to that general definition at RM4.1.2, what we've just gone through is an illustration of how you're using relativities to determine a rate, in this case, for all-purpose in territory 1?

MR. LUKE JOHNSTON: That's -- that's true. At a high level, that's true, yeah. Yeah.

MR. ANTOINE HACAULT: Now, I'll kind

of transition to taxis and the same type of look at what's happened here. So, there should be appendix 9, table 16, page 162, I think it is, according to my notes.

And further down in that page there should be -- maybe my notes were wrong on the -- yes, taxi Vehicle for Hire. Are you seeing that? It's right under, "Common carrier bus within Manitoba"?

MR. LUKE JOHNSTON: Yes, I see that.

MR. ANTOINE HACAULT: And again, there's four (4) times that Taxicab, Vehicle for Hire is listed because there's four (4) territories, correct?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: And if we go across as we did for All Purpose to Territory 1, the next number -- and you've identified this number before -- is four hundred and sixty-seven (467).

That's the number of taxis in this subset?

MR. LUKE JOHNSTON: That's right, and then maybe if we could just show the headings of this table, that'll make it easier on all of us. I think we can fit that in. Yeah. Okay.

So, yes, when the -- the date we

collected the population sample, four hundred and sixty-seven (467) active motor -- motorcycles, sorry -- taxis on that date.

MR. ANTOINE HACAULT: Okay. And if we go still along that line for Territory 1, we see that these subsets of taxis are paying an average of nine thousand two hundred and fourteen dollars and twenty-seven cents ($9,214.27). Do you see that, sir?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: Okay. And then if we go down that same line, there's a heading, 'Major Class Average'. And for this sector, the public classification, it's not quite double, but it's nearly double what the private sector was, right?

We were at one thousand one hundred and eighteen (1,118) for the private sector when we looked at the other table, and now we're up to two thousand thirty-eight and fifty-two (2,038.52)?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: And that's how part of -- when we're looking at these tables, we can't just say, oh, there's a relativity of two (2). It's relative to this average.

MR. LUKE JOHNSTON: That's right. It's relative to the average of -- of the class. So if it was relative to the average of all vehicles, for example, which I'm not suggesting would be appropriate, but the relativity would be obviously much -- much higher 'cause that average would be lower. But this is specific to this class.

MR. ANTOINE HACAULT: Okay. And what we then see within this public class if we go down to Combined Relativity, which is the number we saw -- we used in the formula, for the City of Winnipeg we're seeing that this subset, being four hundred and sixty-seven (467) taxis, is four point six one nine seven (4.6197) times more than the average in that particular class.

MR. LUKE JOHNSTON: Correct. Correct.

MR. ANTOINE HACAULT: And if we go to the other Territories 2, 3, and 4, we see that, respectively, it's two point five five (2.55) -- I won't go through all the smaller numbers -- two point seven five (2.75), and about two point seven two (2.72), correct?

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: So this is -- if we look at this table, they're kind of an aberration in the sense they kind of stick out as being very expensive compared to the average, correct?

MR. LUKE JOHNSTON: That's true.

MR. ANTOINE HACAULT: Now, in Intergroup's evidence, they actually put this on a figure, and, subject to check, would you agree with me that the taxis for Territory 1, Territory 3, 4, and 2 are actually the ones with the highest combined relatives in this class, being the public major class?

MR. LUKE JOHNSTON: I would definitely expect taxis to have the highest loss costs and, therefore, the highest relativity of any -- any vehicle that I can think of, yeah.

MR. ANTOINE HACAULT: Now, there's one (1) other table I'd like to go to in this, and then that'll probably bring us to the lunch break. And it's going back, Ms. Schubert, to the beginning of the Table 16, second page in, and it's the Passenger Vehicle for Hire.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: So you'll see about five (5) lines down, this is the new category that was established in March of 2018. Is that correct, sir?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: And the first thing we observe is that, for Territory 1, there's actually more in this class of cars than there is in the taxis. They're at six hundred and twenty-five (625), correct?

MR. LUKE JOHNSTON: Correct, and probably more today, just recognizing that this sample or -- or population count would have been taken at a point of time in the past, and we know that it's -- it's grown a bit since then.

MR. ANTOINE HACAULT: And I think somewhere in the record I'll -- I think I'll take you there. I don't know if the number's seven hundred and seventy-one (771), but it has increased.

MR. LUKE JOHNSTON: Yeah.

MR. ANTOINE HACAULT: Again, it shows in Winnipeg they're paying an average rate of twenty-one hundred and fifty-eight dollars ($2,158) compared to the nine thousand (9,000) odd that the taxis are paying, correct?

MR. LUKE JOHNSTON: That's correct.

MR. ANTOINE HACAULT: And in this class, as we put on the record before, the major class average is one thousand one hundred and eighteen dollars and forty-eight cents ($1,118.48) compared to the two thousand (2,000) something in the public class, correct?

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: And then we see what the combined relativity is as far as what is being used for MPI to calculate what the indicated rate should be, or indicated premium should be for these cars.

MR. LUKE JOHNSTON: The -- yeah. Like I -- I suspect you'll probably go into some of these later, but, falling out of the relativity calcula -- calculation or updating procedure, this number would have fallen out of that process, yeah, for Passenger Vehicle for Hire in Territory 1.

MR. ANTOINE HACAULT: And so the number, if we go across that line for Passenger Vehicle for Hire, Territory 1, we see there's a combined relativity of two point zero four (2.04) -- zero three (03) that's used by the Corporation to determine what kind of premium we're going to seek from -- or the indicated rate for this group, correct?

MR. LUKE JOHNSTON: That's correct.

MR. ANTOINE HACAULT: Now, that number is -- and we'll see it later -- not necessarily the same as the raw data or the raw relative, correct?

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: It may be higher or lower, depending on the circumstance, and for Passenger Vehicle for Hire, the raw relativity is more around three (3) based on the limited data set that you have, correct?

MR. LUKE JOHNSTON: I'd have to check that number, but I do know that it's higher. If it's -- if it's around three (3), I'd accept that. That would -- would not surprise me.

MR. ANTOINE HACAULT: Okay. But just so we understand that this number is what's being applied to generate rates as opposed to actual claims experience based on data set.

MR. LUKE JOHNSTON: So to -- to our earlier discussions, there is a raw relativity that just no kind of -- I don't know how to describe it -- no credibility or capping or anything that -- just the data as it is.

And then, within the ratemaking methodology, that's when we'll start applying credibility rules. So where we would say, okay, this is a really small class, so at a minimum, it has to have 10 percent credibility, for example.

And we would give that amount of weight

to the raw relativity and then the remaining weight to the current relativity, and the -- the fallout would be the combined relativity on this page.

MR. ANTOINE HACAULT: And I'll take you through an actual example of how that's applied for this category, but this is part of the discussion that you said that the PUB has to consider is how quickly, if at all, do we move from the two point zero four (2.04) to the other number that you were talking about, the raw relativity, correct?

MR. LUKE JOHNSTON: That's right. MPI is following the established ratemaking methodology, but I understand obviously that this is a new class of vehicles.

Almost every other class that we have in the Basic pool has gone through decades of tweaks to get to where they are today, which is why we generally don't have too much rate instability, whereas passenger Vehicle for Hire is -- is obviously a very -- very new class. So we can have those discussions about that.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: I -- I suggest

it's probably an appropriate time to break in my questioning. We're close to noon, so...

THE PANEL CHAIRPERSON: Okay. Thank you very much. Can we come back one o'clock, please?

--- Upon recessing at 12:01 p.m.
--- Upon resuming at 1:00 p.m.

THE PANEL CHAIRPERSON: Good afternoon everyone. Mr. Hacault...?

MR. ANTOINE HACAULT: Yes, thank you, Madam Chairman.

One (1) last document I'd like to show to you --

MR. STEVE SCARFONE: Mr. Hacault, just --

MR. ANTOINE HACAULT: Yes, that's right, yes. Sorry. He's got some exhibits to enter.

MR. STEVE SCARFONE: I just -- I want to catch up on some exhibits before Mr. Hacault starts up again, because I've fallen behind, Madam Chair.

So MPI Exhibit Number 57 is a response to Undertaking Number 18, the Corporation had asked to describe the process for its consumer engagement on the renewal notices.

--- EXHIBIT NO. MPI-57: Response to Undertaking Number 18.

MR. STEVE SCARFONE: MPI Exhibit Number 58 was a response to Undertaking Number 26, MPI providing explanation of a variance in COVID-19 adjustments for -- between different documents that were referenced.

--- EXHIBIT NO. MPI-58: Response to Undertaking Number 26.

MR. STEVE SCARFONE: MPI Exhibit Number 59 was the presentation that was made by Mr. Johnston this morning on ratemaking and Vehicle for Hire.

--- EXHIBIT NO. MPI-59: Presentation by Mr. Johnston on Ratemaking and Vehicle for Hire.

MR. STEVE SCARFONE: MPI Exhibit Number 60 is a response to Undertaking Number 21, and it was a breakdown of the costs for regulatory appeal expenses for the Public Utilities Board.

--- EXHIBIT NO. MPI-60: Response to Undertaking
Number 21.

MR. STEVE SCARFONE: And lastly -- no, penultimately, MPI Exhibit Number 61 was a response to Undertaking Number 19, and it asked MPI to provide some guidance or some instruction on what engagement it undertook with its customers before signing them to Extension products under the new deductibles.

--- EXHIBIT NO. MPI-61: Response to Undertaking
Number 19.

MR. STEVE SCARFONE: And then lastly, Exhibit Number 62, a response to Undertaking Number 23, which was to advise of the number of consultant resources expected for Project Nova. Thank you, Mr. Hacault.

--- EXHIBIT NO. MPI-62: Response to Undertaking
Number 23.

MR. ANTOINE HACAULT: Sorry for having forgotten that, Mr. Scarfone.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Mr. Johnston, I might ask you to speak up from time to time because I'm an old guy, hard of hearing, so don't take offence if I'm -- I'm asking you to do that, sir.

I have one (1) last table which I'd like to just put to you and not asking a lot of questions about this table. It comes from PUB-Taxi Coalition-1-1, it's the table on page 4 of 27.

You could see that the bold has taxi cabs for hire in ranking for relativity from 1 to 15, at respective spots, sir.

MR. LUKE JOHNSTON: I see that.

MR. ANTOINE HACAULT: And I guess in me trying to learn some of this stuff and the initial discussion we had that relative -- relativities and that formula we went through apply to different classes.

The first two (2) lines, I would suggest to you, provides some kind of an illustration that although we talk of a relativity of 4.6, firstly, for taxi cab Vehicle for Hire in territory 1 and common carrier vehicle over 161 kilos in Manitoba, the actual dollar impact of that combined relativity is different because we're applying it to a different major class average.

Do you follow me, sir?

MR. LUKE JOHNSTON: That's correct, and I just -- just so everyone's clear, regardless of what your relativity is or what class you're in, at the end of the day the relativity you have is driven by the loss experience of the group.

So we can compare this to really any baseline we want, but at -- that's not going to change the taxi loss cost history, for example.

But I can confirm your point that, yes, the relativity will be different depending on what class vehicle -- that the vehicle was in.

MR. ANTOINE HACAULT: So, just to put numbers to that in the first line for taxi for hires in Winnipeg the average class rate was two thousand and thirty-eight dollars and fifty-two cents ($2,038.52) and applying the combined relativity to that major class average, you get a bump up of over seven thousand dollars ($7,000) in indicated premiums at that line. Nine thousand four hundred seventeen dollars ($9,417) minus two thousand dollars ($2,000) in my mind gives me about seventy-four hundred dollars ($7,400) of difference.

MR. LUKE JOHNSTON: Just looking at

the numbers here. Okay, I see that.

MR. ANTOINE HACAULT: But the same combined relativity of about 4.6 when applied to a different major class, it's class 2, and remind us what class that is, sir.

MR. LUKE JOHNSTON: The commercial class.

MR. ANTOINE HACAULT: The commercial class has an average rate of eight hundred and twenty-seven dollars and thirty-eight cents ($827.38).

So the real dollar increase is not as dramatic if we subtract from thirty-eight hundred (3,800), which is the next column, the eight hundred and twenty-seven (827). We're seeing an increase of about three thousand dollars ($3,000) compared to the other calculation which we did, which was an increase of about seventy-four hundred dollars ($7,400).

Do you follow me, sir?

MR. STEVE SCARFONE: Which line are you in now, Mr. Hacault? Just to follow along.

MR. ANTOINE HACAULT: Second line, --

MR. STEVE SCARFONE: Oh, right underneath.

MR. ANTOINE HACAULT: -- right underneath. Thank you for asking that. I was comparing those two (2) lines.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: That line, if we go down that line, sorry for not helping you follow. We have a combined relativity of 4.6059, agreed?

MR. LUKE JOHNSTON: Agreed.

MR. ANTOINE HACAULT: And we apply that not to the two thousand dollar ($2,000) number, because it's a different class, it's the commercial class which has an average rate of eight hundred and twenty-seven dollars and thirty-eight cents ($827.38), agreed?

MR. LUKE JOHNSTON: Agreed.

MR. ANTOINE HACAULT: So that means that this same relativity factor in this case, if we go to the next line, shows major class average times the relativity gives us thirty-eight hundred and ten dollars ($3,810), correct?

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: So the difference is a bump up of roughly three thousand ($3,000) being the thirty-eight hundred ($3,800) some dollars, minus the eight hundred and twenty-seven dollars ($827).

Are you following me, sir?

MR. LUKE JOHNSTON: I am. I'm -- I'm really struggling with the relevance.

MR. ANTOINE HACAULT: Yeah.

MR. LUKE JOHNSTON: But -- because again, at the end of the day, we can compare taxi Vehicle for Hire to any base and it will just be a reflection of whatever that base level is.

So, if we want to compare it to major class 1, we'll get a different relativity. But the relativity reflects the cost of that group and the fat that it's in the public class and that class has a different rate, sure, it'll -- it'll create a relative difference between the different uses in that class.

But end of the day we're still attempting to collect break-even rates for every vehicle classification. This is just to say the relative difference of those classes within -- sorry, of those uses within a particular class.

So, there's no reason that we should assume that a 4.6 relativity in one (1) group produces the same impact as a 4.6 relativity in a different group. They're comparing to different things.

So the line 2 is just saying that common carrier passenger vehicle is more than four (4) times the loss cost of a typical commercial vehicle.

That's all it's saying. Yeah.

MR. ANTOINE HACAULT: You've explained it a lot better than my question would allow.

The only point, and I think you've said it well, each class has its own calculation and you start with a different average.

So I'll move on to the next subject I wanted to cover, which I explained I would, was the driver's safety DSR program that was put in place for the taxi cabs.

And as I understand it, this came into place in the 2018 interim application when you were dealing with Vehicles for Hire, sir?

MR. LUKE JOHNSTON: Yes, that's right.

MR. ANTOINE HACAULT: And if I move to Taxi Coalition-MPI-1-11 at page 3, we see figure 1, and I'll take you to a couple numbers in there to help me understand a couple of things.

Firstly, you've got two (2) sets of columns. One is the rate model as of November 1 of 2019, and it shows DSR level according to the various Vehicles for Hire subcategories?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: Now, there had

been some discussion -- I'm not intending to go through all of it -- the other day, where the top five (5) or six (6) lines comprise a lot of the composition of various vehicles, including, in this case, I would suggest to you, the taxicab Vehicle for Hire.

MR. LUKE JOHNSTON: It -- it does appear that way. Some of our earlier discussions for the population in general -- these won't be exact numbers -- but, my recollection is more than 50 percent of drivers at DSR 10 or higher and in the neighbourhood of 60 percent plus of the vehicles insured in those levels. So, this isn't an exact mirror of that, but definitely, seems to be in the same neighborhood.

MR. ANTOINE HACAULT: Now, one thing that perked a little bit of my interest is line 17. So if you go down to line 17. Whenever I see little stars, I start seeing stars.

And I think we have to go to the bottom of this table to understand what those two (2) little asterisks mean. It says:

"Corporate customer types do not qualify for DSR discounts."

So if we go back up to line 17, and so we can see the headings of which types of vehicles are covered by that. Firstly, if we go across the lines at that line 17, under the passenger Vehicle For Hire, there's fifty-eight (58) -- is that cars or entities that don't qualify?

MR. LUKE JOHNSTON: That -- I would -- that should be cars registered to corporate account, I guess. Yeah.

MR. ANTOINE HACAULT: Okay. So it would be -- we wouldn't be counting the corporations, we'd be counting the cars?

MR. LUKE JOHNSTON: Right. That's right.

MR. ANTOINE HACAULT: So if a Corporation had four (4) or five (5) cars, because it has four (4) or five (5) cars, it doesn't have the option of benefitting from a Driver's Safety Rating?

MR. LUKE JOHNSTON: Yeah. In general, there's -- if there's not a specific driver to -- to give that rating to, it's just a corporate entity, it wouldn't apply.

MR. ANTOINE HACAULT: Okay. And for -- if we move along the line taxicab Vehicle for Hire, in 2019, it seems to be less of a problem than in 2018.

But, in 2019, this table is recording

that there's twenty-eight (28) vehicles which could not benefit from that program.

MR. LUKE JOHNSTON: Twenty-nine (29) corporate vehicles. Is that the question?

MR. ANTOINE HACAULT: Yes.

MR. LUKE JOHNSTON: Yeah. Yes, that appears to be the count.

MR. ANTOINE HACAULT: And I'm trying to understand the fairness of not allowing a corporate entity with two (2) or more vehicles to benefit from the same rate reductions as other persons do, sir.

MR. LUKE JOHNSTON: I -- I would agree that's a valid concern. As you're aware, we -- DSR discounts are a new part of rating for taxis, in particular.

But in terms of the corporate rating, if they're not entitled to that, I agree that that's an issue that is worthy of investigation, in the sense that there is no opportunities for a corporation, assuming they're not a fleet of some sort, to pay lower rates. I don't know the specifics of the twenty-nine (29), but I'd have to -- I'd have to look into that.

MR. ANTOINE HACAULT: Thank you, sir.

And that same issue continues across

line 17. If we go down to the accessible Vehicles for Hire, we see there's seventy-two (72) vehicles under that category that can't benefit from that incentive.

Your answer for that and for the limousines would also be applicable, sir?

MR. LUKE JOHNSTON: It would, yes.

MR. ANTOINE HACAULT: Okay. I won't go into 2018 because those numbers have evolved over the years.

But there is a current problem that needs to be addressed, I'm suggesting.

MR. LUKE JOHNSTON: I agree. The issue of fairness could be raised between the corporate versus individuals entitled to DSR discounts.

MR. ANTOINE HACAULT: Okay. Now, if we could go to the very bottom of this table. I'm close to finishing with this table.

There were total numbers at line 38. If we go across, the first number is seven hundred and ninety-seven (797). And if we go back up to the top, we'll see -- or if we reduce it -- that this was passenger Vehicles for Hire.

MR. LUKE JOHNSTON: Yes.

MR. ANTOINE HACAULT: That's the total

number of vehicles as of November 1, 2019, sir?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: And should these have some kind of concordance or uniformity across other calculations? When we looked at the raw relativity, we had different numbers.

MR. LUKE JOHNSTON: To the extent that -- if you could scroll back to the top just to make sure I'm seeing the...

To the extent that this a pull -- this information is pulled from the rate model on the date stated, the -- there should be consistency among rate model results. There wouldn't be for units, for example, that's a different measure. But I would expect consistency from same to same, obviously.

MR. ANTOINE HACAULT: Okay. And if we go back to line 38, for one moment, there's just one other data point. We started -- we went at line 38, we hit the first number seven hundred and ninety-seven (797). Those were the passenger Vehicles for Hire.

And then, we saw the taxis. That line would give us the total of six hundred and seventeen (617), sir?

MR. LUKE JOHNSTON: Yes.

MR. ANTOINE HACAULT: So at least, for

2019, as of November 1, there were more vehicles registered as passenger Vehicles for Hire than there were taxis?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: And if we go further across the line, we see there's some totals. There's a number, one thousand six hundred and eighty-nine (1,689). But then, there's another number, five hundred and forty (540).

And if we move up, we'll see that that line was a passenger Vehicle for Hire as of November 1, 2018.

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: And am I right in understanding this table that we can see there's a movement in the number of people that are participating in that category from 2018, with a starting point of five hundred and forty (540) vehicles, moving up to 2019, November 1, up to seven hundred and ninety-seven (797) vehicles?

MR. LUKE JOHNSTON: That's right. There was growth in this group to date. Yeah.

MR. ANTOINE HACAULT: And, I guess, that's one of your points is that the market's not matured yet. There's things that are happening here.

We actually have an increase of about two hundred and fifty (250) vehicles in that category.

MR. LUKE JOHNSTON: Agreed. And there's recent new players in the market and things like that that definitely could impact that number.

MR. ANTOINE HACAULT: Next, sir, I'd like to take you to a table that Mr. Crozier had produced in his evidence, at page 11, table 5.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Had you had an opportunity to look at this table, sir?

MR. LUKE JOHNSTON: I have -- I have seen the report, yes.

MR. ANTOINE HACAULT: Do you believe there's any corrections to the data that's shown on there that are required to be made?

MR. LUKE JOHNSTON: My recollection is that MPI didn't have corrections to -- to make to this report.

MR. ANTOINE HACAULT: Okay. As an actuary looking at the balanced raw relativity, moving from 2016 at a raw relativity of four point nine six six one (4.9661) down to two -- or, 2021 to a raw relativity of four point two two eight zero (4.2280), is there anything as far as stability or trend that data like that over six (6) years might tell you?

MR. LUKE JOHNSTON: Well, the -- we're talking about a -- a relativity of this magnitude. I guess, first off, it is staying above four (4), so that -- you know, obviously, the biggest concern to taxi group is the relativity magnitude itself, so that -- there's a consistent relativity of four (4) plus.

In terms of the trend in the relativity, there does appear to be a downward trend. That would have to be taken, though, in the context of how that relates to the average of that class.

So this chart doesn't necessarily mean that the average taxi indication has been declining. If the class, as a whole, is rising in -- in rate, this would indicate to me that the taxi balanced raw relativity is -- is not increasing at the same rate of -- as -- as the class.

But -- so in terms of relativity, downward trend; in terms of rates, I'd -- I'd have to see the average rate calculation each year to make an assessment.

MR. ANTOINE HACAULT: Okay, thank you. That's useful, sir. I'm going to flip back to Taxi

Coalition-MPI-1-11 for a moment, last page, 4 of 4.

Sir, in my line of questioning, just a while ago, I had raised this issue with respect to various VH -- or, Vehicles for Hire groups, which had corporate content, so corporate registrants.

Am I right in understanding, if I look at this table, that for passenger Vehicles for Hire, the penalty for owning cars in a corporation at the tune of two (2) or more, if you don't qualify for a fleet, is you can't get the 14.71 percent discount?

MR. LUKE JOHNSTON: The -- owning as a corporate entity would -- yeah, would entitle you to any of the DSR-based discounts. So, yeah, the difference between zero (0) and whatever the individual discount would have been would be the impact, I guess, yeah.

MR. ANTOINE HACAULT: And if we go to the next line, line 2, Taxi Cab Vehicle for Hire, the discount that each of those twenty-nine (29) vehicles is giving up is in the order of one thousand -- sorry, it's -- the total discount that's being -- that they can't participate in is fairly large, sir.

MR. LUKE JOHNSTON: So -- yeah, just--

MR. ANTOINE HACAULT: I worded that wrong.

MR. LUKE JOHNSTON: No, that's fine. The -- so -- just so -- to remind, I guess, everyone that when MPI put through the Vehicle for Hire changes, we effectively left existing taxi rates and allowed for the DSR discount which, as shown in this table, was equivalent to basically a 21 percent rate decrease for this group. So that -- that is clear from this table.

Your point, I think, is that the corporate -- registered as corporate vehicles didn't get to partake in this -- in this decrease, and on average, the decrease was 21 percent for the -- for the individually registered taxis.

MR. ANTOINE HACAULT: Thank you, sir. Now, just a couple questions on the type of data that MPI keeps track of with respect to driver rating, because right now, the Driver Safety Rating is based on the registrant, correct?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: Does MPI have any insight on how many drivers might actually be operating taxis in Manitoba?

MR. LUKE JOHNSTON: My recollection is that we've made some attempts to get that information, but we've had some difficulties. Unlike a motorcyclist, for example, we don't have a motorcycle-specific licence -- or, sorry, a taxi-specific licence, so counting that is -- has been difficult.

The only information we really have in terms of how -- what the magnitude of that might be is simply to look at the taxi claims and see if the claimant is the -- is also the owner. But otherwise, we don't have a -- a true count of the exposure of potential taxi operators.

MR. ANTOINE HACAULT: Sir, is that a similar challenge to what you have across the board, even in passenger vehicles, where you don't necessarily know how many people are driving a particular car registered in a household?

MR. LUKE JOHNSTON: That issue exists really, yeah, anywhere where the registered-owner DSR is used. It is likely magnified for certain vehicle uses. Motorcycles, we've given some examples of that where the ratio is about seventy thousand (70,000) licences to fifteen (15) to twenty thousand (20,000) vehicles.

Taxi cabs would also have -- I would expect, because I don't have the numbers -- likely have a high operator-to-registered-owner type of ratio, because of the same. If they're operating twenty-four (24) hours a day, I'm assuming it's not the same person driving the whole time.

MR. ANTOINE HACAULT: Okay. I believe on the record, you've agreed that it's important to know more about driver risk if you want to send a signal to the drivers with respect to how they might change their conduct.

MR. LUKE JOHNSTON: Having that information would allow us to improve the -- the rate setting in terms of the -- charging the risk correctly.

MR. ANTOINE HACAULT: And...

(BRIEF PAUSE)

MR. ANTOINE HACAULT: If you just go back -- I have one (1) last question with respect to the Crozier, and it's Table 5 on page 11.

Has MPI analyzed any data which would give it some insight as to why you talk about a downward trend in the balanced raw relativity?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I'm just thinking

here. The -- nothing that immediately comes to mind. The -- the best reason for that would obviously be trends in claims costs, but off the top of my head, I can't -- I can't recall.

MR. ANTOINE HACAULT: Okay. Thank you, sir. I'd like to move for a short while on fleet incentives, how they work and who's entitled to them and what, if any, incentive it's intended to generate.

MR. LUKE JOHNSTON: Okay.

MR. ANTOINE HACAULT: So I'll start with the filing Part 5, Revenues, pages 12 and 13.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: I'm seeing under line 5 that customers are deemed to be a fleet owner when they have ten (10) or more vehicles registered on the first day of any month.

So is that a regulatory deeming, sir?

MR. LUKE JOHNSTON: I didn't hear the last part, but -- but the -- the line is correct, if that was the question.

MR. ANTOINE HACAULT: The question is: Is it a MPI discretionary thing or does it result from statute or regulation? Do you know? If you don't, that's okay.

MR. STEVE SCARFONE: I'm not aware if that appears in a -- in a regulation somewhere, Mr. Hacault. Doesn't -- doesn't necessarily mean it does not --

MR. ANTOINE HACAULT: Okay.

MR. STEVE SCARFONE: -- but, yeah, as Mr. Johnston has indicated, that's the -- that's the threshold that the Corporation currently adheres to, whether it's internal or by way of regulation.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Now, would you be able to give me any kind of insight as to why a number 10 is chosen as opposed to 12 or 8?

MR. LUKE JOHNSTON: There's --

MR. STEVE SCARFONE: Just before he begins, so kind of touching upon your earlier question, if indeed it's regulatory, that's your answer.

MR. ANTOINE HACAULT: Yeah.

MR. STEVE SCARFONE: If it's not, then, Mr. Johnston?

MR. LUKE JOHNSTON: Yeah. So, I didn't know the answer to the piece that Mr. Scarfone just mentioned. But regardless of the source, there is no magic to the number 10, so.

The fleet program's been around for a while. A threshold had to be selected. A number was very likely chosen to be large enough to provide some kind of credibility and results but not too low to -- you know -- you know, if you do this at the single vehicle level, obviously, annual rates would be fluctuating kind of all over the place.

It should be more stable when you start having fleets of double digit size or more.

CONTINUED BY ANTOINE HACAULT:

MR. ANTOINE HACAULT: So, I understand your comment, sir, if the program is mandatory, that you don't want to force people going into a small subset which would give them a lot of rate volatility.

Now, if a program were to be optional and say I had six (6) vehicles and I, as an owner, was willing to assume that volatility, that shouldn't be a concern of MPI, I would suggest. It would be a concern of the owner as to whether or not he's willing to accept that risk in volatility.

MR. LUKE JOHNSTON: We -- we don't -- we don't have such a setup, but -- in terms of insurance product. But if your point is that different customers or fleets or individuals may have different risk preferences and -- and be willing to accept more of that risk, that's definitely possible -- possible.

MR. ANTOINE HACAULT: And if I go further in this paragraph, I'm trying to understand how the program works. It doesn't seem to be focussed on the registrant, so the company rating.

At line 8, it's talking about loss experiences of ratio between all losses paid by MPI and the freet (sic) prem --

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: -- fleet premiums? And then the next sentence:

> "Claims are included according to the degree of responsibility with the expense -- exception of comprehensive claims which are included at the loss ratio calculation."

Am I understanding that really it's dependent on the driver's fault or not? It's focussed on the driver as opposed to the registrant and whether the driver was at fault in an accident or not?

MR. LUKE JOHNSTON: Yeah. It's -- it's focussed on the degree of responsibility of the driver of the collective group of fleet vehicles being ten (10) -- ten (10) or greater.

MR. ANTOINE HACAULT: So, we see a little glimpse of something that looks like driver's incentive in a fleet, at least, to have good driving incentives and for the owner to ensure that his drivers have good driving records.

Do you agree?

MR. LUKE JOHNSTON: I agree. I'm -- I'm sure these fleet operators would very much like to have a low loss ratio and get a fleet rebate cheque back at the end of the year.

MR. ANTOINE HACAULT: In fact, if we go to line 16, we see, if, for example, a taxi corporation had been able to re that -- reach that threshold, there would be a maximum rebate of 33 percent of -- of the fleet premiums.

That would be a fairly big incentive, sir, I would suggest?

MR. LUKE JOHNSTON: Yeah, the -- the maximum is 33 percent, which if you were an individual owner, registered owner, with a good driving record, you would get a guaranteed 33 percent versus maybe 33 percent.

So, for the registered -- for the -- with a good driver, registered owner, who -- who can -- can get the discount, that's a lot more stable of a method. For the fleets, there is some pretty big volatility between a minus 33 and a plus -- plus 15.

MR. ANTOINE HACAULT: But here, we get away from that whole discussion of whether or not there's a whole bunch of bad drivers getting behind the wheel of a registrant with a plus 15 DSR, correct?

MR. LUKE JOHNSTON: That's true. It would -- it's not rated on the registered owner, it's -- it's rated on the collective experience of everyone that uses those fleet vehicles.

MR. ANTOINE HACAULT: Let's move to page 13. It'll perhaps give us some insight as to whether -- at figure REV-11, which is midway after line 10, as to what the history is telling us about whether this incentive is successful or not.

Does this table help you understand whether the incentive is successful in -- in driving people towards good behaviour, sir?

MR. LUKE JOHNSTON: It's -- it's tough to say. And the reason I say that is because we already know that the average registered owner is in that plus 10 to plus 15 category, and it's getting a discount in that 20, 33 percent range.

The fleet program is -- or customers are, basically, charged that zero percent discounted base rate, and they would get their discount based on the actual loss experience that we see.

And given that we already know most customers are pretty safe drivers and are entitled to that higher discount, it's not shocking to me that the majority of -- of fleets paying undiscounted base premiums would get rebates, as well.

So, I'm not disputing the fact that there are, you know, definitely incentives to having a good year and getting that fleet rebate cheque, but the -- the split of these relative to the base premiums we charge isn't surprising because we know most drivers operate pretty safely.

MR. ANTOINE HACAULT: Okay. So, the good news is that there's a lot more rebates in each and every year for -- on this table from 2015 to 2019.

There isn't any real aberration where all of the sudden you're getting surcharges exceeding rebates, sir?

MR. LUKE JOHNSTON: There is not. And -- and, again, we wouldn't expect that because we know most drivers are -- drive a lot better than the base DSR zero rate would -- would imply, so this is just a continuation of that trend.

MR. ANTOINE HACAULT: And with the table which follows and continues in the years after 2019/'20, is it fair to suggest to you, sir, that MPI fully expects the fleet program to continue to be successful at least to '24/'25, which is line 17?

MR. LUKE JOHNSTON: I don't know if 'successful' is -- is the right word, but continue to trend in the -- in the same manner that -- that it has to date, yes. Yeah.

(BRIEF PAUSE)

MR. STEVE SCARFONE: While you're paused, Mr. Hacault, I -- I was able to find some reference to the fleet in some of the province's legislation if you're interested.

The Driver and Vehicles Act mentions ten (10) or more in Subsection 55(4).

MR. ANTOINE HACAULT: Okay.

MR. STEVE SCARFONE: And then the Highway Traffic Act, again, mentions ten (10) or more in subsection 160(6). But, interestingly, the DVA also mentions five (5) or more under the definition of "repair" in that Act. So we've got two (2) references to the numbers in a fleet.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Yeah. Thank you for that assistance. I guess that will lead well into a discussion I'll have with you later, sir, about what kind of steps probably need to be done if we were going to make the fleet incentive available to taxis who own maybe not ten (10) taxis, but a lesser amount.

That -- if there's a regulatory change, that would be one (1) additional thing that would need to be considered, sir.

MR. LUKE JOHNSTON: I -- I would assume so, based on -- based on what Mr. Scarfone just said, yeah.

MR. ANTOINE HACAULT: Okay. Now, my understanding is that there's some kind of a manual analysis required for each fleet at the end of the year, and it's kind of a retrospective application of how that fleet has performed. Is that correct?

MR. LUKE JOHNSTON: Manual in the sense that -- well, (a) there's no automated system doing it, but the -- the rules of the fleet program in terms of how the loss rat -- ratio is calculated.

So we discussed about the fault and the -- all the comp. claims are included and the -- the cap on the maximum loss. Those would be some of the reasons why we have to do a manual calculation.

MR. ANTOINE HACAULT: Is there a person dedicated to -- to doing that calculation, sir, do you know?

MR. LUKE JOHNSTON: There -- well, there's definitely a person doing it. My recollection is there's a very small group of a couple of people that manage that fleet program.

MR. ANTOINE HACAULT: Do you have any sense of the time that it takes an employee to figure out whether rebate or surcharge needs to be given to a fleet? Is that a one (1) hour task? Is it a two (2) hour task? Do you have any sense about that, sir?

MR. LUKE JOHNSTON: I -- I do not. The -- I wouldn't think it was a one (1) hour task. It's likely -- we'll have to wait till the end of the policy year and collect the information and perform all the necessary steps and then make a decision on the fleet or surcharge amount. I -- I don't know the -- the exact amount of time that would take.

MR. ANTOINE HACAULT: You said you

don't think it would be one (1) hour. Can you help me if you think it would be less than an hour or more than an hour?

MR. LUKE JOHNSTON: I would assume more than an hour for sure, yeah.

MR. ANTOINE HACAULT: Would it take much to find out and ask the question as to what the average time is to make that determination for a fleet?

I just want to have some sense -- if we're going to be toying around with this as an incentive, you know, is it something that even makes sense from a cost perspective?

MR. STEVE SCARFONE: Yeah, we can -- we can undertake to find that out for you.

MR. ANTOINE HACAULT: Okay. So the undertaking would be to determine the average time it would take an employee to perform the calculation with respect to a fleet as to whether a surcharge or a rebate ought to be applied, and the amount of that surcharge or rebate.

MR. STEVE SCARFONE: Yes.

MR. ANTOINE HACAULT: Okay. Thank you.

--- UNDERTAKING NO. 42: MPI to determine the average time it would take an employee to perform the calculation with respect to a fleet as to whether a surcharge or a rebate ought to be applied, and the amount of that surcharge or rebate

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Now, you said it's not yet automated. Is it in the Corporate vision, given it already has a fleet program and it's mandated apparently by legislation, that in Project Nova you will include the functionality in the software which allows that calculation to be made more automatically and be less time intensive?

MR. LUKE JOHNSTON: Fleets are -- I can -- I can tell you fleets are definitely on our list of high-priority functions that need to be automated in Nova, just given the -- the nature of how the calculations are currently performed.

I don't -- similar to other comments I've had, I don't fully know the capabilities yet, but it is definitely on the list.

MR. ANTOINE HACAULT: Thank you. I have one (1) other question or two (2), and it would require bringing up Taxi Coalition-MPI-2-9. There is a response in -- in there that repeats what we already looked at. A customer in the fleet program is entitled to a maximum fleet rebate of 33 percent.

Do you know -- and I'm reading the rest of this:

> "...if they have a loss ratio of 37 percent or lower in the current assessment year."

I just want you to explain to me what that final part of the sentence which has now been brought up in response to (a) on page 2 of 2 of Taxi Coalition-MPI-2-9. Could you explain what that loss ratio of 37 percent or lower means?

MR. LUKE JOHNSTON: So the -- that would be a loss. I guess we can call it the fleet adjusted loss ratio with the adjustments being for fault, comprehensive claims, caps on the maximum loss.

So after performing those adjustments on their claims, divide that by the prem -- the base premiums that they paid. And if that ratio is 37 percent or less, they receive the maximum rebate.

MR. ANTOINE HACAULT: Okay. And what I find interesting is that the response then goes and says:

"It's possible that adopting a
pricing structure similar to the
fleet program may address the risk
associated with multiple drivers."

Do you see that, sir?

MR. LUKE JOHNSTON: I do.

MR. ANTOINE HACAULT: So is this one (1) of the options that MPI is open to looking at and seeing whether or not it might be something applicable to taxi Vehicles for Hire?

MR. LUKE JOHNSTON: It's -- it's definitely one (1) consideration maybe to look at the current taxi structure a different way.

Right now, for the most part, as you've seen, taxis are being registered by the owner/operator, not by a company, let's call it Taxi Company X.

So just putting aside the rules of the Fleet Program for a moment, if there was a way that Taxi Company X wanted to register all their vehicles as one (1) fleet and, based on the performance of that fleet, receive an adjusted rate at the end of the year, that would be similar to how the -- the Fleet Program works right now and -- and perhaps create some incentives.

That's not how taxi operations are structured right now. I think that's -- I -- I don't want to say the wrong thing here necessarily, but I -- that's -- I believe that's probably by choice in terms of how they want to structure the insurance piece.

It's definitely not -- these -- these vehicles definitely aren't registered as a fleet, but that is an option, yes.

MR. ANTOINE HACAULT: But focussing on multiple drivers because you don't have that information, I think you've established, for taxis, if there was an owner that had two (2) or three (3) drivers that would do the twenty-four (24) hour shift, this would be a solution for that owner that has two (2) or three (3) drivers that does -- that do the twenty-four (24) hour shift, correct?

MR. LUKE JOHNSTON: Potentially, with -- with, I guess, the warnings I gave at the beginning of the discussion about doing retrospective rating on a single vehicle, as long as those are taken into account.

MR. ANTOINE HACAULT: Okay. And this

is a little bit out of context, but it's -- it's on our screen right now.

I just want to confirm that MPI is not collecting data with respect to passenger Vehicles for Hire as to whether they have hired drivers to operate their vehicles. That's answer (b) on this?

MR. LUKE JOHNSTON: That's true, we -- we are not collecting that information.

MR. ANTOINE HACAULT: I'm going to move to another subject, which is a Vehicle for Hire Framework Review and try and understand a little bit what that's about and where you're at in it and -- and how and if some of that can be done in conjunction with Nova. That's the general discussion that I'd like to have with you, sir.

So I'm going to start that discussion by going to Taxi Coalition-MPI-1-9.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: And at the bottom where there's a response to questions on page 2 of 3, the response is MPI is currently reviewing its Vehicle for Hire products, so that would include passenger Vehicles for Hire, sir?

MR. LUKE JOHNSTON: It would.

MR. ANTOINE HACAULT: In order to address the known issues with the existing design, including -- that leads me to the question at the end. Is there anything else, because you've listed -- you're going to list a total of four (4) of them.

So the first issue you're trying to address is significant difference between taxi Vehicles for Hire and passenger Vehicle For Hire rates. And we've seen that they're quite different.

MR. LUKE JOHNSTON: That is a -- a known issue, yes.

MR. ANTOINE HACAULT: Now, the next point, significant differences in exposure, kilometres driven and driver risk not properly captured by the system. That's another issue you want to deal with?

MR. LUKE JOHNSTON: Yes, and -- and I can explain it maybe easiest by a simple example.

Let's pretend that we knew the kilometres driven for every taxi and passenger Vehicle for Hire. We may discover -- this is hypothetical, of course -- that let's say it costs about 10 cents per kilometre in terms of risk for all these vehicles. It just turns out that some operators drive more than others.

We would then know that, oh, this is not a -- necessarily a taxi versus passenger Vehicle for Hire issue, this is really exposure issue.

On the other hand, we may not find that out and have to look at a different rating structure. But that is -- that is the idea. We don't really have a true sense of how much driving is happening and where and when and such of the operators.

MR. ANTOINE HACAULT: And then the next one, feedback from transportation network companies, that would be like the Ubers and Lyfts of the world?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: Now, it's a side question. There's Uber Eats, there's Skip The Dishes, there are all kinds of not necessarily passenger driven, but there are things that these vehicles are hired to do.

Is that the type of vehicle that will also kind of be part of this framework for review?

MR. LUKE JOHNSTON: That would make some sense to do so. We're not referencing that specifically in here, but within the framework of -- of having those discussions with which are essentially the same companies, it would make sense to -- to ask that question. Agreed.

MR. ANTOINE HACAULT: And so you're going to look for feedback from those Transportation Network Companies. They're complaining because in other provinces they actually get blanket coverage and there's per kilometre rates that are charged or available as far as an option, correct?

MR. LUKE JOHNSTON: Those are definitely a couple of the reasons. And another reason would be just the lack of familiarity with a public auto insurance scheme. But those are three (3) prevalent reasons, yes.

MR. ANTOINE HACAULT: Okay. And I'll flip to the next page, the last list -- in the list of your including, is the "lack of incentives to improve driving behaviour."

And you've referenced -- or the Corporation -- when I say "you", the Corporation -- references flat rated taxi Vehicle for Hire.

MR. LUKE JOHNSTON: That's right. As we discussed there has been recently Driver Safety Rating discounts added to taxis, but prior to that, flat rated means just if you're in Winnipeg and you operate a taxi, everyone pays the same, which may not create incentive to drive better if there's really --

your individual impact doesn't change the rate.

MR. ANTOINE HACAULT: Okay. Now, I'm going to press you as far as I can for some kind of a timetable. I sent an email a couple of days ago on what we think we can achieve in the next years.

And -- and you may not be able to give me any sense of this, but if you can I would really appreciate, because this is another initiative that, as I understand it, ties into this Project Nova.

And I said when I started, I'd like to -- to have some insight as to perhaps what's reasonable to be able to expect.

Would it be reasonable to expect that between now and June of 2021, which would be the GRA filing, that there would be stakeholder consultation, data collection, and some kind of a framework development?

MR. LUKE JOHNSTON: Yes.

MR. ANTOINE HACAULT: Okay. Now, for the 2022 GRA, is it too aspirational to think that MPI might be able to put some options before this Board on a possible framework that it could look at for Vehicles for Hire?

MR. LUKE JOHNSTON: So the -- obviously, the -- part of that will depend on the stakeholders as well, so we'll obviously have to work together.

But you can see with our interactions with the CMMG, for example, coming up with these product ideas and perhaps aspirational improvements was not really that difficult. It's the implementing them and doing them in the current IT world that was more of a challenge.

So I'm optimistic that even from initial discussions that we're very much aligned in terms of trying to improve this product for -- for everyone involved. So I will optimistically say that at least some sort of framework in terms of what everyone is looking for from those discussions is reasonable to provide in the 2022 GRA.

MR. ANTOINE HACAULT: Okay. And -- and that would be desirable if we could do that because if the PUB then has its hearings that we're having now, either in October or November, we might get some recommendations or some feedback from the PUB and from your management which would allow the whole regulatory process to be initiated, correct?

MR. LUKE JOHNSTON: Agreed. And I think it's to the benefit of everyone if we try to have those stakeholder discussions in advance and not have them just show up at hearings. And they're more well thought out and perhaps more aligned when we're coming to this process.

MR. ANTOINE HACAULT: Okay. And I guess, as Mr. Watchman raised, there's a bunch of things that we can consider, perhaps a technical conference if we think that that might be able to help us move it along, correct?

MR. LUKE JOHNSTON: Yeah. My only comments on that were that let -- MPI does have plans to meet with the stakeholders and we can discuss that idea if that -- if that's believed to be to the benefit of everyone.

I -- you know, whether there's certain pieces that impact rates specifically that are more relevant to these hearings versus other issues that aren't as rate related, that would have to be discussed as well.

But I -- I accept the comments as a -- something to discuss with stakeholders.

MR. ANTOINE HACAULT: The last thing I'd like to hopefully get some insight from you, sir, is, when the Chairman, Mr. Gabor, was asking you questions on Nova and kind -- or a critical time line with respect to Driver Safety Rating, I had understood that there was a critical date of April 2022 which then later was explained perhaps it's earlier than that.

Are we facing the same time constraints with respect to the Vehicle for Hire framework issue?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I can't be as precise as maybe I'd like to be on this one, but the Driver Safety Rating would be considered very critical in the sense that it literally impacts the entire population and it's part of the current rating structure.

The next priority behind that would be improvements to the current state, if you can -- if you can appreciate that.

Like, obviously we have to have something operational when Nova goes live. And so, enhancements to the current state processes, such as a new Vehicle for Hire program or other things like that would be a higher priority -- sorry, would -- would also be a priority.

It's tough for me to say when that decision needs to happen, but I would assume similar

DSR, that early next year we'd have to at least have the anticipated path to provide Nova guidance on whether there's any action required on this particular issue or product.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now I'll jump back to what's on the screen here, the last bullet that you had made, "Lack of incentives to improve driving behaviour." If we could go to Taxi Coalition-MPI-2-7. And I made a mistake, Ms. Schubert. It's page 5 of 5 that I'd like to have, please.

That last bullet talked about flat rating. And this answer relates to that priority. Am I understanding this correct? It says:

"Flat rating simply means that a single rate is applied to all -- to the insurance user regardless of the type of vehicle insurance."

So, that's what applies to taxis, correct?

MR. LUKE JOHNSTON: That applied to taxis prior to any DSR discounts. So, now there's a difference based on the DSR but, otherwise, flat rated by territory.

MR. ANTOINE HACAULT: Okay. And then -- then the comment is made:

> "Incentives or disincentives for improving driver behaviour are achieved through Driver Safety Rating [which you've just mentioned] and fleet programs which potentially -- which have the potential to significantly lower the rates for good drivers/fleets."

Does the Corporation adopt that answer?

MR. LUKE JOHNSTON: Yes.

MR. ANTOINE HACAULT: Okay.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, page 3 of 4, I have one (1) or two (1) questions with respect to the web-enabled food delivery services which are currently insured under common carrier insurance.

Am I understanding that correctly --

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: -- under 'B'?

MR. LUKE JOHNSTON: That's correct.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Oh, I don't have the -- that's 1-7. I gave you the wrong reference, Ms. Schubert. Sorry about that.

My question is: For those vehicles that do food delivery services which typically require common carrier insurance, how is MPI able to monitor to see whether or not they have, in fact, obtained the correct insurance for delivery of pharmaceuticals, food, things like that?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: So, proper insurance use would, of course, start with the broker or service centre level. And, obviously, the expectation there would be that the customer understands how the vehicle should be registered.

If that process isn't followed and, for example, someone with pleasure use starts delivering pizzas or -- or something, or other things, and they have a claim, that claim would be investigated in the same way that other potential coverage issues or improperly registered vehicle issues would be investigated, unlike something like pleasure use, where it's a little more difficult maybe to establish.

I would assume that if you were delivering something and have an accident, that that connection is more clear than -- than pleasure use versus all-purpose, for example.

MR. STEVE SCARFONE: Yeah, just to add to that. We had a discussion about this to -- to some extent yesterday, Mr. Hacault. But, essentially, it's no different than any insurance claim that's advanced by any of the customers. It's largely based on self-reporting.

What normally trips up the customer is there's always another person or vehicle involved. And so, when we obtain more information about the claim, some information might be inconsistent with what was self-reported and an investigation ensues. And then there may be coverage issues resulting from that.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: I understand that. And I guess what I was trying to explore is -- and maybe it's just me anecdotally feeling it's happening a lot more often with COVID as with restaurants not allowing people to be in the restaurants.

The next question would be: Is -- is there anything proactive that MPI is considering to ensure that the people who are involved in this, either by, you know, getting to Skip the Dishes and seeing who's doing it or to -- to get the -- the names of people, or the data, to make sure that these people are not being -- I'll call it subsidized by people with pleasure rating or all-purpose rating when they should actually be paying a higher premium?

MR. LUKE JOHNSTON: We've -- we've definitely heard this concern. I -- I know internally we've had discussions.

If we need to reach out to those companies and remind them that their operators need to be registered this way and that the same communications, we'd assume, would go to brokers. I don't know if -- or what that communication -- if it went out or what it looks like. I'd have to -- I'd have to confirm if that happened.

MR. ANTOINE HACAULT: Thank you, sir. I'm going to flip back for a moment to Taxi Coalition-MPI-2-7 where Ms. Schubert had actually had me before.

And the answer 'A', again, in the context of developing the framework, there's a last part in the answer which says, "MPI identified the issues."

So, we talked about that, correct?

MR. LUKE JOHNSTON: Yes.

MR. ANTOINE HACAULT: The only question I didn't ask you, is there anything else on that list which you have thought should have been added since that answer was provided?

MR. LUKE JOHNSTON: Nothing's coming to mind, but there could be others, of course, yeah.

MR. ANTOINE HACAULT: Fair enough. But it says -- it continues:

"Does not need to establish trends in order to develop a new framework."

So what trends do you not need to establish? I'm not understanding what that reference is.

MR. LUKE JOHNSTON: Would you mind scrolling up just to the question asked?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Okay. If I'm understanding the question and the answer correctly, I believe what we're saying here is that there's current -- potential currently non-existent rating variables and data, and on -- on potential models. And we're not going to let that inhibit us from moving forward on it.

We can develop a framework and then modify based on the observed trends we get from that new framework. I -- I think that's what we're trying to say here.

But, you know, I'll obviously accept any follow-up questions if I missed the mark there.

MR. ANTOINE HACAULT: Okay. Thank you.

And go down to answer 'F', which was the question:

"Discuss the formless policy questions in developing the revised Vehicle for Hire framework."

That was the question.

And then, the answer is on page 4 of 5.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Is it the Corporation's position that the principles, which are set out in answer 'F', are to guide the development of a new framework, namely, that the rating model is actuarially based and uses experience based adjustment to reflect risk firstly?

MR. LUKE JOHNSTON: That's assumed to be consistent with every other class, yes.

MR. ANTOINE HACAULT: Okay. And secondly, another principle will be that the model and/or pricing does not have to apply identically and/or consistently between Vehicle for Hire subcategories?

MR. LUKE JOHNSTON: This one seems a little weird. Like, why wouldn't' you want the same approach or -- but what we've heard from the different stakeholders is that their needs are different, so one (1) model may not fit everyone. So we had to listen to those concerns.

MR. ANTOINE HACAULT: Thank you for proving that additional explanation. I was having trouble understanding why that should be a guiding principle.

But the -- it's a principle which allows flexibility for your customers. It's kind of a customer-oriented approach, is that fair?

MR. LUKE JOHNSTON: That -- that's correct.

MR. ANTOINE HACAULT: Okay. And then, the last guiding principle is that there should be no cross-subsidization outside of the Vehicle for Hire class or between Vehicle for Hire classes.

And is that another principle, sir, firstly?

MR. LUKE JOHNSTON: Yeah. And you could almost argue that it's -- could go in the first bullet. You know, be part of the first bullet point too.

But there are cases, as -- as you know, with the current DSR system and such where there was policies or -- perhaps that are not purely actuarial. So we just restate the no subsidization objective, I guess.

MR. ANTOINE HACAULT: And before I leave the -- the subject of the Vehicle for Hire framework, I'm going to ask a couple questions on data collection. Because part of the bullets that we had listed on issues was kilometers driven, driver, and stuff like that.

I'd like -- and this is answered in

part in TC -- so Taxi Coalition -- MPI 1-8.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: There were -- we'll go back to the questions perhaps, firstly, to give you some context, Mr. Johnston.

Question 'A' was:

"What data, if any, does MPI have on other relevant risk factors affecting Vehicles for Hire beyond territory insurance, used vehicle, type, and driving record?"

And if we go to answer 'A', it is that MPI does not have any data on other relevant risk factors affecting VFH beyond territory insurance use and vehicle type and driving record.

And then, you'll see that the follow-up question was, Well, if you don't, what are you doing about it? What options have you considered and what has prevented you from doing it?

So the response to 'B' was MPI has not explored options for acquiring other relevant risk data. And my question to you, sir, is: Is there anything that has prevented the Corporation from doing that? Help me understand why, if it's important for this framework, that we aren't at least exploring options to get that data.

MR. LUKE JOHNSTON: Yeah. In terms of the full history of how we got to where we are today, I won't have all the answers, of course.

But we -- we have started consultations as -- as you're aware. Information such as who's actually driving taxis, for example. My understanding is we have made some efforts in the past to obtain that data and haven't been successful.

Data such as kilometers driven, at least my understanding is that type of information has not been historically available. Maybe that'll change.

And in terms of any sort of fleet program, the -- again, the taxis have historically not been eligible for the fleet program. But we haven't explored that avenue for that particular group.

So there's potential -- some potential there. Some are new data that didn't exist in the past because of technology changes. But as mentioned, we'll have these discussions with stakeholders and see what we can obtain going forward.

MR. ANTOINE HACAULT: Okay. Has MPI

considered whether or not any changes to, say, for example, the -- say, Winnipeg bylaw framework which already collects information could assist the Corporation in collecting that data if amendments were made to its bylaw?

MR. LUKE JOHNSTON: I'm not aware. But I will -- my -- my team is listening, so if I can add anything on that prior to finishing this, I can do so. If that's helpful.

MR. ANTOINE HACAULT: Fair. Yeah. You understand where I was coming from. It was just, like, you've said that there's some relevant data that would be desirable. And I'm saying, Well, listen, what have you done, number 1. And you've done a pretty -- your best to explain that.

And if there were any impediments or things that we could do to ensure that the Corporation gets that, I'd like your input or the Corporation's input. So I don't know, with that rephrasing of the question, whether you've got any ideas on -- on how or if that additional relevant data could be collected if you had additional tools.

MR. LUKE JOHNSTON: I guess I'd say the best way to uncover that is through the stakeholder consultations.

And hopefully there's, I guess, a two (2) way partnership in terms of, you know, MPI wanting that data and MPI getting that data, and us working together to figure out how to get better data or use technology to -- to do that. So look forward to those discussions.

MR. ANTOINE HACAULT: Madam Chair, I'm looking at the hour. I'm embarking in another area, which is historical -- how we got to set the passenger for vehicle rates and whether or not we need to change them and how quickly we need to change them.

I can start that discussion now and go until 2:30. Or defer --

THE PANEL CHAIRPERSON: Why don't we take a break now. So it's roughly twenty (20) after 2:00. We'll come back at twenty-five (25) to 3:00. And then, you can take it from there. Okay? Thank you.

--- Upon recessing at 2:20 p.m.
--- Upon resuming at 2:36 p.m.

THE PANEL CHAIRPERSON: Mr. Hacault...?

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Yes. Good afternoon, all, again. That was a nice break. I needed to stretch my legs. You know, I just find afternoons tough.

So I'm going to take you back to a closing submission that had been made in the Interim Application for 2018, in January of that year, and to some things that were submitted on how we were hoping to deal with the issues caused by this Interim Application.

And I'm directing your attention to paragraph 35 firstly. The Corporation was indicating in its closing submission that new Vehicles for Hire insurance use would be created, and that's been done, correct?

MR. LUKE JOHNSTON: It has.

MR. ANTOINE HACAULT: So that claims experience could be tracked separately from private passenger vehicle pool, and that's been done, correct?

MR. LUKE JOHNSTON: That -- that has.

MR. ANTOINE HACAULT: And the purpose of doing that was to ensure that the loss experience for Vehicles for Hire would not be subsidized by any other vehicle classes, correct?

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: So that was the aspiration of what we were trying to achieve by setting up these categories and -- and doing the calculations.

Now if I flip to the next page, paragraph 40, the statements that were made back in 2018 are very similar today. Intuitively -- I'm looking at the first bullet -- a vehicle, and that would be a Passenger Vehicle for Hire, would be expected to have a higher loss exposure if the vehicle is spending more time on the road as a Vehicle for Hire. That was the intuition or what Mr. Watchman's indicated like a subjective analysis?

MR. LUKE JOHNSTON: Yes, and that appears to have played out that way, yes.

MR. ANTOINE HACAULT: Yeah. And then it was explained that there was a jurisdictional scan, and I'll get into more detail, and that jurisdictional scan supported -- that's an interesting word -- the notion that an additional charge of approximately 20 percent over all-purpose use was determined to be reasonable in other jurisdictions.

So that's -- that was a starting point for this Interim Application, sir?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: Okay. And if we go to the next page, 13 of 18, on paragraph 41, the Corporation is indicating what it's going to do. First sentence:

> "Going forward, the proposed rates for Passenger Vehicle for Hire will be adjusted based on actual claims experience utilizing the existing PUB-approved rate-making methodology."

And that's what you've been doing, correct?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: And we'll get into that. This methodology is explained in the next sentence. It gives a 10 percent weighting to the actual claims experience in moving the rates away from that initial notional rate, correct?

MR. LUKE JOHNSTON: As a general statement, yes. And what I mean by that is we went through some of the raw relativity, current relativity stuff earlier. So it would -- not knowing the size of the -- of the eventual category that would be created here, we just noted that at least 10 percent will always be given to that raw relativity or raw experience of the class.

MR. ANTOINE HACAULT: And conversely, that means that 90 percent weighting is given on the notional amount which we started with, which was 20 percent more than all-purpose?

MR. LUKE JOHNSTON: Not quite, and I'll explain. If -- in year 1, yes, that's correct. In three (3) years from now, the current relativity will have three (3) years' worth of that experience on the current, and so now really you're giving a weight of -- of, you know, 90 percent to the current relativity with -- well, it's already somewhat adjusted and 10 percent to the new information.

So not quite, but I think you get -- you get the --

MR. ANTOINE HACAULT: Yeah. I'll -- I'll bring you to a calculation. And in fact -- so I think it'll be easier to see once we actually see the calculation because you adjust it year after year, and it's an incremental change and weighting system that slowly moves you towards your objective, correct?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: Now in paragraph 42, there's a statement:

"However, if experience-based rates
are observed to be significantly
different from the initial rates,
MPI may come forward with a special
rating adjustment that falls outside
the approved rate-making
methodology."

So Mr. Watchman pulled out the figure from one (1) of the IRs that, based on the data that we have today, with its limitations, there would be an indicated rate change of 56 percent. Do you recall that?

MR. LUKE JOHNSTON: Approximate magnitude. I think whether it's 50 or 56, I don't think -- I think your point --

MR. ANTOINE HACAULT: Yeah.

MR. LUKE JOHNSTON: -- is made, yeah.

MR. ANTOINE HACAULT: But is MPI of the view then that that's not a significant change?

MR. LUKE JOHNSTON: So I'll just reiterate earlier comments. I believe my -- my comment was there's a high likelihood that the actual loss experience is tracking higher than the current rates.

We put caution, given the small number

of units, but, as mentioned, for this GRA we've continued to follow the existing rate-making methodology. But, as noted here, if it gets to the -- the stage where the evidence is really clear, MPI or PUB may have to act outside of that methodology if -- if deemed necessary.

MR. ANTOINE HACAULT: Okay. Now I'm going to get back to a little bit about the information or jurisdictional scan that was used to -- to do this notional 20 percent adjustment.

And I think, to help explain that, if we go to -- from that hearing, PUB/MPI-1.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: And there was a question:

"(a) Please advise as to which Canadian jurisdictions the Corporation analyzed for information on rating models and pricing."

MR. LUKE JOHNSTON: I see that.

MR. ANTOINE HACAULT: Yeah. And then in the -- in response to that, it was answered that:

"Rating models and pricing in

Ontario, Alberta, and Quebec were
reviewed. They were currently the
only jurisdictions in Canada to
permit the operation of
Transportation Network Companies."

So that would be equivalent to what we've been talking about as a passenger Vehicle for Hire, sir?

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: Okay. And then in that inter -- interrogatory, there is information on what was gathered or able to be gathered. It starts at page 3. There's some policy insurance providers, Intact, Aviva, and Northbridge Insurance, Pembridge, and there's a description of what's happening in Ontario and those private companies.

Now you did not get a lot of raw risk relative data from those companies at all, if any at all, correct?

MR. LUKE JOHNSTON: The companies themselves wouldn't give us the underlying data. That's correct.

MR. ANTOINE HACAULT: Okay. So then on the next page, there's a discussion of various insurance providers for Alberta and Quebec. Again, those companies wouldn't have given you the underlying data?

MR. LUKE JOHNSTON: They would not.

MR. ANTOINE HACAULT: And that led to kind of a summary on page 5 of 6 as to some base rates, which were quite variable across those jurisdictions, sir?

MR. LUKE JOHNSTON: Yes. Rates, just in general, in our -- in our annual rate comparisons are also quite variable. It obviously depends who you're looking at. So there's -- there's notes at the bottom about, you know, the age and -- and such --

MR. ANTOINE HACAULT: Okay.

MR. LUKE JOHNSTON: -- but, yes, yeah.

MR. ANTOINE HACAULT: So -- but in the jurisdictional scan, one (1) province that was not referenced, quite frankly because there was no TNC endorsement as explained on this table, was British Columbia, which is a public insurer, correct?

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: And again, Saskatchewan, they hadn't established anything, so you didn't have any relevant data from them, correct?

MR. LUKE JOHNSTON: That's correct.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: And in Alberta, it appeared, based on this table, that this type of vehicle would be paying somewhere between thirty-seven hundred (3,700) and forty-two hundred dollars ($4,200), depending on the premium and the policy and the location?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: And remind me again in -- in Manitoba where our starting was? Is that basically at the bottom right-hand corner, at about seventeen hundred (1,700), assuming they chose all four (4) time bands?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: Okay. And Ontario, which was the other jurisdictional scan, it appeared that that type of vehicle would be paying somewhere between seventy-five hundred (7,500) and eighty-one hundred (8,100) or eighty-two hundred dollars ($8,200), correct?

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: Again, that compares with your starting rate at seventeen thirty (1,730) in Manitoba for people that have the four (4) time bands?

MR. LUKE JOHNSTON: That's right, but, of course, we've got to compare the sixty-five hundred dollar ($6,500) Toronto base rate as well. But -- but your numbers are correct for the example given, yeah.

MR. ANTOINE HACAULT: Yeah. And in Quebec, for Montreal and Quebec City, the best information you could come up with is these vehicles would be paying somewhere around twenty-four hundred dollars ($2,400), correct?

MR. LUKE JOHNSTON: Correct, yeah.

MR. ANTOINE HACAULT: And remind us again, in dollars, about how much we would move the Winnipeg passenger Vehicles for Hire from the current rates to an actuarially indicated rate? Is it -- is it in the range of five hundred dollars ($500), sir?

MR. LUKE JOHNSTON: I believe -- so your question is if we were to have the 56 percent rate increase? So if you'll accept approximate numbers, I -- I can give you those. If you assume -- so on this table, you're seeing seventeen hundred and thirty dollars ($1,730), all time bands. My understanding is that a lot of passenger Vehicles for Hires don't necessarily have average rate, maybe a little higher. Let's just say that that's closer to two thousand (2,000). A 50 percent rate increase would add a thousand dollars ($1,000) or so, so closer to three thousand (3,000) for all time bands.

MR. ANTOINE HACAULT: Okay. So that would be somewhere between the Quebec low and where everybody else is situated in -- in the private jurisdictions?

MR. LUKE JOHNSTON: Yeah. The -- again, the -- we -- you know, we talked about relativities earlier, and I guess there is two (2) questions I would ask related to Vehicle for Hire. The first one (1), you know, why, in these other jurisdictions, is the relationship between normal driving and TNC Uber type of driving different than ours? In some cases, that extra charge is very minor, and -- and in other cases, it's more. We know what we know here in terms of actuarial soundness.

So if the current loss information was correct, we'll just assume, and let's say MPI should have charged twenty-five hundred (2,500) to three thousand (3,000) or something, for example -- that's for all the time bands if we had perfect information -- that is what it is. Bigger question for me is why -- why taxis are costing us nine thousand (9,000), right?

So we have looked at taxi rates in other jurisdictions, and we -- we, of course, know that our rates are simply a reflection of cost. So there is more investigation to do there in terms of relative differences -- not just for TNC, but for taxis as well -- to try to figure out what -- what's causing that.

MR. ANTOINE HACAULT: Thank you for that, sir.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: I would suggest to you that you did not have very good actuarial data on which to base a notional rate in that interim application.

MR. LUKE JOHNSTON: We didn't have any Manitoba data. We just had industry comparisons, so we had no actuarial data from -- from Manitoba.

MR. ANTOINE HACAULT: I think I understood your question to say that you had no actuarial data from Alberta, Ontario, or Quebec either, sir?

MR. LUKE JOHNSTON: Correct. We -- we only had the jurisdictional scan as a guide to the relative differences that other provinces were seeing or how they were charging for that. Of course, we don't know if there's any subsidization happening here or other things like that. Just as a -- as a guide to the relative difference in other provinces, that's all we had.

MR. ANTOINE HACAULT: Okay. Now, if we move on to a more current response, jumping to Taxi Coalition-MPI-1-16.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: You -- MPI is explaining, and I'm not criticizing it -- that in (b) at the time the 2018 Vehicle For Hire interim rate application only Ontario, Alberta, and Quebec had Vehicle For Hire legislation in force, and then it's noted that Saskatchewan and Alberta followed suit basically after we did in Manitoba.

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: So they would be kind of in the same situation as we would be with respect to experience and actual -- actuarial data related to this new category, correct?

MR. LUKE JOHNSTON: I would assume

maybe just slightly better information than MPI if it was a little bit later, but similar, for sure.

MR. ANTOINE HACAULT: Well, you -- you guys started in -- in early of 2018. Saskatchewan only started in December of 2018.

MR. LUKE JOHNSTON: Yes.

MR. ANTOINE HACAULT: British Columbia only started about a year and a half later. So what would lead you to believe that they have better data than -- actuarial data than -- than you in the two sample sets?

MR. LUKE JOHNSTON: Yeah, I'm just referencing any passage of time may have allowed for slightly better information, but nothing substantial.

MR. ANTOINE HACAULT: Now it's explained that in the next paragraph under (b) is Saskatchewan Government Insurance and British Columbia are the jurisdictions most comparable to MPI. A recent jurisdictional review focussed on those two models, correct?

MR. LUKE JOHNSTON: Yes.

MR. ANTOINE HACAULT: Now if we go to how Saskatchewan sets its premiums, it's on page 3 of 6, third paragraph down, there's two separate premium charges, sir?

MR. LUKE JOHNSTON: Correct, correct.

MR. ANTOINE HACAULT: And one (1) is blanket liability policy, which we don't have in Manitoba?

MR. LUKE JOHNSTON: We do not.

MR. ANTOINE HACAULT: And the other one (1) is an additional premium based on actual kilometres driven by its drivers, and we don't have that data or that model in Manitoba?

MR. LUKE JOHNSTON: That's correct.

MR. ANTOINE HACAULT: Now did Saskatchewan -- and I'm going to page 4 of 6, the end of the first paragraph -- about mid-way through the paragraph it says:

"SGI does not have data currently to provide us with an estimated cost for the annual blanket policy."

Firstly, is that still correct?

MR. LUKE JOHNSTON: That's my understanding, but I -- I haven't asked that question recently, but yeah.

MR. ANTOINE HACAULT: And secondly, the second part of their premium related to kilometres and the response here says:

"SGI was unable to disclose the

average kilometre per year a driver
may put on."

So you didn't get a data set on that either?

MR. LUKE JOHNSTON: We did not.

MR. ANTOINE HACAULT: Okay. Now I just want to be clear here because -- and I think this was clarified later on -- under the -- midway through the page there's a heading "Estimated VFH Premium of SGI".

I just want to be clear, you did not get data from SGI on the number of kilometres driven per year?

MR. LUKE JOHNSTON: We did not get kilometres driven data. This is a purely hypothetical example based on our understanding of the approximate per kilometre charge.

So, of course, you could plug in different kilometre numbers there and -- and get a different hypothetical, but it's not -- it's not from their data.

MR. ANTOINE HACAULT: Okay. Thank you for that clarification.

Now that leaves us with the British Columbia model in your jurisdictional scan. And that's dealt with at pages 5 and 6, and closer to the bottom of page 5 of 6, first full paragraph after the heading "Insurance Requirements and Premium", and there's an explanation, again, that there must be a purchase of a blanket insurance certificate. Correct?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: Once again, Manitoba does not have that feature?

MR. LUKE JOHNSTON: MPI does -- does not.

MR. ANTOINE HACAULT: Okay. And at the very last sentence in that paragraph:

"The rate for this blanket insurance is based on kilometres driven."

Do you see that, sir?

MR. LUKE JOHNSTON: Just trying to find that on here.

MR. ANTOINE HACAULT: Very -- the first full paragraph --

MR. LUKE JOHNSTON: I see.

MR. ANTOINE HACAULT: -- it's the last two lines.

MR. LUKE JOHNSTON: I see that now.

MR. ANTOINE HACAULT: You've found it?

MR. LUKE JOHNSTON: Yes, thank you.

MR. ANTOINE HACAULT: Okay. So, sir, in this response again, because there was a question, well, what data did you get, and at the very last page, page 6 of 6, under the heading "Estimating ICBC's Vehicle For Hire Premium", it's indicated that MPI has reached out to ICBC to obtain information on Vehicle For Hire insurance rates. To date it has not received the requested information.

So as of August of 2020, there was no insurance rate data or actuarial data received from ICBC on Vehicles For Hire, correct?

MR. LUKE JOHNSTON: That's correct. And, of course, it's -- it's their decision, not ours, in terms of how they want to release their data, but that's a correct statement.

MR. ANTOINE HACAULT: So again, any calculation that MPI might make with respect to this comparator in the jurisdictional scan would have to be hypothetical because you don't have actual data from the company, correct?

MR. LUKE JOHNSTON: That reason, but as you've kind of run us through the -- the program design it's quite different, as well. And so that would have to be understood. And I can -- I can tell you that MPI, prior to implementation of the Vehicle

For Hire changes, and -- and still to this day with the stakeholders, kilometres driven, blanket policies are still very much discussed.

That was not what was implemented at MPI initially. So we are operating with -- with what we have, but I think we've made our intent clear that we want to work with stakeholders to -- to see if there's a better Vehicle For Hire 2.0 solution.

MR. ANTOINE HACAULT: Thank you, sir. I was just trying to understand the limitations of your jurisdictional scan and the type of information you had on that jurisdictional scan.

I'll move to another subject area. I think we've covered this fairly well.

For the Vehicles For Hire in Manitoba, am I correct in understanding that data that MPI would like to have, if it could, would be to know whether there are multiple drivers for those passenger Vehicle For Hire?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: Sorry, the reason for the pause, just -- just to be clear, not having that data isn't inhibiting MPI from knowing how much this group costs or -- or premium is required.

Having that data would allow improved differential rates or relative rates among the -- the drivers of those vehicles, just like it would for just any other class, like, that -- where there's DSR, for example, but the overall premium requirement is still the same.

So -- so would that information allow us to price better? Yes. Would it change our current information on the costs overall basis for -- for that pool of vehicles? I don't -- it would not.

MR. ANTOINE HACAULT: I understand that answer. I think I understand it. We go through these exercises in hydro, gas, et cetera. We're trying to determine with that kind of data whether we can do better cost causation pricing instead of impose the price on a general group because we don't have the data.

Is that a fair statement, sir?

MR. LUKE JOHNSTON: Yeah. We've -- we've run through some different variables that could improve that pricing, whether it's kilometres driven or knowing who the drivers are or things like that, yeah, agreed.

MR. ANTOINE HACAULT: And other things

that might help you decide -- for example, all-purpose is designed around going to work and driving presumably, not always, at peak hours.

So it would be, I would suggest, useful to have some data as to when these passenger for vehicle drivers -- are they driving in peak times or are they driving in not peak times?

Wouldn't that be of interest to the Corporation, again, if you're going to do appropriate pricing?

MR. LUKE JOHNSTON: As an actuary, I generally wouldn't turn down additional info, information, but, of course, there's a limit to how much and what you can collect, and you can, I guess, over do it, in a sense.

But if -- yeah, in a perfect world, I suppose, we could track how many kilometres and -- and when and where all these vehicles are driving, but it's probably not realistic in -- in this environment. But better information? Sure. That would be helpful to rate.

MR. ANTOINE HACAULT: I'll suggest to you it's not a huge leap because these passenger Vehicles For Hire have to choose the time bands that they're going to be driving in. And there's four (4) time bands that are structured around risk areas in driving behaviour?

MR. LUKE JOHNSTON: That's right. For the most part, those drivers are selecting all the time bands. But to the extent that drivers select different time bands and we gain experience from that, we would adjust rates accordingly.

But for the most part a large percent of those drivers have selected all the time bands.

MR. ANTOINE HACAULT: And if you were going to move to a kilometre-driven model, it would be very important to know the kilometres driven by the passenger Vehicles For Hire. It would also help you understand perhaps what's happening with taxis?

MR. LUKE JOHNSTON: I would expect kilometres driven to be an important indicator, of course balanced against other rating factors.

So what I mean by that is we would have to be careful not to assume that kilometres driven is the only factor.

Maybe you're a fantastic driver that drives all the time and hasn't had a claim in twenty-five (25). Just because you drive more, it doesn't necessarily mean but we would assume, all else equal, kilometres driven should matter, yes.

MR. ANTOINE HACAULT: And I would suggest that it might be important for the Corporation to know whether this is a full-time job or a part-time job?

MR. LUKE JOHNSTON: Maybe. Kilometres driven may cover that for us, right, if you would -- I don't know if I can really ask somebody if this is a part-time job or not. They would -- that would hopefully be reflected through either in time band selected or in reduced kilometres driven.

MR. ANTOINE HACAULT: But the City's already collecting fares. So if -- and there's studies that were done, in fact, referenced by your materials, sir, where they're deciding, okay, well, once you get over so many fares a week or so many fares a day, we'll call you full-time.

So that data is already being collecting by the City. And -- and wouldn't it be important for you to know, because then they're getting closer and closer, I would suggest, to taxis if some people are doing this full-time, as taxis are?

There's not a whole lot differencing them except for how they're being booked. Do you agree?

MR. STEVE SCARFONE: Mr. Hacault, did

you say it's referenced in our materials, that kind of information?

MR. ANTOINE HACAULT: Yeah. That -- that's the study. NBER working paper series was -- there was a link given to a study that was done in Massachusetts as part of --

MR. STEVE SCARFONE: Oh, sorry, I thought you were referencing the -- the information about the City having collected that information.

MR. ANTOINE HACAULT: No. That's in their bylaw.

MR. STEVE SCARFONE: Okay.

MR. ANTOINE HACAULT: That's in their bylaw, sorry.

MR. LUKE JOHNSTON: Yeah. My only comment to that would be MPI would have to have that information, just like my earlier comments on -- we don't in fact know -- have a list, a database, of every individual that drives a taxi or a TNC, and so it's, right now, not possible to rate on that.

If there is other information similar to what you suggested that created a clear differentiation between full-time drivers and -- and other drivers and that was available to MPI and could be stored in a database, of course, we could -- we could calculate what the impact of that is, but that's not something available to us today.

MR. ANTOINE HACAULT: I would suggest to you, sir, in the vehicle for framework reevaluation that it may also be relevant to where people are classified. If it looks like a duck, walks like a duck -- but does -- the full-time passenger Vehicle For Hire person is doing this as a full-time job, as is a taxidriver, I would suggest to you that there's a fairness issue arising to have different rates applied to the group of people who are also full-time and do this for a living with all similar characteristics?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: I understand the point being that, if someone is doing this full-time and they're a similar driving ability, why would we expect any difference in -- in costs.

Today, I guess we know two (2) things. At least, right now, we know with pretty high confidence what the taxis cost us on an annual basis. We know a little bit about passenger Vehicle For Hire costs. My credibility argument goes both ways, up or down.

There's as -- and I -- I said, you know, the -- the premium likely needs to be higher for passenger Vehicle For Hire, but there's nothing indicating that it needs to be nine thousand dollars ($9,000).

But it is possible that there's a, say, high percentage of vehicles in passenger Vehicle For Hire that are driven part-time and a small percentage that are driven full-time. And it's possible that the full-time drivers look more like taxi experience; that -- that is possible. I don't know that, but that's a reasonable assumption.

MR. ANTOINE HACAULT: And part of the information that was provided in this Hearing is in Taxi Coalition-MPI-2-14 on that issue in response to question (b) as to -- if we can go to question (b), in fairness to Mr. Johnston:

"Is MPI aware if TNCs in Saskatchewan are operating on a basis that is not akin to how taxis operate?"

And then the response, if we could scroll down to (b) -- I'm always leery about relying on newspaper articles, but the newspaper article references a report.

Did you actually get a copy of the report?

MR. LUKE JOHNSTON: I -- I'd have to -- I'd have to look into that. I don't recall.

MR. ANTOINE HACAULT: If -- if it's available, could you undertake to provide it to us, if -- if there's no prohibition? I don't know if it was copyrighted or whatever.

MR. STEVE SCARFONE: Yeah. We can make that undertaking, Mr. Hacault, if, indeed, we -- we obtained a copy of the report.

--- UNDERTAKING NO. 43: MPI to provide the report mentioned in Taxi Coalition-MPI-2-14, question (b).

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Yeah. Because the newspaper article then purports to make some conclusions, which MPI then interprets. And I'm not too sure what to make of it, but at the -- what's indicated by MPI, if we go to the top of page 3 of 3, is that 42 percent averaged fewer than thirty (30) trips a month.

Now I don't know if you can answer the

question. Is the converse true? Is there over 50 percent that average more than thirty (30) trips a month?

MR. LUKE JOHNSTON: I understand what's being implied by the question. I didn't write the report and we're looking into whether we have it. So I can't confirm that. It seems logical from the statement. But I think --

MR. ANTOINE HACAULT: But it may not be.

MR. LUKE JOHNSTON: Yeah. If -- if anything, from this is just confirming, to the extent that this is accurate, that vehicle -- passenger Vehicle For Hire doesn't necessarily operate like taxis on a -- like, I -- I would assume taxis are operational more often than, you know, a few trips a week or something or whatever is being implied here. And that could very well explain the difference in -- in cost of MPI'S experience, at least for the last two (2) years.

MR. ANTOINE HACAULT: Yeah. And that's the same type of question -- and this last question, again, you probably can't answer it if you haven't seen the report.

But MPI is indicating only 18 percent

of drivers reported making six (6) or more trips a day. Does MPI have any sense of whether that could even be done on a part-time basis, doing six (6) or more trips a day?

MR. LUKE JOHNSTON: I -- I don't know the answer to that.

MR. ANTOINE HACAULT: Okay. Moving on to time bands. I just want to get clarification on how to read a table. That's Taxi Coalition-MPI-1-4.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Figure 1. I'm sorry, so we have the ...

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Just the one thing I wanted to see is these are currently the time bands that are offered to taxis and to Vehicles For Hire?

MR. LUKE JOHNSTON: Yes.

MR. ANTOINE HACAULT: And what you're saying is most people in the -- and we'll see that in the next table -- in the passenger for vehicle category are choosing each of those four (4) categories?

And that's shown in answer (c) in Taxi Coalition-MPI-1-4?

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: Okay. So am I reading this table correctly? If I look at line 4, which is passenger Vehicle For Hire, there's only fifty-seven (57) of the pool that existed as of July 1, 2020 that chose time band number 1, which is driving Monday to Friday, between 10:00 AM and 3:00 PM; and Sunday to Thursday, from 7:00 PM to 11:00 PM.

MR. LUKE JOHNSTON: I -- I can see that's what you would expect from this table.

MR. ANTOINE HACAULT: I just want to understand it. I don't want to assume anything.

MR. LUKE JOHNSTON: Yeah. A different interpretation, I guess, could be forty-eight (48) people purchased two (2) time bands; thirty-eight (38) people purchased three (3) time bands; and fifty hundred and fifty-eight (558) purchased four (4) time bands.

I'm not seeing on here combinations of time bands, right? Like, I -- I doubt --

MR. ANTOINE HACAULT: Okay.

MR. LUKE JOHNSTON: -- these folks just chose one (1) and no one chose two (2).

But taken as -- as what we've stated here, that is -- that is our interpretation, that it's just fifty-seven (57) people chose time band one (1), forty-eight (48) --

MR. ANTOINE HACAULT: Could -- could you clarify that because I was unclear on how to read it?

What confused me is when I saw five hundred and fifty-eight (558) under four (4), initially I thought, well, it has to be -- those are the people who chose the four (4) time bands; and then what was under three (3), those were the people who chose three (3) of the time bands; and conversely, under two (2), those are the people that chose two (2) time bands.

I just want clarification, if I could.

MR. LUKE JOHNSTON: It would make more sense to me. I've asked the question of my team. Hopefully, I'll get a answer quickly.

MR. ANTOINE HACAULT: If you don't, could you just undertake to clarify that, please?

MR. STEVE SCARFONE: Yeah, we can undertake to do that.

I would have thought the easiest way to determine that is if those numbers under line 4 add up to the total number of passenger Vehicle For Hire units, then we would have our answer.

MR. ANTOINE HACAULT: Yeah. I'm just looking for an answer. I didn't want to speculate on how to read the table. So as long as I'm going to get the clarification. Do I have the undertaking?

MR. STEVE SCARFONE: I guess what the -- we need the clarification. What -- what are you looking to clarify with your --

MR. ANTOINE HACAULT: Okay. So I would like to know whether the numbers at the top of the table figure 1, in response (c) to Taxi Coalition-MPI-1-4, refer to the time band -- so there's a number one (1), does it refer to time band one (1)? Or does it refer to a driver choosing one (1) of the four (4) time bands?

MR. STEVE SCARFONE: Yes.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: And the same question would apply to each of the numbers. So for number two (2), is it that somebody has chosen time band number two (2), or is it a driver who has chosen two (2) out of the four (4) time bands?

MR. LUKE JOHNSTON: I can confirm that this is the number of time bands selected, not the specific time band. Poorly worded table on our part but -- so one (1) is fifty-seven (57) people, one (1) time -- buy one (1) time band. Two (2) means forty-eight (48) customers got two (2) time bands, et cetera.

MR. ANTOINE HACAULT: Okay. So I would suggest to you then the vast majority of passenger Vehicle For Hire want the flexibility to be able to drive somebody any time during the day, any time during the week.

MR. LUKE JOHNSTON: That would be a reasonable conclusion from this. My -- my caution earlier was, are they choosing -- making that choice because the price is right? If -- if you told me I could just do whatever whenever I want and it was just a bit extra, sure, I may make that choice.

If the price was significantly more, I may be more choosey on my time bands.

But -- so I don't know that. But right now we know the -- the price. We may be talking about an extra, you know, hundred dollars ($100) or something for a year, to add another time band, for example. That flexibility may be worth that amount. It may not be worth taking that extra cost if -- if the price was different.

MR. ANTOINE HACAULT: I'm going to move on to another Information Request. I just want to have some clarification again. Taxi Coalition-MPI-1-5.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: And here, I'm not too sure if -- Ms. Schubert, would you be able to put side by side figure 1 and figure 2, which is on the next page?

(BRIEF PAUSE)

MR. ANTOINE HACAULT: What I was going to take you through is it appears that the physical damage claims incurred by time band for taxis and passenger Vehicles for Hire are, I thought, surprisingly close.

So, first, could you explain what the table is, sir? It deals with physical damage claims only. Is that it?

MR. LUKE JOHNSTON: That's right. So, yeah, to be completely honest, I was pretty shocked by these results 'cause I wasn't expecting them to be as consistent as they are.

But what you're seeing here is, essentially, the -- the claims incurred and claims count ratio based on -- on time bands selected, so one (1) time band, two (2) time bands, three (3) time bands, and all the time bands.

Our initial pricing assumption was that each time band would cost another 25 percent up to 100 percent. I suspected that wouldn't actually play out that way. Like we've -- you know, we -- we selected some of the time band periods somewhat arbitrarily, and if -- you know, like the weekend or something, right?

Like it's not -- but what we are seeing is that one (1) time band does seem to be about a quarter of the exposure of all time bands, and similarly, two (2) time bands, about half, and three (3) is 75 percent. this is rough -- rough terms, but that is what we've seen to date.

MR. ANTOINE HACAULT: So although it's a chicken and a duck because some of them are passenger Vehicles for Hire under Uber and some are taxis --

MR. LUKE JOHNSTON: Right, but both --

MR. ANTOINE HACAULT: -- the driving and claims experience as to when accidents are occurring is pretty consistent. I was -- I was surprised at the consistency across all the time bands. Do you agree with that, sir?

MR. LUKE JOHNSTON: I was. Of course, you know, we have to note the low counts in -- in the other time bands, but the consistency is there. It -- if it suggests anything, it suggests that, if there is a reduction in exposure in terms of the amount of driving done, it does appear to translate into reduced loss costs, at least at the initial stages of this.

MR. ANTOINE HACAULT: Look at that a little bit more. It's in Taxi Coalition-MPI-1-6.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Response (a) and (b) if it could be put on the screen. So this is another perspective with respect to the claim counts in the time bands, but this time organized according to the people who've chosen one (1) time band, two (2) time bands, three (3) time bands, and four (4) time bands, correct?

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

MR. ANTOINE HACAULT: We clarified that a while ago.

MR. LUKE JOHNSTON: Yeah.

MR. ANTOINE HACAULT: So of the people who chose the four (4) time bands, that's where we're getting the largest claim count?

MR. LUKE JOHNSTON: Really, I'd just say the claim count aligns with the choice of coverage that they've -- they've made for the most part, knowing that --

MR. ANTOINE HACAULT: Yeah.

MR. LUKE JOHNSTON: -- most of them are in four (4) time bands.

MR. ANTOINE HACAULT: And what this page I think also explains when we look in Figure 2 is that Figure 1, if we look under Passenger Vehicle for Hire -- that's line 3 -- we've got a total of seven hundred and seventy-one (771) claims.

Is that -- am I reading that right?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: Line 3, grand total?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: And all of those claims are claims that occurred when there was a fare being driven around, correct?

MR. LUKE JOHNSTON: Can you say that again? Occurred when there -- I didn't hear the last part.

MR. ANTOINE HACAULT: So when -- when they're driving somebody around.

MR. LUKE JOHNSTON: Oh, yes, and they've -- yeah, they've been placed in -- into this classification for that reason, yes.

MR. ANTOINE HACAULT: Yeah. And what MPI did is it tracked for these -- that same pool of seven (7) -- seven hundred (700) odd drivers the number of non-commercial claims. And that's in Figure 2, correct?

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: So --

MR. STEVE SCARFONE: I just wanted to clarify something on the -- on the record 'cause --

MR. ANTOINE HACAULT: Yes.

MR. STEVE SCARFONE: -- and Mr. Johnston can confirm. I do think the time bands are triggered not just when a passenger is in the car, but when the -- the -- when the driver is on the app and available for -- for customers.

MR. LUKE JOHNSTON: That is true. I -- I'm maybe being a bit too general in my accepting --

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Yeah, no.

MR. LUKE JOHNSTON: -- but I don't think anything --

MR. ANTOINE HACAULT: Thanks for that clarification. Okay. So this would be math on the fly, but if we wanted to have some sense of the percentage of claims, would we add the seven hundred and seventy-one (771) plus the sixty-six (66) to get a total?

MR. LUKE JOHNSTON: Yes.

MR. ANTOINE HACAULT: And then take the number sixty-six (66) divided by the total, it would give you a percentage of claims which are unrelated to this part-time or full-time job.

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: And that would be somewhere in the range of 20 percent?

MR. LUKE JOHNSTON: So I'm seeing -- are you comparing the sixty-six (66) --

MR. ANTOINE HACAULT: Sixty-six (66) to this -- to the seven hundred and seventy-one (771), it would give you a total of eight hundred and thirty-seven (837). I'm just --

MR. LUKE JOHNSTON: So I would have -- you know, six hundred (600) or so claims would have been at 10 percent, so I -- if it's eight hundred (800), I would guess it's more like 8 percent of the total. Sixty-six (66) divided by --

MR. ANTOINE HACAULT: Okay.

MR. LUKE JOHNSTON: -- eight hundred (800) and something.

MR. ANTOINE HACAULT: Okay.

MR. STEVE SCARFONE: It's 8 1/2 percent.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: 8 1/2 percent. So there's only 8 1/2 percent of the claims in this category which are non-commercially related, according to the way MPI tracks it?

MR. LUKE JOHNSTON: That is -- is -- that's correct, yes. Just to -- maybe just to add to that, the normal -- if there's -- if there's such a thing -- I guess crash rate of all vehicles hovers around the eleven (11) claims per hundred (100) vehicles a year.

So, if this group in their non-Vehicle for Hire time was having, say, eight (8) claims for every hundred (100) cars, it wouldn't -- wouldn't be shocking. But -- so that this number isn't surprising to me.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, while I was going to deal with that as a slightly discrete item, we've been talking about time bands in here, my understanding is MPI has received a proposal from the taxis on possibly adjusting time bands.

What is MPI's intention with respect to that issue? Is it going to roll it into the Vehicle for Hire discussion, or is it going to deal with it separately?

(BRIEF PAUSE)

MR. LUKE JOHNSTON: If you'd just give me one (1) moment. I -- I had a couple questions I asked my staff on that. I just wanted to make sure I got the answers correct.

MR. ANTOINE HACAULT: And I asked that in the context of you just indicating to us that the time bands were supposed to reflect 25 percent chunks of risk, and we see it isn't doing it.

So, it doesn't appear that the current time bands are reflecting what they should, so --

MR. STEVE SCARFONE: The only --

MR. ANTOINE HACAULT: -- where are we going with this?

MR. STEVE SCARFONE: The only concern I would have about responding to that question, Mr. Hacault, is, yes, we can acknowledge that the -- the Taxi Coalition has proposed some changes to the time bands.

The Board isn't privy to any of that. They don't have that email. They don't know what the -- the Coalition has suggested in that regard. I think perhaps that's something better left for the -- you know, the meeting of stakeholders outside of this forum.

MR. ANTOINE HACAULT: And I -- my question didn't ask specifically what -- what are you -- how are you reacting to that time band proposal, it's just what's happening procedurally with it. You know, is it going to be part of the --

MR. STEVE SCARFONE: It's going to be part of the framework.

MR. ANTOINE HACAULT: -- framework or is it going to be something else? That was my question.

MR. LUKE JOHNSTON: So, I -- I confirm that we received that request. I believe we responded that -- that we would get back relatively quickly.

My questions to -- to staff were, you know, are regulation changes required, is IT significant, those types of things. Those are being looked into right now.

But we will respond to that as soon as possible, recognizing we're in a Hearing right now, but soon.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Oh, we really appreciate that. Thank you very much. Now, I want to better understand what goes into the raw relativity number for passenger Vehicle for Hire, so I'm kind of switching here.

I'll bring you to a table where it's in the range of 3 and ask you some questions about that.

But just to put some context to it, the first thing I want to understand better is what's included in that number.

And I'll just rattle on a little bit before I -- I start asking questions because I've heard, you know, we exclude the two (2) years of serious claims and we only have two (2) years of data. We usually do five (5) years, we only have two (2) years of data. We use PIPP usually on a ten (10) year time frame. We only have -- probably exclude the two (2) years of data.

So, with that kind of rambling introduction, with respect to the raw relativity -- and maybe we'll just put it up on the screen so we -- we know what -- what it is. I'll take you to IG evidence, Table 6, at page 18 as a starting point just so we have something in front of us.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, I appreciate this as balanced raw relativity, and that entails a whole different discussion. But could you help me understand by taking little chunks?

How did you approach dealing with rate

making as regards first the five (5) year average that you like to have on claim costs with respect to the data set and what went into this raw relativity?

MR. LUKE JOHNSTON: The -- the raw relativity simply reflects what we have. So, obviously we can't have, you know, five (5) year averages or -- or ten (10) year -- serious losses and such without that data existing, so those -- every year that passes, those will continue to be incorporated.

The -- our approach has always been, you know, your costs will drive your rate. And we have had cases in the past, mopeds would be a really good example, where they just never had a serious loss for years and years and years and the rate was down in the seventy-five dollar ($75) range.

And then, eventually, they started -- they had a few and -- and it was incorporated into their pricing. But as of today, the raw relativity simply reflects what we have.

MR. ANTOINE HACAULT: So, that's with respect to the five (5) year average issue. You've just collected actual claim costs for passenger Vehicle for Hire for the data that you do have.

You didn't make any assumption on -- on

-- just like normalizing it or changing it to a five (5) year average, nothing of that happening?

MR. LUKE JOHNSTON: We did not. It may say five (5) year average, but it really just means five (5) year average of what we have, which is two (2) -- two (2) years only, yeah.

MR. ANTOINE HACAULT: Fair enough. Second point; that's not the only thing that goes into here. We've had a lot of discussion about PIPP claims and serious claims.

Again, if I look at your rate-making guide at page 47, we don't need to go there, you probably know the things by heart, but there's all this, like, ten (10) year average. And I can go to tables on that.

What did you use to kind of build up your cost number for PIPP and serious?

MR. LUKE JOHNSTON: Only the two (2) years that -- that we had, so, the same methodology but only the years we had available. Obviously, there's also no units in the previous years either, so there's really nothing to use, but, yeah, we -- we only have the two (2) years that we have.

So, I didn't -- if the question is did I fill in the blanks with a guesstimate of what might have happened, I did not. We just used the pure data that comes in.

MR. ANTOINE HACAULT: Okay. That -- see, that's -- I don't know if you can help me. I had gone to -- so this rate make -- the General Rate Application part 6, RM, Appendix 9, Table 11.

And when I looked at the reported serious losses that get inputted, and I could follow for all the different vehicles that are listed here, all-purpose, I could kind of follow it through as to how you're using those numbers in the subsequent tables to end up with your indicated rate, I couldn't find anything related to passenger Vehicle for Hire?

MR. LUKE JOHNSTON: It -- so the question, I guess, if there is one, is -- is where is passenger Vehicle for Hire in this particular exhibit?

MR. ANTOINE HACAULT: I don't know if -- that's what I was asking you. Because for other tables, and I'll bring you to them, there -- there actually is a number.

So, for example, if -- if we're looking at Table 10, it's page 77 in that appendix, two-thirds the way down the table, and we can go back up to the table, the -- the heading, this table is a reported loss, and help me with the acronym, please, A-L-A-E is...?

MR. LUKE JOHNSTON: Oh, sorry, Allocated Loss Adjustment Expenses, so --

MR. ANTOINE HACAULT: Okay.

MR. LUKE JOHNSTON: -- other, yeah.

MR. ANTOINE HACAULT: ...with hail and actual serious losses. This is kind of the first time, and only time, I see some expenses being recorded for passenger Vehicles for Hire which is later down in this page.

And you're right, the data sets only start in 2018 for the general category, but there was nothing anywhere that broke it down. That's why I'm asking these questions.

MR. LUKE JOHNSTON: Yeah. So I expected to -- to be even there is no data to show a placeholder for that. The -- in talking to my staff, there are no serious losses for that group. And if there's nothing to show to manage the size of the tables, we don't -- we just simply don't, you know -- only show classes where serious losses have occurred.

But I agree, in the future, it would at least -- it would make more sense to at least show all the categories and put zero (0). So that it's understood that it's not missing. It is, in fact, zero (0).

MR. ANTOINE HACAULT: Okay.

MR. LUKE JOHNSTON: Yeah.

MR. ANTOINE HACAULT: So let me try to take this in small pieces.

We kind of conceptually said it kind of is risky as all purpose, plus a bump up of 20 percent.

MR. LUKE JOHNSTON: Understood, yeah.

MR. ANTOINE HACAULT: So our notional rate would have included then, if I go back to the first table, the notional riskiness of all purpose having reported serious losses.

And what you're saying is because it's a small data set and they were lucky not to have any, and we really don't know -- because it's only two (2) years -- we're going to attribute zero (0) to that number.

MR. LUKE JOHNSTON: I'm not -- I'm going to reflect the experience of that class. So I'm not attributing anything. I'm just reflecting what has happened.

It is possible that serious claims could evolve into a five hundred thousand (500,000) plus position when we do centralized reserving and -- and more of those claims stay on. And, of course, all the claims on the injury side -- like, every other class would be, you know, developed to expect an ultimate cost and -- and everything.

But to date, there -- there are no serious losses in -- in the class. And so, they're -- that's how it's handled in the -- in the methodology.

So I think a suggestion is should I just put a notional value for serious losses in there? That -- my view would be a bit of a slippery slope in the sense of I'm now starting to deviate from this idea that, you know, we reflect the actual experience of the different classes and move rates and -- you know, in a manner consistent with past, you know, rules we develop with the rate-making methodology.

So it's not that the group is indicating a decrease or anything. We are indicating an increase and I -- I'd suggest we let the experience dictate the rate, rather than have myself make judgments on what their serious losses will be.

MR. ANTOINE HACAULT: I understand what you're saying, sir. Let's go back to the total claims page. Now that I have referred you -- page 77 of table 10, total four (4) passenger Vehicle for Hire.

So break down in little pieces. If

there was a serious claim that occurred in 2019, it may not be -- and likely is not categorized as such by now. Correct?

MR. LUKE JOHNSTON: The only type of claim that would hit that threshold would be a very -- a very serious claim that was reserved right away. Like, a -- a quadriplegic or something like that.

More chronic type cases that haven't been fully reserved yet may not have hit that threshold. Yeah.

MR. ANTOINE HACAULT: But as you explained in your testimony, there's, like, a two (2) year time frame where you're kind of, well, say, listen, we really don't know for sure until two (2) years whether we should be putting something.

So, we're giving this category the benefit of the doubt that there is no serious claims that have occurred to date.

MR. LUKE JOHNSTON: We're giving it the experience that -- that it had.

I'm not making any assumptions about what their claims will do beyond what the experience shows today.

MR. ANTOINE HACAULT: Okay. And if there was to be, let's say, just one (1) claim, which was over half a million dollars ($500,000), I suggest to you -- if I'm looking at the numbers for territory 1, on page 77, 2019, passenger Vehicle for Hire, the total claims were 1,404,000.

The only thing that would happen in the scenario where we're giving them the benefit of -- well, you haven't actually had one yet -- is that we're talking, like, half a million dollars ($500,000) off their number.

MR. LUKE JOHNSTON: So -- so the -- the comments really go both ways. When we talked about this loss experience earlier, there can be volatility in such small numbers.

But to your question, if a serious loss were to show up in here, it would be handled in the same manner as other classes. The impact, all else equal, would be to increase that raw relativity for passenger Vehicle for Hire and move the losses towards the target relativity faster than the -- the current raw relativity does.

MR. ANTOINE HACAULT: So -- and maybe I wasn't eloquent in doing the -- the example of a half a million dollar ($500,000) claim.

But if we had a half a million dollar ($500,000) claim in 2019, the number there would not be one million four-o-four (1,404,000), it would be one million nine-o-four (1,904,000). And that would mean that we're seriously under collecting from that group, if that had happened, in my hypothetical.

MR. LUKE JOHNSTON: I think you've already established that we believe they're under collected, so it would be -- it would add to that, yes.

MR. ANTOINE HACAULT: Okay. And if we go to page 100 of this -- of table 11 in the same appendix, we'll see taxi Vehicle For Hire. There, you do have data -- as you say -- and you would have used the data for territory 1), which showed, over a ten (10) year time frame, there was close to $3.5 million in reported serious loss claims.

MR. LUKE JOHNSTON: That's true.

MR. ANTOINE HACAULT: And what's happening for the passenger Vehicle for Hire, I guess, is not -- except for the fact that we look at ten (10) years for the taxis -- if the taxis had gone in in March of 2018, they'd be getting the same treatment as the passenger vehicles would because, in 2018 and 2019, there's no serious losses.

So your approach would mean that we only look at 2018/2019, even though we know -- I would suggest -- that there's a real risk that there will be a serious loss over the next ten (10) years.

MR. LUKE JOHNSTON: Well, again, I guess, the -- you know, the initial rate that we selected -- which was pegged to the all purpose rate, plus 20 percent -- I guess to your point that initial all purpose rate, it includes serious loss expectation.

And whether we got the initial rate plus the 20 percent addition exactly right or not, the initial rate was pegged to a well-established class which, to your point, has, you know, ten (10) years of serious losses and they've been smoothed and adjusted.

And that -- that's really the whole reason for -- for looking at jurisdictional scan relative to a well-established rate like all purpose.

So, true, there's been no serious losses to date, but it doesn't mean that the init -- the logic for the init -- establishment of the initial rate was -- was wrong. And -- and, you know, as you've -- as you've pointed out, the raw relativity is -- is moving this group closer to indicated values, so I -- I don't know what else I can add to that.

MR. ANTOINE HACAULT: Okay. But just before we leave this discussion, you raised premiums.

Premiums are distinct from all the costs that are incurred and claims are incurred. You need to know those claims to come up to an appropriate premium.

And the mathematical issue that's happening here is that there is zero (0) put to the passenger Vehicles for Hire, whereas your starting point, if you look -- if we go back to the first page, there is a lot of serious loss happening in that category, of which it's a subcategory.

Don't you agree, sir?

MR. LUKE JOHNSTON: Well --

MR. STEVE SCARFONE: Sorry to interject, but I thought -- maybe -- maybe I misunderstood. I thought the answered the question in that it's properly reflected in the base rate that was taken from the -- from the all-purpose.

MR. ANTOINE HACAULT: Okay, well, if -- if you think you've answered, I'm going to a look at -- at actual raw relativities and -- and kind of delve in --

MR. STEVE SCARFONE: Well, and I want Mr. Johnston, though, to -- to confirm what -- but -- but I thought -- I thought that's what he had indicated earlier.

MR. LUKE JOHNSTON: Yeah, I think -- I

think the hypothetical question that you asked was if -- if the taxi cab use had been created at the beginning of 2018 and they had no serious losses, have -- you know, have we been inappropriately rating them since that time and they -- and they've had the benefit of -- of no serious losses on their rate indication.

My point was that that initial base rate, with the -- with the load, was intended to cover the -- the required rate and not, you know, we use the all-purpose use as a -- as a base for that.

The -- it -- it's not overly shocking that -- you can see from taxi cabs, which do have a high number of claims, it's not shocking to think that there may be some volatility in -- in that result. Taxis are paying, if you average that out, I guess, about three hundred thousand dollars ($300,000) per year related to serious losses.

But again, I think the base -- establishment of the base rate is where the -- the long-run serious-loss component was built into the rating.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Okay. But -- I

think some of this discussion may be because I'm as -- not asking the questions correctly.

But built in -- currently, the way MPI analyzes the raw relativity, it assumes that there are no serious-loss costs that the passenger Vehicles for Hire have to pay.

MR. LUKE JOHNSTON: Correct.

MR. ANTOINE HACAULT: Okay. Whereas in the all-purpose passenger vehicle, and the rate that results from that, MPI allocates, based on its method, an amount to serious losses to come to the total costs that that category has to pay, correct?

MR. LUKE JOHNSTON: That's true. Both categories use the loss experience that they have. All-purpose has ten (10) years. Passenger Vehicle for Hire has two (2). And passenger Vehicle for Hire does not have any serious losses yet. That's correct.

MR. ANTOINE HACAULT: Now, I'd like to take you...

(BRIEF PAUSE)

MR. ANTOINE HACAULT: ...again to Table 6 at page 18 of the intergroup evidence as a starting point to have the next discussion. And...

(BRIEF PAUSE)

MR. ANTOINE HACAULT: ...remind us again, before we get into this discussion, what the balanced current relativity means in relation to actual claims experience.

(BRIEF PAUSE)

MR. LUKE JOHNSTON: The current relativity reflects the current premiums charged within that class. In -- in general, relativities are -- are modified over time. The current and the raw will move closer together, and then they'll be talking about the same thing, which is relative loss cost.

But in cases where, like passenger Vehicle for Hire, the current relativity, as -- as you can see on the page, reflects the fact that the current rates are not at the same level as the raw relativity. So, this would be the -- the current relative rates based on the current premiums.

MR. ANTOINE HACAULT: And -- and that's going back to my going through these tables and seeing, okay, well, this is the average that's being paid in that passenger vehicle group, and if we look at the premiums they're paying, they're paying one-point-eight-o (1.80) of whatever it was -- a thousand eighteen (1,018) was the number, I think.

That's what that balanced current relativity means?

MR. LUKE JOHNSTON: That's right, and maybe you'll go through this, but this table also shows progression, rela -- relatively quick progression from a -- a current relativity of one point six five (1.65) to one point nine two (1.92) within a short period of time. So that just demonstrates how this would work.

MR. ANTOINE HACAULT: Okay. Now, there was an answer given on the record that the current formula, which I understand would be, you take your balanced raw relativity -- that's the actual claims experience, correct?

MR. LUKE JOHNSTON: Out of the -- I just want to be clear -- out of the minimum-bias procedure, but completely reflective of the -- the loss experience of the class, set per the methodology went through a serious loss and all -- and all of that, yes, yeah.

MR. ANTOINE HACAULT: Yeah. But, okay, let's just make sure, because you said "serious losses." We've allocated zero (0) cost in that two point nine nine (2.99) number, correct?

MR. LUKE JOHNSTON: We've reflected the actual experience, which is zero (0), yes, yeah.

MR. ANTOINE HACAULT: Other classes aren't dealt with that way. That's -- is there any other class where you put zero (0) for permanent loss, sir?

MR. LUKE JOHNSTON: I'd have to check that, but that's very possible for smaller classes. As my -- my staff mentioned, there are other classes that aren't in the table because they don't have any serious losses.

MR. ANTOINE HACAULT: Okay. So in any event, the balanced raw relativity for 2021 was two point nine nine three zero (2.9930). It includes zero dollars ($0) for serious losses, and your -- the approved rate-making methodology, you'd give that number a 10 percent weighting, correct?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: So mathematically, what we do is we take that number times point one (.1), and it would give us -- instead of two point nine nine (2.99), we just move the decimal point. It would be point two nine nine three zero (.29930).

And that would be the first number because that's the first weighting that we do, correct?

MR. LUKE JOHNSTON: That would be that -- that 10 percent portion of that raw relativity, yes.

MR. ANTOINE HACAULT: Yeah. And then we went through the data, or lack thereof, that you had to produce the current rates, which was all-purpose plus twenty (20).

And to that number, in your formula, you apply 90 percent weighting, correct?

MR. LUKE JOHNSTON: Minor clarification on that. In the first -- yeah, the first GRA, I guess, where we had raw relativities, the current state of the premiums -- the current premiums were -- was one point six five (1.65), and that was increased to one point eight zero (1.80).

MR. ANTOINE HACAULT: Correct.

MR. LUKE JOHNSTON: And then you can see that it's not a perfect match, but that estimate, you know, carried forward to the following year where, obviously, the current relativity should reflect the relativity that you just calculated the year before.

It's pretty much the same number. It's -- obviously, there's going to be slight changes in the -- in the fleet. That calculation, as you described, increases the credibility-weighted relativity to one point nine two six seven (1.9267).

MR. ANTOINE HACAULT: Okay. But the mathematical reality of that formula is that it takes you more than ten (10) years -- if you continued to do that increase using a flat-balance raw relativity of say three (3), it would take you more than ten (10) years to get to three (3).

MR. LUKE JOHNSTON: It's -- in theory, you're always kind of approaching the target. The -- the weighting of the current relativity obviously includes everything that you've done in the previous years.

As you can see, we're not -- we're not weighting relative to the original rates at one point six five nine three (1.6593). We're weighting relative to a higher number. But, yeah, we'd -- you know, we had -- you know, we had to make a lot of assumptions about how long it'll take to get there.

Of course, it will depend on -- on how the loss experience comes in, higher, lower, how that changes the raw relativity over time. But each year, that new information will be given 10 percent weight relative to the current rate structure.

And then just -- just if -- to I guess stress how this works, all else equal, the relative amount that passenger Vehicle for Hire is paying is that difference between where we started at 1.65 to the current calculated amount of one point nine two six seven (1.9267), and that is 16 percent increase.

So, there are obviously other things going on the last few years -- rate decreases, capital releases and et cetera -- but the methodology is moving, it's -- the relative rates for this class. So I don't want anyone to think that that's not happening. This -- this table shows exactly that it -- that it is happening.

MR. ANTOINE HACAULT: It happens, but it doesn't happen mathematically in ten (10) years as the answer was given in the IRs, I'm suggesting to you, sir.

If I took an Excel spreadsheet and did this calculation and didn't move my balance of raw relativity but I kept it at three (3) and then the progression, I'm suggesting to you that even after twenty-five (25) years, I wouldn't have had -- reached my three (3) because there's -- the increments start to be really small.

MR. LUKE JOHNSTON: I -- I don't have that evidence in front of me. I've -- I -- I can do some math on the side, but this raw relativity, I guess you're assuming it's just going to stay the same every year for the -- for the rest of time.

That won't be true, but, given that we're always giving only partial weight, this would just move toward the target but -- but never really get there. But that doesn't mean that we're not acting appropriately.

I -- I'd have to see your -- your calculation, I guess, to comment more.

MR. ANTOINE HACAULT: No, I wasn't saying that you weren't acting in accordance with the formula, sir.

I just wanted it to be clarified for the record -- and even your own small calculation clarified this -- the move from one point six five (1.65) to one point nine two (1.92), if we were actually going to achieve 100 percent two (2) years, we shouldn't have increased by 16 percent, we should have increased by 20 percent on a straight line.

But we saw your calculation. You said in two (2) years, instead of moving 20 percent, we only moved 16 percent. So I just wanted the record to be clear that it's not going to be a straight-line increase that you get there in ten (10) years. And hopefully you've agreed with me on that.

MR. LUKE JOHNSTON: That is -- it's not -- it's not a straight-line increase that's applied in this -- in this manner, so it will not -- if we assume all things the same, it'll not get to two point nine nine three zero (2.9930) in exactly ten (10) years. It'll take longer, yes.

MR. ANTOINE HACAULT: Now, am I right, from an actuarial perspective, your preference would be to have a statistically significant data set from which to start to draw conclusions?

MR. LUKE JOHNSTON: Can -- can you repeat that again? I didn't hear the -- the --

MR. ANTOINE HACAULT: From an actuarial perspective, it would be your preference to have a statistically significant data set from which to draw conclusions.

MR. LUKE JOHNSTON: Of course, yes, yeah, yeah.

MR. ANTOINE HACAULT: In the absence of any Manitoba data set for passenger Vehicle for Hire in Manitoba in 2018, you didn't have that significant data set from which to draw conclusions, correct?

MR. STEVE SCARFONE: I think we went through the data that we collected from the other jurisdictions.

MR. LUKE JOHNSTON: I didn't -- I didn't have any Manitoba data, so statistically significant, that's easy to say that I did not have that.

CONTINUED BY MR. ANTOINE HACAULT:

MR. ANTOINE HACAULT: Okay.

MR. LUKE JOHNSTON: Yeah.

MR. ANTOINE HACAULT: Now, if we go to PUB-MPI 1-88 -- this is a table that Mr. Watchman had brought you to -- there was a question by Mr. Gabor looking at the Passenger Vehicle for Hire truck and -- and the huge variance there was in the loss ratios there.

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

MR. ANTOINE HACAULT: Yeah. You don't have any information for that data set to explain why there is that variation?

MR. LUKE JOHNSTON: Well, like my -- I

think my point was that there's twenty-seven (27) vehicles and over the course of two (2) years, so we're only averaging about thirteen (13) or fourteen (14) earned units per year.

So basically, if -- if we're lucky and no one has any claims, the loss ratio is zero. And if anybody has any claim at all, it's probably a higher percentage, especially if there's an injury.

So, yes, I would expect a significant volatility in a -- and a ten (10) to seventeen (17) unit group of vehicles.

MR. ANTOINE HACAULT: Yeah. What we saw for Passenger Vehicles for Hire, there were no serious loss claims -- serious collision claims here.

MR. LUKE JOHNSTON: The -- for -- passenger Vehicle for Hire still has injury claims. We're just saying that, to date, there's nothing we've identified as a five hundred thousand dollar ($500,000) plus claim, that's all.

MR. ANTOINE HACAULT: Thank you for that clarification.

MR. LUKE JOHNSTON: Yeah.

MR. ANTOINE HACAULT: I would suggest to you that if you see data sets that have that kind of variation from a twenty-six point two four (26.24) loss ratio for 2019 passenger Vehicle for Hire and 2012 percent (sic) for 2018, unless you understood with quite a bit of detail what was driving that, you couldn't put too much weight on that data set, could you?

MR. LUKE JOHNSTON: That's true.

MR. ANTOINE HACAULT: It -- it wouldn't have much credibility at all, I would suggest.

MR. LUKE JOHNSTON: That's correct.

MR. ANTOINE HACAULT: Yeah. Now, for passenger Vehicle for Hire, we've just seen the raw relativity around three (3) and the premium ratio for the two (2) years not having that swing.

Would that give you greater confidence in that data set as compared to the Vehicle for Hire truck?

MR. LUKE JOHNSTON: The question is would -- does passenger Vehicle for Hire data give me more confidence than the truck data?

MR. ANTOINE HACAULT: Yes.

MR. LUKE JOHNSTON: Yes, it does.

MR. ANTOINE HACAULT: Okay. And if we go to lines 16 and 17 on this same table, Figure 1 of PUB-MPI 1-88, we see the Taxi Vehicle for Hire. And in the right-hand column there is the percentages that hover around 86 percent loss ratio.

Do you see that, sir?

MR. LUKE JOHNSTON: Yes, I do.

MR. ANTOINE HACAULT: And you explained, at that level, they're basically covering their costs?

MR. LUKE JOHNSTON: That's true.

MR. ANTOINE HACAULT: Now, I'm trying to understand that. Is it at 80 percent that they meet their costs? Because we had looked at that. And -- and here I'm looking. And I see, okay, they've incurred in 2018 3.408.

MR. LUKE JOHNSTON: Yeah, I apologize. I -- I -- the -- the question posed to me was basically covering their costs.

The -- the true breakeven would be around 80 percent, maybe a little higher or lower, so slightly above that but not -- my comment was just, you know, they're -- we're not way out -- out to lunch here in terms of the --

MR. ANTOINE HACAULT: Okay.

MR. LUKE JOHNSTON: -- that -- that target but slightly above.

MR. ANTOINE HACAULT: But look at the

numbers because percentages of a big number is different than percentage of a small number.

In 2018, the claims incurred were 3.408 million and the premiums earned 3.942?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: So, on a pure number perspective, this small population, as you said, of about five hundred (500) taxis is footing a five hundred thousand dollar ($500,000) bill over and above the indicated breakeven?

MR. LUKE JOHNSTON: Yeah, they were -- they were close to the 80 percent, I -- I guess. For the -- for all the serious loss talk we just went through, they're -- you know these two (2) years don't have any serious losses in them.

So, I'll make the same point that -- that you've just made. Sure, you'll have stability in a year where you don't have any serious losses, but, as -- as you're aware, that isn't always the case, but for these two (2) years, relatively stable at 85 percent, so.

MR. ANTOINE HACAULT: Yeah, but except, sir, when you're answering it that way, you -- you're implying that you only look at two (2) years of serious losses whereas you don't look at two (2) years of serious loss for taxi.

We saw the table. You go over ten (10) years, and that's what they pay for, the ten (10) year number, not a two (2) year number, correct?

MR. LUKE JOHNSTON: I agree with you, but you are drawing my attention, I guess, to the stability of the losses in these two (2) years. I guess I assumed to make a point that they're -- they're -- you know, despite the small -- small unit size, there is some stability here.

But I'm just cautioning you that we've also gone through that there don't appear to be any serious losses in this year, so it would be more volatile in -- if that situation arose, so previous years I would expect to have perhaps more volatility.

MR. ANTOINE HACAULT: Thank you for that, sir. And for 2019, the spread between the earned premium and the incurred claims is between 4.6 million and 3.937 million for a difference of nearly seven hundred thousand dollars ($700,000), sir?

MR. LUKE JOHNSTON: That's right.

MR. ANTOINE HACAULT: And if we compare that to the passenger Vehicles for Hire, which as of 2019 have more participants, what the raw data is telling us is there's -- at line 2, 2019, there's

$1.71 million of claims incurred --

MR. LUKE JOHNSTON: Yes.

MR. ANTOINE HACAULT: -- and 1.405 premiums earned? So, that group of about seven hundred (700) or so vehicles is benefiting from about a three hundred thousand dollar ($300,000) number?

MR. LUKE JOHNSTON: The incurred is three hundred thousand dollars ($300,000) higher than -- than the premium, yes. Yeah.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: Now, sir, when we were looking at the table in the InterGroup evidence we had a 2020 number for the raw relativity. If we could go back, it's IG evidence Table 6 at page 18.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: What -- and -- and this may be on the table here. What was the raw relativity assumed as compared to the group in which they are as of 2018, when you set the rates? Is it the 1.65 number?

MR. LUKE JOHNSTON: That would have been -- yeah, that would have been our current rate structure, yes, yeah, or initial, pardon me, not current, initial.

MR. ANTOINE HACAULT: Initial?

MR. LUKE JOHNSTON: Yeah. Yeah.

MR. ANTOINE HACAULT: So, notionally, based on the environmental scan which I went through with you, MPI came up with, well, we think the relativity should be around 1.65?

MR. LUKE JOHNSTON: That's the -- essentially, the -- the fallout of that 20 percent decision. What I mean by, "the fallout of that," is we took the all-purpose rate, added 20 percent to that.

We didn't know what the actual population of vehicles would be, what the -- what those customers would drive, things like that, what territory they'd necessarily be in.

Now that we have an actual population in that group, we can calculate the current relativity and say, okay, you know, the premiums we got relative to the average premium was 1.6593.

MR. ANTOINE HACAULT: And -- and the problem which everybody's been lamenting is that, instead of getting a useful data set during COVID, you're probably not going to get another useful data set this year which will give you useful information on actual claims incurred to give you what the raw relativity indicator would be.

Is -- is that -- am I understanding that correct?

MR. LUKE JOHNSTON: Well, I guess we'll have some decisions to make in next year's hearings about how to treat this year that we've been in.

Everyone probably had some form of impact due to COVID to the extent that taxis or passenger Vehicle for Hire had a more extreme or different impact that would -- reflected in the raw relativities that -- that come through, but, obviously, I -- I don't know what those will be and I'm not in a position to say how -- how we should respond to that. But that's all I'd have to say out of that.

MR. ANTOINE HACAULT: But did I understand your evidence, sir, that it would be hard to place any credibility on data that is so affected by the COVID curve and how that's going to play out?

MR. LUKE JOHNSTON: We're -- we're not

-- yeah, we're not at next year's GRA yet, but we will have to address the question of how -- if we continue to apply the rate making methodology in the same way, as we have in the past in terms of relativities, but that's something for next years GRA. I don't -- don't know the outcome of that yet.

MR. ANTOINE HACAULT: Thank you. I'm pretty much wrapping up my questioning, members of the panel. If I -- I'll ask just one (1) quick one. And then if I could have time to review my notes, I think I'm probably wrapped up, but I may have one (1) or two (2) questions which I missed.

Before I -- I do the review of notes, I just wanted to put for the record, because we were talking about these raw relativities and where that might indicate as far as an increase, if we can bring up Taxi Coalition-MPI-2-3.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: That's where, I believe, Mr. Watchman got his -- in answer to 'E' on page 4 of 4.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: You'll see, in that response, MPI indicated that there would have to be an increase of about 56 percent.

So that's the reason we use that number, sir?

MR. LUKE JOHNSTON: That's right. When we had our discussions, we figured it'd be a -- maybe around a thousand dollar ($1,000) increase. So that's confirmed more accurately on this Information Request as one thousand one hundred and seventeen (1,117).

MR. ANTOINE HACAULT: Yeah. Okay, thank you.

If I can have my five (5) minutes to review things, please? Thank you.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Madam Chair, while we're waiting for Mr. Hacault, I can advise on one (1) of the undertakings provided this afternoon, concerning a report that was referenced in one (1) of the undertakings.

Mr. Hacault asked if we would share the report, but we've confirmed that we didn't receive a copy of the actual report that was referenced in that article.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone.

(BRIEF PAUSE)

MR. ANTOINE HACAULT: I have no further questions.

THE PANEL CHAIRPERSON: Thank you very much, Mr. Hacault.

We are scheduled to be back tomorrow morning at 9:00. And so, at this point, really the only things that we have left to deal with are any further questions by PUB counsel or the Interveners in relation to undertakings. And then, we have the -- the testimony for -- from the Taxi Coalition witnesses on Friday.

THE CHAIRPERSON: Sorry -- sorry to disappoint you, I do have some questions of Mr. Johnston, which I was going to do tomorrow morning.

THE PANEL CHAIRPERSON: I'm sorry.

THE CHAIRPERSON: Yeah. No, I've just got a few questions.

THE PANEL CHAIRPERSON: And we have

Board questions tomorrow morning. But --

MR. STEVE SCARFONE: And some re-direct.

THE PANEL CHAIRPERSON: -- the question at this point -- and some re-direct -- is whether we have significant enough number of undertakings that have been received that are going to generate questions that have been formulated and what the -- the time estimate of that is.

MR. ROBERT WATCHMAN: Yes, Madam Chair. And there's been a little bit of discussion.

I guess I should add, I believe Mr. Williams will have some cross-examination on ratemaking as well.

THE PANEL CHAIRPERSON: Once -- once we finish this panel, then we'll be moving forward.

MR. ROBERT WATCHMAN: Yes. And there are -- and I'm not certain at this moment -- but there are some undertakings that haven't been answered yet.

And there was some discussion offline concerning how we would ask the questions arising from undertakings. Whether we would start that tomorrow and continue on Friday, assuming that more undertakings might be answered over the course of tomorrow.

And now, I think there's -- there's a little bit of a -- well, not really an issue -- but a question as to if Board counsel questioned on the undertakings, would Interveners possibly follow that? Or would Interveners wait until Friday?

So I guess, it's a question of whether it's better to start questions on undertakings tomorrow, or save it all for Friday.

THE PANEL CHAIRPERSON: Well, could I ask that counsel have that discussion then and inform us.

And, my apologies, tomorrow morning, we will start with Mr. Williams' cross-examination, any questions from the Board, and then re-direct by Mr. Scarfone, and then we'll move into this next phase about the responses based on the undertakings.

MR. STEVE SCARFONE: Yes. So -- and I know that Mr. Watchman had asked MPI how long it anticipates its cross-examination of the Taxi Coalition and that won't be very long.

Mr. Guerra is preparing that, so he'll be conducting that cross-examination, but he expects to be about forty-five (45) minutes.

THE PANEL CHAIRPERSON: Okay. Thank you. We'll reconvene tomorrow morning at 9:00 then.

--- Upon adjourning at 4:31 p.m.

Certified Correct,

____

Donna Whitehouse, Ms.