MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2022/2023 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Irene Hamilton	-	Board Chairperson
Robert Gabor, Q.C.	-	Board Chair
Michael Watson	-	Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

October 18, 2021

Pages 865 to 1122

APPEARANCES

Kathleen McCandless	)Board Counsel
Robert Watchman (by Teams)	)Board Counsel
Kara Moore (by Teams)	)Board Counsel
Darren Christle	)
Kristen Schubert	)
Roger Cathcart (by Teams)	) PUB advisor
Kevin Yang (by Teams)	) PUB advisor
Blair Manktelow (by Teams)	)
Anthony Guerra	)Manitoba Public
Steve Scarfone (np)	)Insurance
Katrine Dilay	) CAC (Manitoba)
Chris Klassen (by Teams)	)
Antoine Hacault (by Teams)	) Taxi Coalition
Charlotte Meek	) CMMG
Doug Houghton (np)	)

TABLE OF CONTENTS

LIST OF EXHIBITS

LIST OF EXHIBITS

LIST OF EXHIBITS

LIST OF UNDERTAKINGS

LIST OF UNDERTAKINGS

NO.	DESCRIPTION	PAGE NO.
27	MPI to confirm the claims incurred figures at undertaking number 2 which is MPI Exhibit number 57. Confirm the numbers as provided and provide any changes, if necessary.	993
28	MPI to calculate a revised rate indication, substituting pure premium trends proposed by Oliver Wyman for the combined frequency and severity trends used by MPI to determine the overall rate indication. And use the same pure premium trends for all claim categories for each coverage and distribute the pure premium trend to severity and frequency as you best see fit.	1078
29	MPI to provide a breakdown of the 14.3 million data processing expenses and how much applies to the new standards that prevent capitalization	1117

LIST OF UNDERTAKINGS

NO.	DESCRIPTION	PAGE NO.
30	MPI to provide data over the last four (4) years where a motorcycle was involved in a collision where the driver was not the registered owner of the vehicle	1119

--- Upon commencing at 9:02 a.m.

THE PANEL CHAIRPERSON: Good morning, everyone. Ms. McCandless, are there any preliminary matters?

MS. KATHLEEN MCCANDLESS: Not that I'm aware of, unless Mr. Guerra has anything he needs to speak to this morning.

THE PANEL CHAIRPERSON: Okay. Thank you. Mr. Guerra...?

MR. ANTHONY GUERRA: Thank you, Madam Chair. I do have a few exhibits to enter onto the record, if I may. There are unfortunately a few that were supposed to be done on Friday that were -- were not able to be done, so I'm just going to read those off first.

Exhibit Number 49 for MPI is the Nova Presentation, the redacted version.

--- EXHIBIT NO. MPI-49: Redacted version of Nova Presentation

MR. ANTHONY GUERRA: MPI Exhibit Number 50 is the Rate Update, Appendix 1, as well as Investments 5, Investments 22, and Appendix 1.

--- EXHIBIT NO. MPI-50: Rate Update, Appendix 1, Investments 5 and 22

MR. ANTHONY GUERRA: MPI Exhibit Number 51 is the Financial Condition Test Chapter with Appendices 1 to 6.

--- EXHIBIT NO. MPI-51: Financial Condition Test Chapter with Appendices 1 to 6

MR. ANTHONY GUERRA: And then for -- I'd say forward is MPI Exhibit Number 52, which is MPI's response to CMMG-MPI Pre-ask Number 1.

--- EXHIBIT NO. MPI-52: MPI's Response to CMMG-MPI Pre-ask Number 1

MR. ANTHONY GUERRA: MPI Exhibit Number 53, which is MPI's response to PUB-MPI Pre-ask Number 3.

--- EXHIBIT NO. MPI-53: MPI's Response to PUB-MPI Pre-ask Number 3

MR. ANTHONY GUERRA: Exhibit Number 54, which is MPI's response to Taxi Coalition-MPI Pre-ask Number 6.

--- EXHIBIT NO. MPI-54: MPI's Response to TC-MPI Pre-ask Number 6

MR. ANTHONY GUERRA: MPI Exhibit Number 55, which is MPI's response to Undertaking Number 1 with Appendices 1 and 2.

--- EXHIBIT NO. MPI-55: MPI's Response to Undertaking Number 1 with Appendices 1 and 2

MR. ANTHONY GUERRA: MPI Exhibit Number 56, which is its response to Undertaking Number 9.

--- EXHIBIT NO. MPI-56: MPI's Response to Undertaking Number 9

MR. ANTHONY GUERRA: MPI Exhibit Number 57, which is MPI's response to Undertaking Number 2.

--- EXHIBIT NO. MPI-57: MPI's Response to Undertaking Number 2

MR. ANTHONY GUERRA: MPI Exhibit Number 58, which is MPI's response to Undertaking Number 3.

--- EXHIBIT NO. MPI-58: MPI's Response to Undertaking Number 3

MR. ANTHONY GUERRA: MPI Exhibit Number 59, which is MPI's response to Undertaking Number 4.

--- EXHIBIT NO. MPI-59: MPI's Response to Undertaking Number 4

MR. ANTHONY GUERRA: MPI Exhibit Number 60, which is MPI's response to Undertaking Number 5.

--- EXHIBIT NO. MPI-60: MPI's Response to Undertaking Number 5

MR. ANTHONY GUERRA: MPI Exhibit

Number 61, which is MPI's response to Undertaking Number 10.

--- EXHIBIT NO. MPI-61: MPI's Response to Undertaking Number 10

MR. ANTHONY GUERRA: MPI Exhibit Number 62, which is the Claims Incurred Forecast Presentation.

--- EXHIBIT NO. MPI-62: Claims Incurred Forecast Presentation

MR. ANTHONY GUERRA: And Exhibit Number -- MPI Exhibit Number 50 -- sorry, 63, which is the Rate-Making Presentation.

--- EXHIBIT NO. MPI-63: Rate-Making Presentation

MR. ANTHONY GUERRA: Thank you.

THE PANEL CHAIRPERSON: Thank you, Mr. Guerra. Would you proceed now with your next panel?

MR. ANTHONY GUERRA: Yes. Thank you. So I can advise that the next panel for our presentations this morning is the Rate-Making, Claims

Incurred, PIPP, and Weekly Indemnity Panel which is comprised of Mr. Tai Phoa, Mr. Dean Dunstone, Ms. Jing Yang -- Jing Lang, rather -- Mr. Tyler Clearwater, Ms. Cara Low as -- sorry, back-row support being Mr. Tyler Clearwater, Ms. Cara Low, Mr. Nok Li (phonetic), and Ms. Christie Wey (phonetic).

And so what I'm going to do is I'm going to ask that -- we do have a new presenter this morning: Ms. Lang. So I'm going to ask Ms. Lang if she can, after the witnesses are sworn in, to introduce herself and to provide some background information.

So at this time, Mr. Secretary, if I can ask that the witnesses be sworn or affirmed.

RATEMAKING/CLAIMS INCURRED/PIPP AND WEEKLY INDEMNITY PANEL:

JING LANG, Affirmed

TAI PHOA, Sworn

DEAN DUNSTONE, Previously Affirmed

EXAMINATION-IN-CHIEF BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Okay. Thank you very much. And, Ms. Lang, if -- you may just provide some background information about yourself and how you got to MPI, please.

MS. JING LANG: All right. Hello. My name is Jing Lang. I'm the new director of Pricing and Portfolio Management at MPI. Prior to joining MPI, I have fourteen (14) years of insurance, re-insurance, and consulting experience.

In terms of qualifications, I am a Fellow of Canadian Institute of Actuaries, a Fellow of Society of Actuaries, as well as a member of American Academy of Actuaries.

MR. ANTHONY GUERRA: Thank you, Ms. Lang. And I see before us this morning is the Claims Incurred Forecast, which is being presented by Mr. Dunstone. Is that correct?

MR. DEAN DUNSTONE: That's correct.

MR. ANTHONY GUERRA: And just to confirm, Mr. Dunstone, that this presentation will be admitted as part of your evidence this morning?

MR. DEAN DUNSTONE: That's correct.

MR. ANTHONY GUERRA: And also there will be a separate Rate-Making Presentation. Is that correct?

MR. DEAN DUNSTONE: Correct.

MR. ANTHONY GUERRA: And that was the exhibit that we had filed previously this morning,

Exhibit Number 63, I believe, correct?

MR. DEAN DUNSTONE: That's correct.

MR. ANTHONY GUERRA: And just to confirm that that will be presented immediately following the Claims Incurred Forecast Presentation?

MR. DEAN DUNSTONE: Yes, that's correct.

MR. ANTHONY GUERRA: And again that will be adopted as part of your evidence this morning, correct?

MR. DEAN DUNSTONE: That's correct.

MR. ANTHONY GUERRA: Okay. Thank you. When -- whenever you're ready, please.

MR. DEAN DUNSTONE: Good morning, everybody. Just to jump right into it, I'll be presenting today the Claims Incurred Forecast. Obviously, one (1) of the biggest items on our Statement of Operations.

But as you can see, the agenda in front of you, I'll just -- just highlight kind of the composition of claims incurred, kind of just claims incurred at a glance, what makes up claims incurred, and then I'll talk about the comparatives from our initial filing in June, the 2022 GRA filing, versus last year's rate filing in the 2021 GRA, and then really just touch on the key points in claims and the key changes that I think we'll be most interested about, which is our -- our updated COVID assumptions that -- that are affecting our '21/'22 rebate, and also the updated impacts that -- that we had put in for this rate update related to the Repair Trade Agreement.

Lastly -- lastly, I'll just -- I'll -- I'll talk about the comparative between the -- the rate update that we have filed with you earlier this month versus what we initially filed in -- in June in our initial filing.

So as we did with revenues, really this is just similar with claims. So this is just really outlining the composition of our claims incurred. Overall, MPI has approximately $1.2 billion in costs from a Basic perspective every year, and claims incurred really is responsible for about 75 percent of those.

So just to further break down claims incurred here, we see obviously collision costs are the -- are the primary contributor to -- to overall claims incurred costs, about 58 percent. And that's, you know, generally either -- either, you know, costs related to a repair or costs related to a total loss type situation.

So -- and then we have our Personal Injury Protection Plan, so -- so, you know, coverages such as income replacement, rehab expenses, medical expenses, permanent impairment payouts for any -- any personal injury. That comprises approximately 25 percent there, so maybe, you know, around 200 -- 240 million a year.

And then we have our Comprehensive coverage. So Comprehensive is -- is really, you know, any -- any claims costs that aren't collision costs are -- are really considered Comprehensive, and that can come in the form of theft, vandalism, glass claims. Hail is a large component of -- of Comprehensive claims and Other.

Lastly, Other, which is really just, you know, are -- are some of our financial provisions that go into claims incurred forecasting, as well as our property damage component there.

So, if we take a look at what we initially filed, our provisional filing in -- in June for the 2022 GRA, compared to what we had filed last year, this is what we're seeing here.

So, as you can see, the -- the numbers that jump out are certainly 2020/'21. And that can, you know, be easily explained with the favourable collision experience we had in 2021.

Of course, we all know that the -- the pandemic started in March, so -- so throughout the whole year of 2020/'21 we had favourable impacts related to COVID.

And then in 2021/'22, you can see the 52 million there. And, again, that -- that can be attributed to COVID impacts, too. So, when we filed our forecast in -- in the '22 GRA, you may -- you may remember we -- we -- our COVID assumptions at that time were a 20 percent reduction in -- in collision frequency for the first quarter in 2021/'22 and a 10 percent reduction in the second quarter of '21/'22 and then a return to normal in -- in October 1st, '21/'22.

In the rating year here, in 2022/'23, as you can see, we're about $11.2 million better. And if you can go to the next slide. There you can see the $11.2 million better favourable forecast as compared to last year. And that's, you know, primarily due to collision and Comprehensive.

As -- as I mentioned last week in -- in our rate update, you know, one (1) of the themes you're going to hear is our severity forecast. So, that -- that's contributing favourably.

We -- we had a salvage management system update in September of last year which really has been favourable for us in terms of salvage values that we've been getting on our vehicles. So, that's an offset to claim, so that has favourably impacted it.

There is some collision frequency in there. Even historically, you know, I know Mr. Johnston talked last year about collision frequency and probably does every year.

But, basically, since about 2014, we've been seeing, you know, favourable collision frequency come down, and it just continues to -- to come down below what we -- what we expected, and -- and that's not including COVID impacts; this is just in general.

Oh, my mic went off there. So, yeah. And, I mean, that's just, we -- we believe, due to obviously, you know, weather conditions, favourable winters, better summers, better driving behaviour, and, of course, technology within the vehicle, so the collision avoidance technology and, you know, backup cameras and all the -- the lane -- lane detection assistance and all the -- the safety features within a vehicle now.

The -- the other component there that's

driving that is hail. So, again, we -- we've talked about this already, but that the hail forecast is -- is favourable. So, that -- that's contributing to that 12.9 million.

There is -- it is being offset by the repair trade agreement. So, we did, in our initial filing, include a $7 million placeholder, unfavourable impact from the repair trade agreement that we expected.

So, when you put all those together, it ends up being about a $12.9 million favourable impact, so.

Unallocated loss adjustment expenses, so really just, you know, claims expenses that -- that really can't be applied to any -- any particular claim. That could be, you know, like, towing costs and -- and medical consultants that we hire and various claims or -- or costs associated with that.

The 3.4 million that you see there, that's really -- that's due to our Manitoba MHSC, or Manitoba Health Services Commission, costs. So -- because -- and we had favourable experience in -- in 2021, and we basically contractually do a five (5) year average.

So, that -- that had the impact of, you

know, being a favourable impact of 3.4 million. And then you can see the other offsetting costs there, the PIPP. You know, there's been slight movements in -- in PIPP and, basically, all other, which is -- you know, could be our internal loss adjustment expenses or -- and interest rate movements.

So, overall, compared to the '21 GRA, we're looking at about, you know, in our initial filing, 11.2 million better.

This graph in front of you, this is really overall Basic claims incurred losses. So, it's just -- it's really a twenty (20) year view of -- of Basic losses. And I thought this was an interesting graph.

You know, really it's -- it's really been close to a straight line if you look at it from 2005 to 2025. And this just shows you the increases in our -- in our overall claims -- claims costs from -- from that period of time.

So, if -- if you took an annual average growth on that, you're -- you're looking at about a 3.3 percent growth from, you know, starting about $450 million in costs in 2005. And now we're looking at -- you know, in 2025, we're forecasting, you know, almost to a billion dollars in claims costs there.

And here we are with the COVID assumptions. Again, this is one (1) of the -- the key discussion points, I believe, at this year's GRA, so just wanted to kind of further discuss this.

We had a little discussion last week, but here's the updated COVID assumption. So, this is our rate update that we filed with the Board in -- in October, earlier this month, and, you know, a large driving force behind the -- the updated rebate, as well, from 202 million to 335 million.

So, as you can see here, you know, we -- we've assumed a 20 percent below normal claims frequency, or collision counts, that we expect from August through October. And then -- and then we're going to, you know, gradually return back to normal.

So, we know that we're currently in a fourth wave. We know waves last anywhere from two (2) to four (4) months; hence, why we've, you know, ran that 20 percent, 15 percent to the end of December.

And then we start getting to our return-to-work plans going. So, we know MPI has a flexible work plan rollout that's -- that's happening in -- in January, so we're -- we're kind of going on the assumption that a lot of other businesses will be similar. I'm sure a lot are under -- are -- are already underway.

So, that's where you see the -- the gradual return back to normal. So, then we'll assume 10 percent in -- in January through February. And then, effectively, we're -- in our forecast -- in our rate update forecast, we're assuming that there will be no pandemic impacts from 2022, '23, and onward.

How did we derive these assumptions? There -- there's just a listing here. You know, some of the key areas is -- is, you know, we did discuss this with ICBC and -- and SGI, our -- our fellow like insurers. And, you know, they're -- they are assuming COVID doesn't -- doesn't impact 2022 and '23 outwards, similar to us.

We've obviously looked at the current experience. And we've had eighteen (18) months experience now of COVID, so we've taken -- you know, we take a real good look at that experience before we make any decisions here, and other areas, too.

We -- you know, we've even gone as far as looking at traffic congestion data, you know, to see -- to really understand. There's Google mobility data which -- which shows traffic congestions.

And then there's an app called TomTom which is like a GPS location services for vehicles which provides data in Winnipeg and -- and just shows, you know, that, in that area, you know, there's -- there's more people driving in residential areas, there's more people driving, you know, around in parks areas, there's less people driving to work.

So, we know that that's just all part of the support we have for these COVID assumptions.

So, if you look at just 2021/'22, and that's just going to kind of -- that -- that'll show you our experience, okay. So -- so the top line there, so that's our 2015 to 2019 average.

So, if we remove the COVID impacts, if -- if COVID did not occur, this is where we would expect to be in terms of claims frequency or number of claim counts, okay.

So, basically, on the left side there, you see that .100, that's basically, you know, ten (10) vehicles out of every one hundred (100) would be in some sort of accident, whether it be a total loss or a repairable accident.

So, the top line's where we'd expect to be without COVID. You can see the pink line there, that is the 2020/'21 experience. And, as you can see, we were significantly below what we would normally expect.

You know, we had collision counts lower, you know, when you were up to 40 percent or in excess of 40 percent in -- in 2021 there, so significant; hence -- hence, why all the rebates that we've had.

The -- the solid blue line is -- is our current experience this year, in 2021/'22, up to August there. And, yes, I mean, we are running very similar to -- to where we were last year at this time, which is kind of surprising. You think we'd kind of jump out of it a little bit, but it's very similar.

And -- and -- but we do expect that to -- to go -- you know, to be more positive and get closer to -- to normal, as you can see. If you see the dotted line, that's -- that's our remaining forecast. And you can see how it gets -- you know, that's the 20 percent, 15 percent, and the gradual return to normal, where effective, you know, April 1st, 2022, we're going to remove all the COVID impacts from the forecast.

(BRIEF PAUSE)

MR. DEAN DUNSTONE: So, what are the financial updates or the -- the dollar updates that this -- that these COVID changes have done. Just -- just by doing the rate update, by those COVID updates, basically overall have a $72 million favourable impact. So that's all, you know, part of the increased rebate. That will all form part of that.

So -- and then, it just shows you the -- the amounts. So basically, you know, with lower collision counts, obviously, they're the primary -- is the 47 million in collision. We assume a linear relationship, basically, saying, you know, if collision counts are down, well, PIPP counts will be down as well for that. So overall, we would expect the Personal Injury Protection Plan costs to be down 20 million as well.

Lastly, this is just talking about the repair trade negotiations that occurred earlier this year. As mentioned, initially, we estimated we had a $7 million placeholder in the 2022 GRA filing. And once these -- the repair trade negotiations were confirmed, you can see in the table these were the -- the actual results or actual increases that we can expect from the repair trade negotiation costs.

So if you look at the rating year, about 18 million. So, you know, we -- we forecasted seven (7), it came in at eighteen (18), so it had, like, a, you know, 1.2 percent unfavourable impact on the rate requirement for that.

So majority of the increases, you can see, are -- are -- obviously, you know -- 70 percent of the increases are due to labour rates and materials. And then, there's various other items, but I did look at, you know, masking vehicles contributed to about a $2 million increase there.

So with these updates added that changed our forecast. So this slide is just really showing our -- our rate update for claims incurred compared to what we filed in the 2022 GRA. Obviously, the big -- big change is the 66.8 million. So by updating those COVID assumptions that we previously discussed, that had overall about a $66 million favourable impact from -- from our initial column.

And then, in the rating year, if you look, we had a $6.2 million unfavourable impact as compared to what we had filed in 2022 GRA.

And this just explains the $6.2 million unfavourable impact. So as mentioned, the LV -- the repair trade negotiation was unfavourable by approximately 12 million. And then, we did update our -- our total loss severity calculation which, again, was due to the favourable experience that we continue to see from our -- our salvage sales.

The comprehensive hail forecast again for that -- that -- is offsetting $4.2 million. And, again, that's just we've had a -- you know, a favourable hail year again. So we do a ten (10) year average. So, basically, we dropped off, you know, year 10 and added another year. And that had a favourable impact of about 4 million on our forecast.

And then there's the other changes there that you see that are smaller, that have smaller impacts. So overall, about a unfavourable $6.2 million impact compared to the initial filing this year.

So, in summary, really just the key -- key stories this year for claims incurred are, obviously, the COVID-19 impacts, the repair trade negotiated impacts, and the salvage that we talked about, and the comprehensive hail. So, kind of, a theme throughout. Those are the four (4), kind of, key contributors to claims incurred. Thank you.

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

MR. ANTHONY GUERRA: I don't have any further questions for the panel on this aspect. So perhaps what I can do is we can pull up the next presentation, which is the ratemaking.

MR. TAI PHOA: Good morning, everybody. Today I'll be focusing on the ratemaking presentation and the -- let's get to the next slide.

So my agenda today is very simple. First let's talk -- first, I want to talk about the Basic rates and breakeven changes. Then I want to focus on the public major class and the motorcycle major class a little bit. Also talking about passenger Vehicle for Hire rates. Then there are some other related items related to the alternate rate scenario, selected trends, and serious loss loading.

So speaking about Basic rates, the Basic rate-making methodology is proven and stable over time. By that, we mean that -- by 'proven', we mean that we bring it to the Board year over year.

Our rate-making methodology is tested and also questions are asked, and -- and 'stable', it means that, you know, we have -- we -- we do minimal changes over time. So we generally present changes with small improvements year over year.

The required rates are determined on a break-even basis; that is, we have no profit provision and are based on accepted actuarial practice.

One (1) point that was noted is -- this

year is that our current ratemaking methodology uses the minimum bias procedure to determine relativities or rate relationships between different rating groups. MPI just wants to note that we are committed to investigating generalized linear models going -- moving forward. Next slide.

So -- so the application that we are bringing forward this year is a 2022/'23 break-even rate indication of minus 1.2 percent. That is a slight change -- no, that is a change from what was initially filed in June of minus 2.8 percent.

And a lot of -- and the main drivers of the increase of 1.6 percent is because there's a significant increase in expenses -- I believe my colleague, Mr. Dunstone, has spoken about that last week and also a lower new money yield which is the investment return that we used to discount the rating of cash flows.

So the new money yield in the initial filing was 2.46 percent, and the new money yield using the revised filing is 2.34 percent, so that's a change of about twelve (12) basis points.

So how are we going to get to the 1.2 percent? MPI is proposing some changes to vehicle premium discounts. We are increasing the discount percentages for the high -- the drivers on the higher end of the DSR scale from plus ten (10) to plus fifteen (15) -- sorry, for DSR levels plus ten (10) to plus fifteen (15).

And we're increasing those discounts anywhere between 1 to 4 percent. And what's that -- what that does is that reduces our revenues by 2.6 percent, so -- so -- and to -- also then to get to the minus 1.2 percent, we are going to increase the rates by 1.5 percent.

I know that minus 2.6 percent plus 1.5 percent is not exactly minus one point two (1.2), but that's just rounding. Next slide, please.

So this table here, it shows where that minus 1.2 percent is coming from. As you can see, when you com -- when we compare the components of the rates from last year's filing to this year's filing, there is a 2 percent increase on an undiscounted basis.

On a discounted basis, which is the required rate, is a 0.8 percent increase, and that's because the interest rates between last year's filing and this year's filing actually went up from 1.94 percent to 2.34 percent. So that's about a forty (40) basis point increase, so that's favourable for us --

or actually it's for customers, sorry.

And then, of course, if -- if the population of vehicle never changes, we won't get this nice offset which we call the upgrade. So the natural upgrade gives us an offset of minus 2 percent, and so -- so that the final rate is minus 1.2 percent.

So I want to talk a little bit about the changes to the required rate of 0.8 percent. Very little of it is driven by claims costs. As you can see, claims costs went -- including claims expenses, went up by only 0.1 percent.

I discussed a while ago the change in the new money yield from 1.94 percent to 2.34 percent, that gives us a negative 1.2 percent. And then there's some increases in operating expenses discussed last week. That gives us 0.8 percent.

There's some increases in commission with the new agreement that we have with the brokers. There's a higher commission rate for Basic, so that gives us 0.4 percent.

And then there's also a decrease in the driver premium. That's because, with the COVID-19 situation, we are anticipating higher movements up the DSR scale. What means is that less people will be paying some of the higher surcharges that we see at the bottom end of the scale, so that gives us 0.5 percent. And all other expenses gives us 0.2 percent.

So drilling down a little bit, what this means for the major classes are, you know, as shown in this table, private passenger will be very close to the indicated -- the overall indicated and minus 1.2 percent. Commercial comes in at 0.9, public at 4.8, motorcycles at 0.5, trailers at minus 8.9 percent, and off-road vehicles are relatively no change there.

So, historically, we -- historically, this table would have cut off at the overall line, the row that shows overall. And the overall would be the same as the minus 1.2 percent. However, there's a slight difference this year, which I will explain in the next slide.

So, when we -- when we model the -- the rate change, what we do is we use what we call a snapshot population of vehicles. And -- and the snapshot is taken as of November 1st, 2020. It's -- it's a very -- it's a static population, but -- and so, if -- if there were any change -- so, this year what happened, like I said a while ago, is that the COVID-19 pandemic resulted in lower collision frequency.

So, because of that what we're anticipating is that there will be some significant movements on the DSR scale, that -- that are not reflected in the snapshot picture, but will -- be -- because they only take place in 2021/'22, but will carry forward into 2022/'23.

So because of that we are anticipating that there will be a further 0.3 percent overall rate reduction. And the rate reduction is because as more people move up the scale, more people will be getting the higher discounts. And so that creates an anticipated 0.3 percent overall rate reduction. So, when we take the 0.9 and 0.3 percent reductions, then we get the minus 1.2 percent that MPI's applying for.

So, I'd like to talk with -- address a little bit the Public Major Class rate increase of 4.8 percent. That is a significantly high rate increase in the time when we are actually applying for a rate decrease.

So, there are three (3) factors that contribute to the 4.8 percent. First of all, we see a 4.4 percent increase in average costs, driven by the following three (3): 2.9 percent higher claims costs; 1.1 percent higher expenses, primarily operating expenses and commissions; and then there's a 0.4

percent lower premiums from the -- lower driver premiums.

So -- so the -- what -- whatever happens to the overall is partly reflected on the Public Major Class except the claims costs. So, the forecasted claims cost is 2.9 percent higher, which is significantly different than the overall of 0.1.

We talk about a low upgrade factor. So for the Public Major Class we are forecasting only a 0.4 percent upgrade, compared to 2.55 percent for the Private Passenger Major Class.

And then the last piece is that, in terms of the prior rate application, the 2021 required rate change was 2.8 percent. We only applied a 0.8 percent to the Public Major Class. So, we -- we're catching up a little bit. Just for reference, the Public Major Class includes the taxicab vehicle for hire, and it also includes other vehicles like U-Drive school buses; anything that generally transports members of the public.

So, I'd also like to talk about the Motorcycle Major Class. This is a -- this one continues to be -- I just want to continue to highlight the -- you know, this one continues to be affected by the new money yield that we use. 90

percent of -- like the -- the table shows 92 percent of motorcycle lost cause is PIPP. And PIPP is long-tail lines that -- that can stretch for a significant period of time, and it's very significantly affected by the change in the new money yield.

So, in -- in this year, actually, there's a favourable impact for -- for motorcycles, because the new money yield went up from 1.94 percent to 2.34 percent. So, as you can see from the table, as a result of the change, they are -- they are -- required rates actually run from -- if -- if the new money yield is still -- still at 1.94, we would have requested a 2.7, but the new money yield change -- changed to 2.34 percent, so we're only requesting 0.2 percent. So, you can see that the impact of the change is actually 2.5 percent compared to private passengers of only 1 percent.

So, why -- why is Motorcycle Major Class still increasing when they have this favourable impact? The main driver of it is because motorcycles have a very low upgrade. Essentially, what that means is the average rate of -- as a class does not change year-over-year. There's no significant movements in terms of producing more expensive motorcycles in this case or -- or motorcycles that are rated higher. So, because of that, that's why we are seeing a very small rate increase for the motorcycle major class.

So, moving on to passenger VFH rates. In Order 1/'21, Directive 10.3, the Public Utilities Board ordered that there should be consecutive rate increases of 20 percent for the Passenger VFH Major Class in the 2022/'23 and 2023/'24 GRAs, unless MPI can demonstrate that the Passenger VFH Major Class is no longer being subsidized.

So, what we've done in this 2022/'23 GRA is we look at the credibility -- sorry, we look at the relativities for the Passenger VFH Major Class. And what we decided is that we would just apply the full 100 percent credibility to the raw relatively, which means we are applying the full 100 percent credibility to the actual experience of the major class.

So, it -- and -- and then in doing so -- apart from that -- sorry, let me take that back -- let me take a short break.

(BRIEF PAUSE)

MR. TAI PHOA: Sorry. So then thereafter, we just treat the -- the Passenger VFH passenger vehicle use as a -- similar to all uses. And what we did is we let it run through the -- the steps, the experience adjustment rules, as -- as applicable to all other insurance users. And so what that resulted in is experience adjustments of 13 percent to 15 percent, depending on the territory. And then there -- there are some other factors that -- that come into play, in terms of the rates, including rate-line adjustments, rate-line offsets, rate-group offsets.

And so what we are actually seeing is a -- a rate change for the buy -- depending on the rate group and territory, between 14 and 20 percent for the Passenger VFH passenger vehicle group.

The PUB also ordered us to look at an alternate rate indication in Order 1/'21, Directive 10.6, the PUB requested that MPI provide a rate indication by major use class, including the use of interest rates at points on the yield curve, corresponding to the duration of liabilities. And I -- I just would like to talk about the current methodology first.

So, the current methodology in terms of determining investment return for ratemaking, what we use is a single point investment return of 2.34

percent to discount all the cashflows. So, the 2.34 percent corresponds to the point on the yield curve for the duration of unpaid claim liabilities as of October 1st, 2022. So -- which is the mid-point of rating year 2022/'23.

The duration on -- of unpaid claim liabilities is approximate -- is around ten-point-four-three (10.43). So, the invest -- now, the investment return used does not correspond to the duration of the cash flows for the rating year, so there's a little bit different there. When we talk about cashflows for rating year 2022/'23, we are talking about collision and comprehensive claims that have not been paid. So -- so those are included in the cashflows.

Whereas, when we're talking about unpaid claim liabilities, there is a significant proportion of that for the long-tail PIPP claims that have not been paid. So -- so, that's kind of where the difference is.

Why did we use this in the past? We've -- the rationale that we've brought forward to the PUB has always been that the -- all revenue that we receive, whether it be from the rating year or from prior years, they all get invested in the same Basic investment portfolio. So, the Basic investment portfolio -- so -- so that's kind of why we are using the 2.34 percent.

So moving along. So we -- the way we interpreted the -- so this -- this like it -- sort of discusses the way we interpreted the PUB order. So what we've done is we looked at the duration by coverage and -- and we look at the duration for the various cost components and -- and for -- for claims to be looked at it by coverages.

As you can see, the duration for income replacement is significantly long -- significantly longer than bodily injury or property damage, for example. And so what we've -- and so we've -- and so we've looked at the yield curve as well and match the investment return to the duration that we calculated.

So -- so that's kind of the investment return that we used in the alternate -- alternate risk indication scenario.

So -- what that -- once -- once we used those new rates, we see that rate -- the overall impact is approximately 2.1 percent increase in the rate indication from minus 0.2 percent to 2.1 percent.

This -- this is -- this is based on the initial filing. I don't expect the magnitude to be --

or the change to be significantly different with the updated filing, but the initial filing is -- went from minus 0.2 percent to 2.1 percent.

And, again, like I said, that's driven by the sheltered duration of cash flows. If we just look at rating year cash flows as compared to the (INDISCERNIBLE) liabilities. So that's -- when -- when your duration is shorter, that generally means a low investment return.

Moving along, we -- there -- there was some evidence provided by the CAC on selected trends, and we appreciate the evidence provided by the C -- CAC, of course.

Just to be clear, the selected trends has no impact on the overall indication. So the overall indication that we are applying for -- of -- the overall indication that we are applying for of - 1.2 percent is still the same.

The -- the -- the overall indication is -- the claims cost -- sorry, the claims cost that drive the overall indication, is based on the robust claims forecasting process that -- that MPI uses to forecast claims at the coverage level.

We look at severity, we look at frequency, we look at overall costs, by coverage, so that's a very robust process that -- that we follow in terms of the domain -- the overall claims cost.

Notwithstanding, the -- the selection of different trends definitely affect the major class rate indications, so you can see there that the indications mostly remain unchanged for the private passenger, which is -- which is usually tied to the overall.

And then, the one that benefits from this -- the most is, the commercial major class and the one that -- there's no benefit from this is the public and motorcycle major class.

Just a -- the next file I want to talk about is, sort of the serious loss loading. So, serious loss are -- is -- is -- is a very interesting piece for us as well.

It -- it -- it's a very a small number of them every year. So, we -- we see like 100 incidents a year representing less than 1 percent of total PIPP incidents.

So a serious -- just for -- if every -- just for everyone's benefit, serious loss is when the total accident benefits for an incident is greater than $500,000.

So we could have, so some examples

would be, if you had a huge truck hit a passenger vehicle and there were four (4) people in there and they all died, that's a serious loss because there were four -- all -- all those four would -- potentially receive death benefits.

Or, you could have just a vehicle crushing into a -- a light pole and, you know, the single occupant of the vehicle is seriously injured and that could be a 500,000 loss.

But the -- the point I want to highlight, is that we -- we got 100 incidents a year where the claims cost are greater than $500,000 and that's less than 1 percent of total PIPP claims.

So, the significant year-over-year variability, in terms of both the frequency and severity as well, so you -- you got years where you got seventy (70) serious losses and then you got years where you got ninety-three (93), a hundred (100) so on and so forth.

Now, sorry, can we just go back to the last slide, sorry.

So the -- so that's on the -- on -- at the high level overall basis, at the insurance use level. There are many insurance uses that don't have serious loss.

And we're not looking at just a single year. We are looking at the last ten (10) years. There are many insurance uses that don't have single loss -- serious losses and -- and that includes some of the Vehicle for Hire insurance uses, including accessible V -- VFH and limousine VFH.

Passenger VFH have had no serious losses since 2018. I recognize that it's a fairly new insurance use, but 2018 is somewhat of a -- we would consider that a mature year. But we still haven't -- we -- we haven't seen a serious loss for 2018 yet. Next slide.

So, there's -- the suggestion is that we for -- for these groups that don't have a serious loss, we need to determine sort of a serious loss loading for this insurance uses. Such an -- such a determination would be, of course, very subjective. You know, for -- for the passenger VFH example, that we cited a while ago, there has been suggested options.

We -- it could range from, you know, 428, which -- which is shown in this table, to 157. It could be lower, it could be higher.

The 428 reflects the average for taxi cab VFH. The assumption, there being that, passenger

VFH is similar to taxi cab VFH. And then there's the -- the other option that we could use the $258, which is the average for all VFH insurance uses.

Again, so this assumption here is that, all VFH insurance uses are the same. I -- this -- this -- this one is -- this -- this particular one, I believe will be highly contentious because accessible and limousine VFH have had no serious losses in the last ten (10) years.

And the 258 is really taking the 428 average for taxi cab and dividing it by a larger group of people. So that includes accessible limousine and passenger VFH.

So, so that's the 258 and then of course, that's the option of using 157 as well. 157 is the average for the public major class. Like I said a while ago, that includes rental vehicles, school buses, most of the VFH except passenger VFH.

So, that suggests that the similar operations to the public major class, so, again, like I said, that's many options. There are other options, of course, these are just the three (3) that we want to highlight.

So, MPI's position when it comes to the serious loss loading, is that we don't think that passenger VFH requires a serious loss loading.

The -- the main argument being that, it would be very subjective. So we would assume similar operations to another group and it's not reflective of the -- that is not reflective -- that might or might not be reflective of the actual passenger VFH experience.

The other thing is that, in the 2023 GRA, we are already assigning to the passenger VFH the full 100 percent credibility. We are already assigning to the passenger VFH a list for the passenger vehicle group insurance use experience adjustments between 13 percent to the maximum 15 percent.

And MPI has the option of, when we look at the 2023/'24 GRA to -- to see if we need to include for the -- for the 13 to 15 percent as directed by the PUB.

So, and -- and so that's the second reason. And, the -- the -- the third one is really -- the -- the -- the -- it's -- it's very random. Serious losses, like I say, is very random. And we are comfortable in the -- in the ratemaking, so we use longer term averages, so, you know, if -- and then we also use credibility so that rates do not fluctuate from the occurrence or non-occurrence, especially for smaller groups like passenger VFH.

Next slide. So, in summary, I just want to highlight, again, the rate indication that we are applying for which is minus 1.2 percent, which is coming from the changes to the vehicle premium discount of two point -- minus 2.6 percent. And changes to rates of 1.5 percent increase.

So, and then, of course, the MPI commits to reviewing the use of generalizing new models, in the very near future, like, we are talking about like, GENIUS (phonetic) already, figuring out how we are going to put that as part of our 2023/'24 GRA. Thank you.

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

MR. ANTHONY GUERRA: Thank you, Madam Chair. I just have a couple of questions on re-direct -- or, I'm sorry, I'm -- I'm continuing my direct.

If we can pull up slide number 5 from the Rate-Making Presentation, please.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: And, Mr. Phoa, we

heard you go through the calculations to determine at the bottom the AAP break-even required rate change of negative 1.2 percent.

Do you recall that?

MR. TAI PHOA: Yes, I do.

MR. ANTHONY GUERRA: And we've heard previously -- and I'm not sure if you've been involved in those discussions, at least monitoring them as they've happened last week, but we heard some discussion about -- about this in effect being a -- not a negative 1.2 percent decrease for customers, but a 3.8 percent increase for customers because the amount of their bill will actually be higher than it was the previous year.

Do you recall those discussions?

MR. TAI PHOA: Yes, I do.

MR. ANTHONY GUERRA: And this is a question for yourself and for the -- the panel as well; please, feel free to step in.

Would it be correct from an actu -- actuarial perspective to characterize the rate increase -- or, sorry, the rate indication this year as a 3.8 percent rate increase to customers?

MR. TAI PHOA: So I think we highlighted that a little bit last week as well, and we highlighted that in some of our responses to the GRA.

So when we -- when we look at last year's indication -- so -- so first of all, I want to acknowledge that, you know, if -- if you -- if you had a bill last year and nothing else changed for you, you probably will see a little bit of a higher bill this year. So that part is -- let me acknowledge that that's -- that's true.

From a -- from the application last year, what happened is that there's two (2) components to things. So, first of all, there's rates. And so what we did was, in that application, we applied that rates be decreased on an overall basis by minus 3.8 percent. So everybody's rates started at Point A; it went to Point B, based on the minus 3.8 percent.

So then what happened then is we said, okay, now, on all these rates, we are just going to apply a uniform 5.2 percent discount to all the rates. So let's say I started at a thousand dollars and then 3.8 percent would bring me down to ninety-six (96), approximately -- sorry, nine hundred sixty (960), approximately. And then -- and then I give another 5.2 percent, so that brings you down to about nine hundred and ten (910).

But the rate effect is just the nine sixty (960). So the -- the additional 5 percent discount, the way we've -- it's -- it's -- we -- the way it's presented -- sorry, not the way it's presented -- the understanding -- and we -- we've already explained that to the customers as well -- is that the discount that we're applying for 2021/'22 is a one (1) time discount. We made it clear to customers, and I think we sort of tried to present that at the Public Utilities Board hearing as well.

So when we look at the rates this year, when we ask what is the starting point, the starting point is actually the nine sixty (960) because rates were decreased by 3.8 percent. The remaining -- the -- the effect of the discount is -- is not part of the -- the rate consideration. The -- the discount that we applied was separate from the rate considerations. So the rate for this year actually went down 1.2 percent.

Now, like I said, I understand that the effect on the customer would be that they would actually see that they're -- that they're paying a -- more to MPI, but that's separate from the rate indication. The rate indication went down 1.2 percent.

MR. ANTHONY GUERRA: Thank you. Can we also pull up slide number 11, please, from the Rate-Making Presentation?

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Now, I just want to dive deeper into -- to this discussion here. So just to confirm, for the 2022/2023 year, is MPI applying for a rate increase of 20 percent for the Passenger Vehicle For Hire Major Class?

(BRIEF PAUSE)

MR. TAI PHOA: Sorry. I just wanted to -- sorry, so the answer to that would be no. We've -- the way we've applied it this year is that we say we will fully recognize the hundred percent credibility for -- to the raw relativity, which is the actual experience for the passenger VFH.

And then we -- we do not feel it's -- it's fair thereafter to then say apply different experience adjustment rules for them. So we said we fully recognize your -- your -- the raw relativity for the passenger VFH; thereafter, we will just apply the same experience adjustment rules.

Like I said in this slide, the experience adjustment rules led to anywhere between a 13 to 15 percent experience adjustment for the group. And then on a rate perspective, the rates actually went anywhere between 14 to 20 percent increase from the 2021/'22 rates.

MR. ANTHONY GUERRA: So when we look at the -- the top of this slide, and in particular the -- the statement from Directive 10.3, where it says that:

> "There shall be increases of 20 percent for the Passenger Vehicle for Hire Major Class in the 2022/2023 and 2023/2024 GRAs, unless MPI can demonstrate that the Passenger Vehicle for Hire Major Class is no longer being subsidized."

Is it your evidence, sir, today that the rates that MPI is requesting for the Passenger Vehicle for Hire -- fire -- excuse me, Vehicle for Hire Major Class are such that they would constitute or would not constitute a subsidization of the other classes?

MR. TAI PHOA: So first of all, let me just correct counsel a little bit. The -- the passenger -- here we're talk -- here we're talking about the passenger VFH insurance use. The passenger VFH itself is not a major class. I appreciate it's a little bit confusing, and sometimes I mix the major class with insurance uses as well.

In terms of cross-subsidization, it is -- it is my opinion that we've applied the same adjust -- experience adjustment rules fairly to the passenger VFH as we have done to all other insurance uses. These rules are -- are present -- are brought forward to -- to ensures that, you know, we don't have sig -- significant rate dislocations as a result of one year's experience or -- or significant changes from one year to another.

The issue of cross-subsidization, we would -- there will always be a certain level of cross-subsidization. However, we do feel that the way we've applied the -- the adjustment this year for the passenger VFH, that -- that the rate is sufficient for the -- the insurance use.

MR. ANTHONY GUERRA: And for the '23/'24 GRA, is MPI's evidence that a further adjustment or a further increase of 20 percent is no -

- is not required for that year, or that we simply don't have enough information at this point in time to make that determination?

MR. TAI PHOA: I believe we don't have enough evid -- evidence at this point to make that assumption, and a lot of it is also dependent on the -- the passenger -- so -- so there are a couple of things.

1. The passenger VFH group is -- is fairly new and it is still growing or at least that -- that seems to be what we've observed in the past three (3) years of experience. There is a decrease in the growth, but we feel that, you know, those who want to drive VFH are probably already registered VFH.

But again, we're not going to -- we're not -- it's really difficult to assume that because entry into driving for passenger VFH is fairly simple; you download an app and -- and then you can -- you choose drive on any day, and then you download an app and you -- and that's -- and -- and away you go. So -- so the entry to drive for passenger VFH is very simple.

So historical growth, while it's slowing down, it's still fairly high.

The other thing that of course makes it

more difficult to project here is the whole COVID-19 environment that we continue to see for this year. I know we talked about debt going down, and hopefully by the end of the year we are out of this whole COVID-19 situation. But, again, how that affects people choosing to do passenger VFH in terms of the number of rides that they can get -- and the same -- the same effect is seen for taxis and rental vehicles.

So -- so it's really hard to, sort of, make any, you know, argument that there would be a 20 percent increase or not. I would say that this is -- this -- the way we structured this year's rates is we've given -- we fully recognize the actual loss costs up to this point. And then -- and then, we will see what happens between now and the end of next year for us when we come forward with the 2023/'24.

But the option is open, so.

MR. ANTHONY GUERRA: So it's not off the table is what you're saying.

MR. TAI PHOA: That is correct. The option is not off the table. We will definitely look at it the way the PUB has ordered us to look at it. And if the evidence presents itself, then we would adjust accordingly.

MR. ANTHONY GUERRA: You also

testified about the serious loss loading and the fact that MPI has not assumed any serious losses for the passenger Vehicle for Hire insurance use, correct?

MR. TAI PHOA: That is correct.

MR. ANTHONY GUERRA: And that's based upon a history of not having any serious losses for that insurance use, correct?

MR. TAI PHOA: This is based on the short history -- three (3) years -- of not having any serious losses for the insurance use. That is correct.

MR. ANTHONY GUERRA: If the -- if the PUB were to suggest that MPI -- or direct MPI to include serious losses in the assumptions for the passenger Vehicle for Hire class, are there any other classes or uses that might also -- for purposes of -- of treating everyone equally -- also need to have that type of consideration paid to it?

MR. TAI PHOA: Yeah. So absolutely.

Like I say, there are a lot of insurance uses that don't have a serious loss in the last ten (10) years history and that includes two (2) of the four (4) -- sorry, three (3) of the four (4) VFH uses, including accessible VFH and limousine VFH.

And then, apart from that, there are

other uses which typically don't exhibit serious losses. Things like collector, for example. I believe the -- the guys who own those vehicles are a little bit more careful about how they drive, where they drive, when they drive.

And then, of course, some of the smaller classes don't have VFH so what do we -- sorry, some of the smaller classes don't have serious losses. You know, so we have to make judgment calls on what do we do with them.

So a lot of -- a lot of judgment on -- in terms of just applying the serious loss loading to the -- I believe, it's, like, twenty (20) or so insurance uses that don't have the serious losses at this point in time.

MR. ANTHONY GUERRA: And so, to ask this question conversely then: Are there any uses or classes right now where MPI is assuming a serious loss where a serious loss has not occurred in a historical period of time?

MR. TAI PHOA: No.

MR. ANTHONY GUERRA: Thank you. Those are my questions.

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

CROSS-EXAMINATION BY MS. MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you, Madam Chair. Good morning to members of the -- of the panel. Welcome back, Mr. Dunstone.

I am Kathleen McCandless. I am Board counsel and I'm going to have some questions for you this morning.

In terms of particular questions, I may or may not direct them to an individual panel member. If I don't direct them to a particular panel member, then whoever is most appropriate to answer the question can certainly proceed. Thank you.

So first, just want to go back to the change in the AAP rate indication. Can we go to MPI Exhibit 41, slide 8?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And this is from last week's rate update panel.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And you see here that the change in the AAP rate indication is due to the change in the discount rate of .3 percent --

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: -- increase?

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: A change in expenses of 1.2 percent increase?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: Change in claims incurred of a .1 percent increase?

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: Now, the original naive new money yield, as filed in the GRA -- and that's found at figure INV-3 from the filing.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. So the original naive new money yield, as seen on figure INV-3, that would be under the market bond yield 2022 GRA column, at line -- line 8.

We see the new money yield of 2.46 percent?

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: And then, in the October update, MPI Exhibit 50, Appendix 1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you, Kristen.

At page 3, we see here that at the October rate update, line 3 on -- under New Money Yield shows a 2.33 percent for naive, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And, Kristen, I apologize. There are lots of numbers for the actuarial cross. So if we could go to INV-3 of PUB-MPI Pre-ask 2.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. Appendix 2, at line 8, we see a rate of 2.17 percent under the 2022 budget for market bond yield, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And jumping back to MPI Exhibit 41, page 8.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: At the very

bottom of this slide, we see a new money yield of 2.32 percent, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And then, this morning, at Exhibit 63, page 10, there's a reference to a new money yield of 2.34 percent at page 10. The second bullet on the left-hand side of the screen.

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: So can the Corporation indicate what the new money yield is in the October update?

MR. TAI PHOA: So, I just -- that's a lot of numbers, and -- and it looks very confusing. I'll speak to the ones that I know. There is one (1) in particular that I have not seen and that we released to pre-ask -- to the pre-ask question. I would -- if -- if counsel would like me to do an undertaking for that one, I will. We can talk about it once I've -- at the end of this.

So, the actual new money yield is 2.34 percent, so that one is -- I've just confirmed with the -- the back row. The 2.33 percent that was presented earlier was -- I was -- I was advised that that is the quarter before. So, the quarter before was 2.33 percent -- sorry, let me just take that back a little bit.

The 2.34 percent is the new money yield as of October 31st, 2022, and that corresponds to the midpoint of the rating year 2022/'23. The -- so -- so the -- the new money yield at a point, based on the updated refiling, is 2.34 percent.

The quarter before was 2.33 percent. So, the -- so, the new money yield indication that was shown in the -- the -- that -- I can't remember. I wish I remembered the exhibit number, but the one that shows the various scenarios, the 2.33 percent is actually from the quarter before, so that was of June 30th, 2022. So, our apologies on the mis -- the misprint, the -- the typo on that one.

The -- and then going back to, I believe it was Exhibit 40 -- MPI Exhibit 41 -- going back to the 2.32 percent, you can see that the 2.32 percent is actually -- I think you need to update a bit some of the -- the dates there.

You can see that the 2.32 percent is actually August 31st, 2021 which is not a -- not a relevant number, I guess, because we used the one as of October 31st, 2022. Certainly we -- you know what, maybe -- maybe -- so, hopefully that provides a good enough explanation as to -- to the differences that you're seeing.

MS. KATHLEEN MCCANDLESS: So, just to summarize my understanding then. The new money yield rate used in the October rate update that feeds into the rate indication, the final rate indication was 2.34 percent?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: Given an inverse sensitivity to interest rates of about 2.4 to 2.6 percent that was demonstrated in last years GRA, would you accept that that's an accurate statement?

MR. TAI PHOA: Yeah. So basically every -- the -- the rule of thumb, sort of, is every basis point change in a -- in -- in the -- the yield is about 0. -- sorry, .025 percent change in the rate indication, yeah.

MS. KATHLEEN MCCANDLESS: And so if I'm to understand then, the -- the new money yield rate that was used, that would mean there's been a movement of negative twelve (12) basis points from the initial filing, yes?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: So, would a movement of about -- this is my lawyer math so, please, correct me -- but about -- about .3 percent in the interest rate indication appear warranted as a result?

(BRIEF PAUSE)

MR. TAI PHOA: So, if I assume a twelve (12) basis point change at 2.5 and 0.02 -- sorry, a 0.025 percent change in the rate indication, that's about 0.3 percent, yeah.

MS. KATHLEEN MCCANDLESS: Thank you. And just one (1) last question about the movement and the -- the rates. If we could go back to INV-3 from the Pre-ask 2, so Exhibit number 43. Thank you.

The 2.17 percent that we see here, is -- can you explain why that number is there?

(BRIEF PAUSE)

MR. TAI PHOA: My apologies, counsel, but I have not seen this pre-ask. This -- this is something that came from investments. Certainly, we could -- we could look into the -- into why that's 2.17 percent. It might just have to do with the timing. It might just have to do with the context of the question being asked. So, we can looking into that if you -- if you want us to?

MS. KATHLEEN MCCANDLESS: Yes, please. Thank you. So, if we could have an undertaking to advise as to the basis of the -- the new money yield rate of 2.17 percent provided in MPI Exhibit number 43?

MR. ANTHONY GUERRA: Yes, counsel.

--- UNDERTAKING NO. 21: MPI to advise as to the basis of the new money yield rate of 2.17 percent provided in MPI-43.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Now, if we could go back to MPI Exhibit 41, and I'm looking at slide 9, regarding changes and expenses from the filing, we see that there is a variance in the operating expenses from the initial filing to the rate update. And, overall, corporate expenses were down -- oh, pardon me, I'm looking at the bottom part of the screen.

The operating expenses higher than the 2022 GRA submission are due to first the budget cycle completion timing change?

MR. DEAN DUNSTONE: That's correct.

MS. KATHLEEN MCCANDLESS: The use of lean portfolio management initiatives?

MR. DEAN DUNSTONE: That's the primary driver, yes.

MS. KATHLEEN MCCANDLESS: Increased data processing costs due to ongoing initiative costs?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: Those are mainly licensing and subscription costs, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And then the very last bullet, the Corporation mentions that as Cloud adoption continues, higher expense costs expected earlier as IT services procure and the Cloud cannot be capitalized?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: Then if we could go to MPI Exhibit 52, and that's a response to a CMMG pre-ask. And the response, please, was about the increase in the data processing costs. Here the Corporation replied that:

"The increase of $14.3 million is mainly due to expensing, licensing,

and subscription costs earlier,
which can no longer be capitalized
in future years."

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And then, Kristen, could we pull up the Canadian Institute of Actuaries Standards of Practice, please. Thank you.

This is Standard 2,600. And I'm interested in page 4 of this PDF, I believe, which is Standard 2,620.11. Thank you.

Now, I'm not -- I'm not sure who among you is best to answer this question, so I'll put it to the panel.

I take it that you're familiar with the standards of practice, and in particular, 2,620.11?

MR. TAI PHOA: We try our best to keep up to date on it, yes.

MS. KATHLEEN MCCANDLESS: Thank you. And 11 reads here that:

"In selecting a provision for
expense costs, the actuary would
consider the various categories of
expense costs that are incurred,
including, as may be applicable,
residual market assessments,

statutory assessments, policy-holder
dividends, and reinsurance costs,
that expense costs may not be
directly proportional to premium,
and that one-time expense costs may
need to amortized."

Yes?

MR. TAI PHOA: That's correct.

MS. KATHLEEN MCCANDLESS: And did you consider whether the ongoing initiative costs that may not be permitted to be capitalized, part of the AIS-38 (phonetic) that was referred to in MPI Exhibit Number 41, should be amortized for rate-making purposes?

MR. DEAN DUNSTONE: I -- I wasn't involved in -- in that part of it. Michael Gandhi, of course, who -- who is testifying for expenses would -- would have that information. But certainly, yeah, we were following the guidance of AIS-38, that -- that basically directed us to expense rather than capitalize, so.

MS. KATHLEEN MCCANDLESS: This is particularly with respect to rate-making purposes though. And so I'm wondering if one (1) of the witnesses here today can expand on that?

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yeah, so, in -- in the ratemaking exercise we would have considered the amortization of the expenses, for sure.

And -- and, acknowledge the change of I -- IAS-38 to -- to direct us to expense rather than capitalize, so that would have been included in -- in the ratemaking.

MR. TAI PHOA: And just -- and just to add to what my -- Mr. Dunstone said, when -- when we look at rating -- the rating year, we need to consider all the costs associated with the rating year.

And, if for some reason, and -- and -- and if, for some reason or another, the way we've accounted for that particular expense, is to be fully recognized in 2022/'23 rating year, then that's just, then -- then we also would include that cost as part of the ratemaking exercise. I -- I -- yeah, so that's kind of...

MS. KATHLEEN MCCANDLESS: Now, with respect to the changes and claims incurred, and Mr. Dunstone you did speak about this last week.

In the evidence to date, I understand that the increase is due to the Vehicle Repair

Agreement, were about $11 million greater than anticipated.

MR. DEAN DUNSTONE: That's right.

MS. KATHLEEN MCCANDLESS: And you mentioned, in your evidence last week, that $7 million had been included has a placeholder.

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: And it -- but it ended up costing $18 million per year. Yes?

MR. DEAN DUNSTONE: That's correct.

MS. KATHLEEN MCCANDLESS: Why were the costs so much higher than the original expectation?

MR. DEAN DUNSTONE: I wasn't part of the negotiations, so I don't know the details on that. I -- I can tell you, though, that it was attributable to primarily labor and parts, where, you know, approximately 70 percent of the increase that we had of the 18 million.

And then there was various other items, but I -- I did put in there, like vehicle masking, which is just kind of preparation for painting and repairs of vehicles, so that went up about $2 million, so I can speak to the increases but, yeah, I was not a part of the negotiations, so I can't give you the kind of detail maybe you're looking for.

MS. KATHLEEN MCCANDLESS: If we go to MPI Exhibit 60, and that's the response to Undertaking 5.

Thank you. Here the Corporation was asked to provide the detail for the increase in the forecast for collision claims.

And the response was that the increase was mainly due to the revised 2021 Light Vehicle Accreditation Agreement Estimate. Yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And the impact on the '21/'22 rating year is $13.3 million.

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: That would be because not all shops are on the agreement for the entire year, is that right?

MR. DEAN DUNSTONE: I don't -- I don't know that information. No. I would have to get that for you. I'm just not sure what -- yeah -- what was finalized.

MS. KATHLEEN MCCANDLESS: And I'm not sure if your back row is looking into that now or if --

MR. DEAN DUNSTONE: If you give me a second, I'll see if I can, but I -- yeah, I'm -- I --

they won't have that information, so I -- I'm not sure what the finalized results were and if -- if that was the case, I -- I'm unaware.

MS. KATHLEEN MCCANDLESS: You also mentioned, Mr. Dunstone decreases due to hail and collision forecast assumption changes.

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And the updated forecast for hail had a $4 to $5 million favorable impact?

MR. DEAN DUNSTONE: That's correct.

MS. KATHLEEN MCCANDLESS: Based on MPI Exhibit 58, and that's Undertaking 3, at Figure 2, please Kristen. Thank you.

The impact on claims, incurred claims, for 2022 to 2025, and we would be looking at lines 16 to 19 on the far right-hand side of this figure. That impact appears to be 3.3 to $3.6 million. Yes?

MR. DEAN DUNSTONE: Yes. That's correct.

MS. KATHLEEN MCCANDLESS: And this is obviously a more precise response than the 4 to $5 million you provided last week.

MR. DEAN DUNSTONE: Yes, this is, again, I say the word 'ultimate', which comes up a lot in our claims forecasting, so this is really the, you know, the actuarial, kind of view again. I think this was discussed last year in detail, so, what I'm providing is more kind of the expected financial impacts or the accounting view of that, but they're very close and, yeah, this is more just the ultimate -- the actuarial view.

MS. KATHLEEN MCCANDLESS: And then if we review the narrative of this undertaking response and I think that's at the bottom of the first page.

Thank you. MPI has rolled forward the ten (10) year average for the claim count forecast by one (1) year to include 2021.

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: This is the first time in October rate update that MPI has rolled forward a trending period a year?

MR. DEAN DUNSTONE: For hail, yes. I -- I don't know that for sure, actually. I -- I can confirm that for you though.

MS. KATHLEEN MCCANDLESS: Subject to check --

MR. DEAN DUNSTONE: Subject to check, yes.

MS. KATHLEEN MCCANDLESS: And does MPI

intend to make this adjustment in future years?

MR. DEAN DUNSTONE: Over the past couple of years we've really expanded our -- our forecasting capabilities within the organization. We basically do a monthly forecast now and we have for the -- for the last couple of years, so we're getting better all the time at forecasting and we'll continue evolving that forecasting process every month, so we just take a month of actuals updated and if there's any, you know, we'll try detect and react to any -- any kind of changes that are there.

So, I -- I would expect that in the future DRA's, we will probably have more comprehensive changes within the forecast to get a, you know, a better -- best estimate, so to speak.

MS. KATHLEEN MCCANDLESS: Have you done this for anything else, apart from hail and collision forecasts, assumption changes?

MR. DEAN DUNSTONE: No, hail and collision, yes. That's -- then -- those were the only two (2) that were affected, yes.

MS. KATHLEEN MCCANDLESS: Given the observed volatility and -- of hail claims, would a longer time period to average the annual claim counts result in a less volatile claim frequency estimate?

MR. DEAN DUNSTONE: I think so. I think probably the longer you go, currently we use ten (10) years, but certainly if you expanded that would -- that would manage volatility possibly a little better, yes.

MS. KATHLEEN MCCANDLESS: With climate change does -- MPI anticipate more or fewer hail claims in the future?

MR. DEAN DUNSTONE: Very difficult to tell. We do know climate change is increasing and -- and becoming more prevalent within -- within, you know, globally, so to predict whether -- what that will do to our forecast is -- is very uncertain.

But certainly we want to be prepared if -- if that does happen.

MS. KATHLEEN MCCANDLESS: How does the CERP increase of the deductible from $500 to $750 affect the severity in 2021?

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yeah, so just the 2021/'22 fiscal year, we would expect at approximately a $15 million favorable impact from the CERP changes.

MS. KATHLEEN MCCANDLESS: Has that

been taken consideration?

MR. DEAN DUNSTONE: That would be captured in, I would have to confirm, but yes, that would -- that would be captured definitely in the four months actuals that we considered for -- for CERP. So, yeah, it would be -- it would be factored in.

MS. KATHLEEN MCCANDLESS: The average severity is now lower in the update than in the 2022 initial filing, was the severity trend also rolled forward a year?

MR. DEAN DUNSTONE: The severity was modified, that was due to the salvage management system, the total loss severity component, so we -- we continue to see favorable results from our salvage sale, so we -- yes, we updated it.

So, now that we have a year experience on that we've -- we'll continue to update that.

MS. KATHLEEN MCCANDLESS: And I do have a number of questions about salvage management but before I start that section, it might be a good time to take a break, Madam Chair.

MS. PANEL CHAIRPERSON: Thank you, Ms. McCandless. Yes, we'll take the morning break now and come back at quarter to 11:00, please.

--- Upon recessing at 10:30 a.m.
--- Upon resuming at 10:48 a.m.

CONTINUED BY MS. KATHLEEN MCCANDLESS:
MS. KATHLEEN MCCANDLESS: All right. Now, on to salvage management. Mr. Dunstone, I believe this is an area of questioning for you.
You had mentioned that that was one (1) of the other variances from the initial filing.
MR. DEAN DUNSTONE: Correct.
MS. KATHLEEN MCCANDLESS: And the impact seemed to be about $7 million of savings?
MR. DEAN DUNSTONE: I think it was around six (6), yes. Close.
MS. KATHLEEN MCCANDLESS: Right. So that's the $11 million starting point, and then the $3 to $4 million impact of comprehensive claims?
MR. DEAN DUNSTONE: Correct, yes.
MS. KATHLEEN MCCANDLESS: Now, if we could go to the response to Undertaking Number 3.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: That's PUB Exhibit -- or MPI Exhibit Number 58, Kristen.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: There was no mention of the Salvage Management System in this undertaking response, correct?

MR. DEAN DUNSTONE: If you don't mind, I'll just take a moment to read it. I haven't seen this one yet.

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yeah. So it -- it is -- it is factored in there. Severity for 2020 developed favourably over the following months, so that's -- that is alluding to the salvage management option sales and the -- and the favourable salvage sales. So just -- and then it just shows you how it lowered the trend rate, and it's showing the rate update and the '22 GRA.

MS. KATHLEEN MCCANDLESS: So you're paraphrasing what we see at the top of the page here in the narrative?

MR. DEAN DUNSTONE: Yeah. I think -- I think your question was: Was -- did we include these salvage management or severity impacts in the --

in the forecast? And yes we did.

MS. KATHLEEN MCCANDLESS: Thank you. Could we scroll down just slightly? I think we're looking, yes, at Figure 1, line 17, we see the incurred difference in 2023 on the far right column of -- of a decrease of 7.37 million?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And so that's consistent with what you just mentioned about the savings?

MR. DEAN DUNSTONE: That's right. That would be the -- the salvage impacts, yes.

MS. KATHLEEN MCCANDLESS: And then just back to the narrative again. The -- the trend using 2016 to '20 was updated for the updated estimate of the 2020 severity, and that's what lowered the trend rate from 4.25 percent to 2.26 percent in 2023?

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: And if we look at the 2022 GRA -- just scroll down so we can see all of Figure 1, please -- row 14, 2022 GRA, about the middle of the page, we see the average severity is six (6) -- let's see, six point seven (6.7)?

MR. DEAN DUNSTONE: Yes, I see that.

MS. KATHLEEN MCCANDLESS: And in the

rate update, the corresponding average severity is six point seven (6.7)?

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: That's a decrease of forty-two (42)?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And the prior accident years did not change by a material amount, correct?

MR. DEAN DUNSTONE: That's right.

MS. KATHLEEN MCCANDLESS: A decrease of forty-two dollars ($42), so less than a 1 percent change for one (1) accident year has changed the future trend from 4.25 percent to 2.26 percent?

MR. DEAN DUNSTONE: Yeah. And then -- I mean, yeah, 2021 is obviously factored into is that, you know, we've had another four (4) months' experience in 2021 as well. So I think we were pretty cautious probably in 2020. It was a new program. It was rolled out in September of 2020, from recollection.

So, I think just -- yeah, we were -- you know, started cautiously, and then -- and then, as -- as we get more experience, which we have a year now, that has grown now.

MS. KATHLEEN MCCANDLESS: This seems like a significant change in trend for a change in severity of under 1 percent for one (1) accident year, no?

MR. DEAN DUNSTONE: I could -- I could get further clarification. The results do look fairly reasonable to me just because we did start in 2020. So I would expect a small movement in 2020 and a much larger movement in 2021, and then growing outward. So it does look reasonable, but I can get more information if you'd like.

MS. KATHLEEN MCCANDLESS: Yes, please. If we could have an undertaking to confirm the calculations and the reasons for the change in future trend -- future severity trend from 4.25 percent to 2.26 percent.

MR. ANTHONY GUERRA: Yes, counsel.

--- UNDERTAKING NO. 22: MPI to confirm the calculations and the reasons for the change in future severity trend from 4.25 percent to 2.26 percent

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Then if we look at again Figure 1, lines 16 to 19, on the left-hand side, there under claim count.

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: There's a claim count of between a hundred and seventeen (117) and a hundred and twenty (120) claims for 2022 through to 2025, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: What is the source of the increase in the expected claim count?

MR. DEAN DUNSTONE: From -- sorry, the seventeen (17) to the twenty-four (24), is that...

MS. KATHLEEN MCCANDLESS: The one seventeen (117) to one twenty (120).

MR. DEAN DUNSTONE: Sorry, I'm just not seeing it right now. What -- what line?

MS. KATHLEEN MCCANDLESS: Line 16 to 19.

MR. DEAN DUNSTONE: Sixteen (16) --

MS. KATHLEEN MCCANDLESS: There's a difference of one seventeen (117) --

MR. DEAN DUNSTONE: Oh, I see it. I'm sorry. I apologize.

Yeah. So the rate update. So we have, oh, slight movements of -- of claim counts there. Yeah, very -- very small. I don't -- couldn't tell you what that would be at this point. I could certainly get more information on that as well, if you -- if you'd like?

MS. KATHLEEN MCCANDLESS: Yes. If we could have an explanation for the change in the projected claim count for 2022 through to 2025, as reflected in Figure 1 of MPI Exhibit Number 58, please.

MR. ANTHONY GUERRA: Yes, counsel.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 23: MPI to provide an explanation for the change in the projected claim count for 2022 through to 2025, as reflected in Figure 1 of MPI Exhibit Number 58

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Similar to comprehensive hail, MPI appears to have updated the trending exercise in the October update, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And that has not been done before?

MR. DEAN DUNSTONE: To my knowledge, no.

MS. KATHLEEN MCCANDLESS: Does MPI intend to continue this practice into the next GRA?

MR. DEAN DUNSTONE: Yes, I can see this progressing; and even further to other categories of claims, depending on what, you know, experience we -- we see in the first four (4) months of -- prior to the rate update, yes.

MS. KATHLEEN MCCANDLESS: Changes in trending in the October update do not provide much time for testing, yes?

MR. DEAN DUNSTONE: Agreed.

MS. KATHLEEN MCCANDLESS: How could additional time for reviewer verification be included in this process?

MR. DEAN DUNSTONE: We are under tight time constraints. I don't know off-the-top-of-my-head how we could make that happen. I guess if we, you know, maybe pushed -- pushed the filing up a week, if possible.

We did use July 31st actuals this year as part of our, you know, experience to build our forecast. So we possibly could move that up and maybe a week earlier we could file possibly.

MS. KATHLEEN MCCANDLESS: Is it possible for MPI to provide updated claims incurred exhibits for both comprehensive and collision that reflect the changes in the trend -- trending selections?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And, specifically, that would be an undertaking to provide updated claims incurred exhibits for comprehensive and collision Figures CI-39, CI-40, CI-66, and CI-67.

Is that possible?

MR. DEAN DUNSTONE: I'm just confirming with my back row just to make sure that is possible. I believe it is, but I'm confirm shortly here.

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Sorry, can you just give me those documents you wanted again?

MS. KATHLEEN MCCANDLESS: Yes, please. So that would be Figure CI-39, CI-40, CI-66, and CI-

67.

MR. DEAN DUNSTONE: And my back row is listening right now, so I should have a response shortly here.

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yes, that's fine.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 24: MPI to provide updated claims incurred exhibits for comprehensive and collision Figures CI-39, CI-40, CI-66, and CI-67.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now, with respect to the presentation on claims incurred that was just reviewed this morning. And that's MPI Exhibit 62. First, with respect to page 11...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you,

Kristen.

Can you explain why the light vehicle accredit -- accreditation agreement has a much more adverse impact by 2024/'25?

MR. DEAN DUNSTONE: There's probably maybe twenty (20), twenty-five (25) items on there. Labour and rate are, obviously, the -- the largest component of -- of these. But just -- just really incremental growth, I can check into. I'm -- just from looking at it, probably labour increases, probably, you know, moderate CPI increases of growth probably are applied in there.

I can -- I can confirm, but I would imagine that would be the primary driver of that.

MS. KATHLEEN MCCANDLESS: Perhaps, we could have a response by way of undertaking then, just to provide detail as to the reason for the adverse impact of the light vehicle accreditation agreement in 2024/'25?

MR. DEAN DUNSTONE: I did get confirmation from my back row that it is, indeed, due to the labour rate primarily.

MS. KATHLEEN MCCANDLESS: All right. Then I think I can withdraw that. We've got the response. Thank you.

On page 13 of your presentation, can you explain why there's -- PIPP is worse by a million dollars?

MR. DEAN DUNSTONE: Yeah, that's -- now here's where I -- I can't give you too much detail. I -- I know there as a methodology change that before this Board, I can't remember -- maybe two (2) or three (3) years ago -- maybe it was last year. And there was a methodology change to the PIPP forecasting. And that is, from my understanding, the rationale -- or reason for this small movement -- unfavourable movement.

(BRIEF PAUSE)

MR. DEAN DUNSTONE: But, again, I can get more details on that if you wish to determine what it is. But I know it is due to this change in methodology that was done.

MS. KATHLEEN MCCANDLESS: Okay. And are you aware of what the change was?

MR. DEAN DUNSTONE: It had to do with severity growth, I know that. I have very small details on that. But if you require more, I can -- I can get it.

MS. KATHLEEN MCCANDLESS: That might be helpful then, please. If we could just have -- provide detail as to the methodology change that has resulted in the $1 million unfavourable variance to PIPP.

MR. ANTHONY GUERRA: Yes, counsel. We'll give the undertaking.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 25: MPI to provide detail as to the methodology change that has resulted in the $1 million unfavourable variance to PIPP.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Property damage, internal loss adjustment expense, and other has an unfavourable impact or variance of $2.8 million?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: Can you explain why that's the case?

MR. DEAN DUNSTONE: That is primarily driven. The other would be the interest rate impacts.

So when we have movements on our claims discount rate, that is the large component. I believe it was about $4 million difference from the initial filing. So we had some small movement, some decreases in the rates, which had an unfavourable impact on the interest rate component of claims. So that -- that is the primary driver of that.

MS. KATHLEEN MCCANDLESS: Thank you. Now, I'd like to ask some questions about the impact on distribution of rate changes. So if we could go to Figure RM-20 of MPI Exhibit Number 37.

This schedule shows the percent distribution of all classification and rate adjustments. And the very first column on the left is for all vehicles combined?

MR. TAI PHOA: That is correct, counsel.

MS. KATHLEEN MCCANDLESS: And then, the remainder of the columns -- and they run into the second page of this schedule -- is broken down by class?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: If we start with all vehicles combined and ignore the removal of the capital management provision on the rate impact felt by customers for the time being, we can see, in the first column, under "all vehicles," right about the middle of the page, 58.36 percent have a rate decrease indicated, yes?

MR. TAI PHOA: Counsel, if you would permit -- if you may permit me, I just want to know if this is based on the rate update, because I'm -- it's just --

MS. KATHLEEN MCCANDLESS: Yes.

MR. TAI PHOA: -- not clear to me where this is from.

MS. KATHLEEN MCCANDLESS: Yes. This is from MPI Exhibit Number 37. So this is the rate update.

MR. TAI PHOA: Okay. Thank you very much for that. Yeah, so I will confirm the 58.36 percent, yes.

MS. KATHLEEN MCCANDLESS: Okay. 10.25 percent see no change?

MR. TAI PHOA: Yes.

MS. KATHLEEN MCCANDLESS: And that would be mainly off-road vehicle and trailers?

MR. TAI PHOA: A lot of that is driven by off-road vehicles. I would have to -- can we skip to the next page?

MS. KATHLEEN MCCANDLESS: We'll go through the record of them in a moment.

MR. TAI PHOA: Sure. Then I'll accept -- I'll accept that, subject to check.

MS. KATHLEEN MCCANDLESS: Okay. Thank you.

And then at the bottom of the first column, we see a 31.39 percent of a rate increase indicated, yes?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: Does this reflect expected movement in the DSR scale?

MR. TAI PHOA: No, this does not reflect expected movement in the DSR scale. Like I said, at -- at the granular level -- which is what this is showing right now -- we cannot -- it's very hard for us to, sort of, forecast who's going to move up and who's going to move down. So -- so this does not reflect the movement on the DSR scale.

MS. KATHLEEN MCCANDLESS: Then the second column is for private passenger vehicle?

MR. TAI PHOA: Yes, it is.

MS. KATHLEEN MCCANDLESS: And there we see that 60.53 percent will see a decrease?

MR. TAI PHOA: Yeah. Fairly close to

the overall, yeah.

MS. KATHLEEN MCCANDLESS: Point fine nine percent see no change?

MR. TAI PHOA: Yeah.

MS. KATHLEEN MCCANDLESS: And, at the bottom, 38.88 percent see an increase, yes?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: Moving over one column to commercial vehicles. Agin, about the middle of the column, we see 28.03 percent will have a rate decrease.

MR. TAI PHOA: That's correct.

MS. KATHLEEN MCCANDLESS: One (1) line below that, .04 percent see no change.

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: And then, at the bottom, second-last line, 71.93 percent will see a rate increase, yes?

MR. TAI PHOA: Agreed.

MS. KATHLEEN MCCANDLESS: Okay. Then moving again one (1) column to the right for public vehicle, about the middle of the column, 11.17 percent would see a rate decrease.

MR. TAI PHOA: That's correct.

MS. KATHLEEN MCCANDLESS: Point zero

three percent see no change.

MR. TAI PHOA: That's correct.

MS. KATHLEEN MCCANDLESS: And second to last line at the bottom, 88.8 percent will see a rate increase, yes?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: And then if we go on to page 2 of RM-20, the first column on the left is for the motorcycle class.

MR. TAI PHOA: Yes.

MS. KATHLEEN MCCANDLESS: And 46.89 percent of the class will see a rate decrease.

MR. TAI PHOA: That's correct.

MS. KATHLEEN MCCANDLESS: Point four four percent, no change.

MR. TAI PHOA: Yes.

MS. KATHLEEN MCCANDLESS: And 52.67 percent will see a rate increase.

MR. TAI PHOA: Yes.

MS. KATHLEEN MCCANDLESS: Trailers, in the middle of the page, we see 80.66 percent will have a decrease.

MR. TAI PHOA: Yes.

MS. KATHLEEN MCCANDLESS: Nineteen point two six percent, no change.

MR. TAI PHOA: Yes.

MS. KATHLEEN MCCANDLESS: And .08 percent will see an increase?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: Off-road vehicles, on the very far right, see hundred percent no change.

MR. TAI PHOA: That is correct. And just to give a bit of context to that, currently for Basic, off-road vehicles pay seven dollars ($7). So in order -- in order to actually affect a change, you have to see rate change of 10 percent or over -- 10 percent or greater, so that it will round down to the next nearest dollar, I guess.

MS. KATHLEEN MCCANDLESS: Now, if we were to take into consideration the $69 million capital release provisions that was included in the 2021/'22 rates, based on the errors in the -- in the implementation of the capital release provision -- yes, are you following me?

MR. TAI PHOA: Yes, I am. And I -- just -- just to clarify. I assume counsel is talking about the discussion last week on how we actually calculated the CMP versus -- sorry, the capital release versus what was proposed to the Public

Utilities Board last year.

MS. KATHLEEN MCCANDLESS: Correct, yes.

And is $69 million the correct amount?

MR. TAI PHOA: Based on our current estimate, $69 million is the correct amount, yes.

MS. KATHLEEN MCCANDLESS: And so, relative to the 1.022 billion of motor vehicle written premium, in 2021/'22 -- and I can take you to that reference, Mr. Phoa, if you need it, or...

MR. TAI PHOA: Subject -- yeah, so -- so yeah, you know what, I'll take the reference --

MS. KATHLEEN MCCANDLESS: Okay. That's Exhibit 37, PF-1. So we see for Basic motor vehicles 2022 'P' (phonetic), $1.022 billion of motor vehicle written premium, yes?

MR. TAI PHOA: For '21/'22, one point-o-two two (1.022), yes.

MS. KATHLEEN MCCANDLESS: Okay. And so the $69 million then relative to the amount of motor vehicle premium written, translates to about 6.75 percent, correct?

MR. TAI PHOA: Yeah. I'll take -- I'll take that number: six point seven-five (6.75).

MS. KATHLEEN MCCANDLESS: So removal

of the capital release provision would add 6.75 percent of premium back to the motor vehicle written premium, yes?

MR. TAI PHOA: I want to be very careful here. Again, noting this morning that the 6.75 percent -- sorry, the 5.2 percent of the corrected 6.75 percent is well -- well-communicated to -- to the customers as a one-time capital release.

But -- but you're right. I see where you're coming from, in that a lot of customers, as a result of the 6.5 (sic) percent not being applied this year, will see all things equal at 6.5 percent premium increase, yes.

MS. KATHLEEN MCCANDLESS: Six point seven five percent.

MR. TAI PHOA: Six point seven five percent.

MS. KATHLEEN MCCANDLESS: Okay. So combining the 1.16 percent AAP rate decrease with a 6.75 percent impact of removing the capital release provision as actually implemented by MPI, that would translate to an overall rate change of a 5.59 percent rate increase?

MR. TAI PHOA: Again, I would be -- I want to be careful here with how we are communicating this. As I -- as I said this morning, you know, and I -- and I think it's been presented here a few times, the capital release that we issued last year is a one-time thing.

Rates -- the -- the rates that we have are separate. Rates decreased 3.8 percent last year, and increased this -- and is subject to another decrease of 1.2 percent. In -- in terms of how much premium revenue MPI will collect, yes, MPI will collect the six-point-seven-five (6.75) minus one-point-one-two (1.12) as -- as described by counsel, yes.

MS. KATHLEEN MCCANDLESS: Thank you. And so, just because you have mentioned it a few times now, the CMP being a one (1) time adjustment, was -- in last year's forecast, did you include the CMP provision for only one (1) year?

Is that how it was worked into forecasting?

MR. TAI PHOA: Yeah. So, for -- for illustrative purposes last year we included the 5 percent throughout the forecast period. In actual practice what would happen is that we -- the -- the CM -- the capital release would be calculated year over year.

So, what we would do is -- if we followed the CMP rules appropriately, we would look at the MCT at the beginning of the year and then the projected MCT at the end of the rating year every -- some in the capital release for -- in terms of what was presented last year, the 5 percent year over year seemed to -- seemed to be in line with how we expect the CMP to work.

This year, I -- I believe MPI has provided evidence as to why it's not calculating a -- a capital release this year. Further details or can I -- that I -- if I recall correctly, there's a CMP panel tomorrow that I'm partly involved with as well.

So, we can talk about why the capital release is not being applied for in the 2022/'23 year. But -- but counsel is right, last year we -- in terms of illustration we showed 5 percent throughout the forecast period.

MR. DEAN DUNSTONE: And maybe I can just add to that. Like -- yeah, like in the forecast last year, and we do this every year, but we want to show the complete picture of the CMP, which shows, you know, releases out for three (3) years.

So, last year when we did present that, we wanted to show that, you know, if we used the capital release over a three (3) year period, the MCT would obtain a range -- appropriate range.

So, then this year when we come back, we basically -- now we're starting with '22/'23 and we have to reset that whole process essentially, right. So, we have to -- that was last year's presentation for illustrative purposes, how it would work if -- if we maintained that three (3) years going out.

But we know that every year we're going to come back and -- and reset the AAP (phonetic) and reset the rates, and -- and determine, you know, our capital releases again after that, or rebates.

MS. KATHLEEN MCCANDLESS: Okay. So, I'm -- just so I understand, and to summarize what I've heard, I -- I take it then that the -- the CMP provision in last year's forecast was not just for one (1) year?

(BRIEF PAUSE)

MR. DEAN DUNSTONE: It was -- yeah, it was illustrated for three (3) years. So, according -- you know, in accordance with our CMP, it is a three (3) year forecast. But really -- you know, we're just really focussing on '21/'22 last year, so that was kind of the main purpose.

MS. KATHLEEN MCCANDLESS: Okay. And do you know what the exact wording was in the invoices sent to ratepayers last year with respect to the CMP, the rate calculation?

MR. DEAN DUNSTONE: I have not had a chance to look at that. No, I do -- I do not.

MR. TAI PHOA: In all fairness, I'm sure I have it in one (1) of my emails here, but I can -- I -- I can get a -- we can try to get a sample. I -- but I believe, at least in terms of the presentation, we have a line that says, "2021 base rates" and then there's a line that sort of compares the 2021 base rates to what the customer paid in 2020.

And then there's a third separate line that clearly indicates that -- the -- the effect of the discount that was provided as a result of the capital release.

MS. KATHLEEN MCCANDLESS: I think it would be helpful if we could actually see a sample of what was sent out. If you could provide that by way of undertaking?

(BRIEF PAUSE)

MR. ANTHONY GUERRA: So, counsel, what we can provide is the -- the template that would have been provided. So, we -- we don't want to provide specific customer information, but we can provide a -- a sample template that was made available from communications and that will be the undertaking, if that's okay?

MS. KATHLEEN MCCANDLESS: Yes. Thank you.

--- UNDERTAKING NO. 26: MPI to provide a sample template that was made available from communications.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So, if we go back to figure RM-20 of MPI Exhibit 37, so that's from the rate update. Thank you, Kristen. And just to refresh your memory, because we did go on a bit of a -- I went on a big of a tangent there.

We were talking about the -- the ultimate effect of the -- the $69 million capital release translating into an overall rate change of five-point-nine (5.9) -- 5.59 percent. If we look at -- and we should go to the first page, please, I think, because we're looking at overall.

We see how many vehicles have rate decreases of 7 percent or more. That would likely be comparable to the number of vehicles that will see a premium decrease on renewal once the capital release provision has been removed.

Is that correct?

MR. TAI PHOA: Yeah, so let me see if -- just to clarify counsel's question, counsel is suggesting that all the -- that the particular group is seeing a -- a decrease between 0 and 7 percent will just be a premium in -- we will actually see a premium increase.

Is that the suggestion?

MS. KATHLEEN MCCANDLESS: Rate decreases of 7 percent or more.

MR. TAI PHOA: Yeah, I can agree to that, yeah.

MS. KATHLEEN MCCANDLESS: And so, some, I guess rough math, if you're looking at this, for all vehicles twenty-seven (27) -- 26.7 percent would show a premium decrease of 7 percent or greater in RM-20?

MR. TAI PHOA: Subject to check, I can agree with that.

MS. KATHLEEN MCCANDLESS: Okay. And that would -- that would correspond to seeing a premium decrease on renewal, yes?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: So, that would mean about 73.3 percent would see a premium increase on renewal, yes?

MR. TAI PHOA: Again, subject to check, yeah. I can agree with that.

MS. KATHLEEN MCCANDLESS: And then with private passenger, if we're looking at the same exercise then, 18.77 percent would see a premium decrease?

MR. TAI PHOA: Sure. Yeah.

MS. KATHLEEN MCCANDLESS: And 81.23 percent would see an increase?

MR. TAI PHOA: Subject to check, I agree to that.

MS. KATHLEEN MCCANDLESS: For commercial, then 4.12 percent would see a premium decrease?

MR. TAI PHOA: Sure.

MS. KATHLEEN MCCANDLESS: And 95.88 percent would see an increase?

MR. TAI PHOA: Yes.

MS. KATHLEEN MCCANDLESS: For public, .42 percent would see a premium decrease?

MR. TAI PHOA: That's right.

MS. KATHLEEN MCCANDLESS: And 99.58 percent would see an increase?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: And then on the next page, for your reference, if we look at motorcycles, 6.05 percent would then see a premium decrease?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: And 93.95 percent would see a premium increase?

MR. TAI PHOA: Yeah. Sorry, yes.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. Now, with respect to the interest impact on claims incurred, if we could go to INV-3. Thank you.

At line 4 we see for Q4 for 2021/'22, the interest rate forecast shows a claims discount rate of 2.83 percent, yes?

MR. DEAN DUNSTONE: Yes, I see that.

MS. KATHLEEN MCCANDLESS: Then if we

could go to MPI Exhibit 43, and that's PUB-MPI preask 2, and appendix 2. For the same time period, it shows 2.72 percent, yes? That's line 4.

MR. DEAN DUNSTONE: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: That would be a decrease of eleven (11) basis points.

MR. DEAN DUNSTONE: Agreed.

MS. KATHLEEN MCCANDLESS: And then if we could please jump to INV-19. And this is from the filing. It shows the expected claims duration to be ten point two (10.2) at March 2022, at line 2.

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And, at PF-2 in the filing...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you Kristen.

The provision for unpaid claims for 2021/'22 -- I think we have to scroll down. Thank you. Yes.

Provision for unpaid claims is 2.13 million.

MR. DEAN DUNSTONE: Billion.

MS. KATHLEEN MCCANDLESS: Oh, yes, billion, pardon me.

So expected movement due to an eleven (11) basis point change would be about $24 million?

(BRIEF PAUSE)

MR. THAI PHOA: Yeah, subject to check, that's so -- around the range, yeah: 24, $25 million.

MS. KATHLEEN MCCANDLESS: And this ties in fairly well to the pro forma comparative on page 19 of MPI Exhibit 47? Thirty-seven, pardon me. Did I say 47?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Page 19, please, Kristen. Thank you.

So at line 16 here, on the far right side, we see at $24.6 million impact on claims due to the interest rate impact, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: Given the

bond portfolio has a duration of about ten (10) years, why is the interest rate impact on the investment income $57 million? Fifty-seven point eight million.

MR. DEAN DUNSTONE: I'm just trying to find a reference here. But yeah, we're -- during the year, this year, we have increased our duration to bonds, so we've been selling off bonds, more or less, in the middle of the yield -- the yield curve and then purchasing longer-term bonds.

So that has had a favourable impact on our investment income for this year. And that's just -- I believe the investments panel is on Wednesday this week so they'll be able to get into more detail with that. But that is to transition to a tighter ALM strategy that we have.

So -- but at this point, that's the information I can give you.

MS. KATHLEEN MCCANDLESS: Thank you. So now onto some methodology and assumption changes in rate-making. PUB-MPI-1-78 and MPI-2-38...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Maybe we don't need 1-78. We can probably go right to 2-38, I think.

Here MPI was asked to confirm that the use of severity groups weighted by incurred amounts would reduce the rate indication by about a negative 1.4 percent.

And then, in other words, MPI was asked to confirm that changing from weighting severity group indicated trends by incurred amounts to weighting by claim counts, has increased the rate indication by about 1.4 percent overall.

And, if we go to the response at 'B', MPI indicated that was confirmed, yes?

MR. THAI PHOA: Yeah, based on the response that is confirmed.

MS. KATHLEEN MCCANDLESS: Would MPI consider this a methodology and assumption change?

MR. THAI PHOA: Yes, there would be a methodology and assumption change within the claims forecasting methodology. It's -- it's definitely not within the written methodology.

MS. KATHLEEN MCCANDLESS: And that was going to be my -- be my question. Should it have been included in RM Appendix 8, Methodology and Assumption Changes?

(BRIEF PAUSE)

MR. THAI PHOA: So, counsel, if we -- if you don't mind, I'll just ask you to repeat the question.

MS. KATHLEEN MCCANDLESS: My question was: With respect to the -- the impact of changing the weighing resulted in an overall increase in requir -- required rate level of 1.4 percent, whether that should have been -- that change in methodology and assumption should have been included in RM Appendix 8, Methodology and Assumption Changes.

MR. THAI PHOA: Yeah, I see where you're going with that one. It -- it's not really a ratemaking methodology change; it's a change to how we are forecasting claims. The methodology, or the -- the methodology or the assumptions within the ratemaking model did not change.

What we do is -- like I said this morning, we have robust claim's forecasting process and -- that sort of figures out the overall claims incurred, that then fits into the ratemaking model.

So -- so from a ratemaking perspective, it is not a change we -- it -- it is not ratemaking change.

MS. KATHLEEN MCCANDLESS: If we could go to RM-4.2.4 from the filing, please.

The claims cost component, we see at line 10 of six hundred and ninety seven dollars and eighty six cents ($697.86). That's based on the frequency and severity trends -- trend assumptions from the claims incurred section of the filing, yes?

MR. THAI PHOA: Yes. That is the -- whatever that -- whatever the final result of the claims forecast -- whatever -- whatever is the final result of the claims forecasting process, yes.

MS. KATHLEEN MCCANDLESS: And the pure premium trends -- they're discussed in RM4.3. I'm not sure we need to go there. But those pure premium trends are used to calculate the indicated major class claim's costs?

MR. THAI PHOA: Yes. So those pure premium trends are solely applicable to the major classification indications, yes.

MS. KATHLEEN MCCANDLESS: Then the major class claims costs are re-balanced to the overall claims cost component of six hundred and ninety-seven dollars and eighty-six cents ($697.86)?

MR. THAI PHOA: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: As such, the

pure premium trends could be considered to determine the allocation of the overall claim's costs to the major class level?

MR. TAI PHOA: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: Why does MPI calculate pure premium trends when it already has frequency and severity trends?

MR. TAI PHOA: What we have frequency and severity trends for the -- on an overall basis. So what we need to do is we need to figure out how -- we -- we need to figure out, as -- as counsel alluded to a while ago, how to take the overall claims and -- and distribute it to the major classes.

So from our perspective, what we do is we say we look at the pure premiums, or in this case the trend of pure premiums, and when we -- when we balance the claim's costs, we sort of keep the relationship between the pure premiums the same. So -- so that's -- that's kind of what we -- that's kind of why we need to trend the -- we -- we sort of apply trending to the major class as pure premiums.

MS. KATHLEEN MCCANDLESS: Does MPI compare the pure premium trends for each coverage to the selected frequency and severity trends?

MR. TAI PHOA: At this point, no.

MS. KATHLEEN MCCANDLESS: Now, if we go to Figure CI-14, if we look at certain of the PIPP coverages, we can compare to where there appears to be a bit of a difference between the frequency-severity and the pure premium trends.

So if we look at ultimates in CI-14, in 2022/'23 through 2025/'26 at the bottom there, in the fourth column, we see that they're going up about $4 million per year, yes? So that's from -- from ninety-nine point nine (99.9) to one-four (104), and then one-o-four (104) to one-o-eight (108), and then one-o-eight (108) to one twelve (112)?

MR. TAI PHOA: Yes, I see that.

MS. KATHLEEN MCCANDLESS: If we look at Table 6, in Part 6, RM Appendix 9 -- and I think we're going to the second page of the table.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. We see -- if we scroll down a little bit, pure premium trend of .25 percent?

MR. TAI PHOA: The indicator is 0.21 percent, but, yeah, it's likely 0.25 percent.

MS. KATHLEEN MCCANDLESS: How do you

reconcile between your projected increase in ultimates of about $4 million per year with a base of -- of about 100 million to a pure premium trend of only .25 percent?

(BRIEF PAUSE)

MR. TAI PHOA: If we can go back to the prior exhibit, just for a little while.

(BRIEF PAUSE)

MR. TAI PHOA: Okay. So the 0.21 percent is actually reflective of the historical loss trend, and is not reflective of the future loss trend of -- sorry, the future pure premium trend.

I recognize that the ultimate losses are growing in the future at 4.03 percent, but what -- what we've done is the 0.21 percent is the -- is the -- sort of the trend for the historical numbers, I -- I think the last fifteen (15) years, as -- as shown in the other exhibit.

MS. KATHLEEN MCCANDLESS: And if we look at Figure CI-18, Accident Benefits, Other, Indexed Ultimate Losses...

Thank you, Kristen. And under the 'Ultimate' column, just scrolling a little bit farther down to lines 20 to 23, we can see that they are going up about $2.4 million per year, yes, starting in 2022/'23 through to 2025/'26?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: And then if we go back to Table 6, we see a selected pure premium trend of 0 percent.

MR. TAI PHOA: That is correct. And an indicated trend based on the '06/'07 to 2021 pure premiums of minus 1.2 percent.

MS. KATHLEEN MCCANDLESS: Okay. So just to clarify, how do you reconcile between the projected increase in ultimates of about 2.4 million per year to the pure premium trend of 0 percent?

MR. TAI PHOA: Again, I say this -- this zero percent here is basically for us to trend historical numbers to current. So -- so what we're doing here is we are applying the zero percent at the major class level to trend the historical pure -- pure premiums to the current levels.

So it -- it will not -- if we went back to the prior exhibit, you will note that, historically, the -- the ultimates have fluctuated up and down. So -- so if you -- if you go -- so what this one here does is it just says, you know -- and you can see the -- the goodness of the -- the fit lines are not great at zero point one four-o-seven (0.1407).

So, again, this is just -- this is just historical numbers, as opposed -- it's bringing -- sorry, this is just the historical trend, as opposed to the future trend.

MS. KATHLEEN MCCANDLESS: Why does MPI include the COVID year for the pure premium trending?

MR. TAI PHOA: Actually, we don't, I believe, for this one. If we went down a little bit lower -- yes, let's see.

So as -- as you can see in Note C, we -- for IRI and ABO index, we've excluded those two (2) years because they sort of look significantly out of place compared to the -- the rest of history.

For accident benefits, other, non-index, it appears that the COVID-19 had no impact on the pure premiums. It looks sort of on level with everything else.

MS. KATHLEEN MCCANDLESS: I stand corrected. Thank you.

Lastly, I just wanted to ask about the

use of generalized linear models on ratemaking.

In your presentation, there was a commitment to reviewing the use of generalized linear models. What is the time frame for that review?

MS. JING LANG: This is Jing speaking. So we are committed to start looking at it as soon as possible.

MS. KATHLEEN MCCANDLESS: Does MPI have resources identified to look at this work?

MS. JING LANG: I'm really glad you brought that question up. So, historically, MPI has always had very lean resource when it comes to the insurance and risk management area, so we are looking at ways and -- secure resource in order to make this happen.

MS. KATHLEEN MCCANDLESS: Does MPI have an initial scope for this review?

MS. JING LANG: Not yet. Not yet defined.

MS. KATHLEEN MCCANDLESS: And as soon as possible can be a bit subjective, so are there actual calendar time-lines right now for this review?

MS. JING LANG: We would like to look at it as soon as possible because that's all I -- the specific I can provide at this point. To our CEO's remark on the 12th, we do want to -- looking forward, we do want to be a fast-follower of industry best practices, and this absolutely is aligned with that desire.

So I can't give you a time right now, counsel, because we currently don't have a concrete scope. I also want to manage expectations because I don't want to over-promise and under-deliver. But I can say, from an MPI perspective, we will be looking to review this, and we would like to implement it as soon as feasible.

MS. KATHLEEN MCCANDLESS: Thank you. I now have some questions on serious losses. And if we go to RM Appendix 9, we can see the serious losses for each vehicle use and territory. And that's Table 9.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Page 89 of this. Thank you.

So Table 9 shows serious losses for each vehicle use and territory in Table 9 -- in -- in this schedule, yes?

MR. TAI PHOA: That's correct,

counsel.

MS. KATHLEEN MCCANDLESS: And Table 10 shows reported losses and allocated loss adjustment expenses without hail and with ten (10) year average expected serious losses.

And that's -- and Table 10 starts at page 103. I don't know that we need to jump there quite yet.

But you would accept that's what Table 10 shows us?

MR. TAI PHOA: That is correct. And just to clarify how we adjust things.

So I'll take the 2020 accident year as an example. So what we would do is, the way we adjust for serious loss is we would figure out how much serious losses in 2020 for the use and territory combination, and we would -- we would remove that serious loss from the reported losses. And then what we would do is we would add back the ten (10) year average. So just to be -- clarify the adjustment that we do.

MS. KATHLEEN MCCANDLESS: Is there any vehicle use and territory combinations that have over $5 million of losses in Table 10 but have no serious losses?

MR. TAI PHOA: I do not have that information available right now.

MS. KATHLEEN MCCANDLESS: Subject to check, I don't believe there are any. Would you accept that or --

MR. TAI PHOA: Subject to check, yes, because again, we are looking at five (5) years -- a five (5) year period here. You could have a million dollar losses in any -- in -- in all those five (5) years, but never have a serious loss. But, subject -- since counsel has confirmed that, I will take your word for it.

MS. KATHLEEN MCCANDLESS: If we could go to Table 10 then, please. And I'm looking at the second page, that's page 104, I believe, scrolling down to "Passenger Vehicle for Hire." Yes, thank you.

And Pass -- Passengel -- Passenger Vehicle for Hire in Territory 1 currently has $3.6 million of reported loss and ALAE (phonetic) without hail?

MR. TAI PHOA: That is correct.

MS. KATHLEEN MCCANDLESS: And it will likely exceed $5 million within another year or two (2) of experience, yes?

MR. TAI PHOA: Yes, it will. I just

want to clarify that this is not just PIPP losses. This one includes collision, comprehensive losses. The way we define serious losses is that we're only looking at the reported losses for PIPP. So obviously this one here does not have a breakdown. This is just the total loss costs for passenger vehicle for Territory 1.

MS. KATHLEEN MCCANDLESS: Thank you. Many serious losses show up in the third year of development for an accident year, yes?

MR. TAI PHOA: Based on our current reserving practices, yes.

MS. KATHLEEN MCCANDLESS: Would you agree there is a good probability that by the next year there will be serious losses -- losses in the passenger VFH in Territory 1?

MR. TAI PHOA: I sort of speak -- spoke a little bit about that this morning. The 2018 year, if there was a loss where we should be fully reserving for, so if there was an actual claimant out there who is poten -- an actual claimant or claimants who are potentially seriously injured at this point, we would know about it.

Obviously, the 2018 year right now does not have any serious losses in there for Passenger

Vehicle for Hire passenger vehicle.

MS. KATHLEEN MCCANDLESS: Would you also agree that most use and territories with under $1 million of reported loss and ALAE without hail over five (5) years have a low probability of having any serious losses?

MR. TAI PHOA: Sorry, counsel. Could you repeat that question?

MS. KATHLEEN MCCANDLESS: Most use and territories with under $1 million of reported loss and ALAE without hail over five (5) years have a low probability of having any serious losses?

MR. TAI PHOA: I -- I want to be very careful about making that assumption. And the reason is because, like I say in my presentation this morning, serious losses are very random, and -- and it's not dependent on, sort of, the amount of the other losses. It's more about whether you were at the right place -- sorry, at the wrong place at the wrong time.

If -- if you just happen to be driving down the road and, you know, sudden lapse of judgment and you smack into -- and you were driving this big vehicle and you suddenly smack into somebody, that -- that could potentially result in a lot of -- a significant loss for you or a serious loss for you.

So -- so I would say that just -- and all it takes is one (1) incident, which is, kind of, why the other loss cost -- there's really no -- no relationship. I don't believe there's a relationship between the incurred loss cost that you see year over year and that one (1) incident that, sort of, throws your loss cost out of whack, I guess.

MS. KATHLEEN MCCANDLESS: Is it your view that having a serious loss loading, based on only ten (10) years of experience, for only the given use in territory, creates some potential volatility to the rating for smaller categories?

MR. TAI PHOA: If I understand counsel correctly, should we use ten (10) year -- is the question, should we use ten (10) years or should we use fifteen (15) years, should we use the longer term average?

We -- we -- that's something that we can definitely review as an improvement to the methodology. Right now -- and as in previous years -- we've always used ten (10) years to figure out the average.

Nothing is -- nothing is to say that ten (10) years is the ideal. We could certainly review the methodology to see whether we should use fifteen (15) years to, sort of, reduce the variability. Even twenty (20) years. We could, obviously. We have the data.

MS. KATHLEEN MCCANDLESS: Do you have any thoughts on how the potential rate volatility due to the presence or absence of serious losses could be reduced for the smaller categories?

MR. TAI PHOA: I think we already have that in place in terms of what -- the current ratemaking methodology. One (1) of the things that we have in place, which is crucial, is how we determine the credibility of the actual loss experience.

So we have -- for smaller groups right now, we have a minimum 10 percent credibility. So to a certain extent, we almost -- we are -- we are slow to react to any significant changes in the actual experience in terms of the rates for the -- the group.

There are other things in place as well, of course. The experience adjustments are limited to 15 percent and then there's also rate capping rules of 20 percent.

So I -- I think the current methodology -- so if I took an insurance use and it, all of a sudden, has a -- a very small insurance use and it, all of a sudden, has a large loss, given what we have in place in our current methodology, chances are the rates will not just suddenly see a significant jump that is permissible within the -- the rules that we have in place.

So, you know -- so a 20 percent is the maximum -- is the maximum cap on the rates that the PUB has ordered MPI to -- to put in place, I guess.

MS. KATHLEEN MCCANDLESS: Thank you. I'm going to move into my last area of questioning, which is COVID-19 impacts.

And if we could go to MPI Exhibit 57. That's the response to undertaking 2. MPI was asked to provide the impact of a decrease in claims frequency on Extension claims.

And the amount quoted is a decrease of 3.03 million. Yes?

MR. DEAN DUNSTONE: Yes, I see that.

MS. KATHLEEN MCCANDLESS: And That's moving from 30.3 to 27.3. Yes?

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: What's the source for the 30.3 and 27.2 million? Just for your reference, neither reconciles to the 2021/'22 claim incurred in the October update BPF-1.

And, Kristen, if you wouldn't mind pulling that up. So That's MPI Exhibit 37, BPF-1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. So we see, at line 12, net claims incurred of 78.3 million. Yes?

MR. DEAN DUNSTONE: Yes, I see that.

MS. KATHLEEN MCCANDLESS: So with neither of those reconciling to -- neither of the previous numbers reconciling to BPF-1 here, can you explain what the 30.3 million or the 27.3 million are?

MR. DEAN DUNSTONE: Can we just go back to that pre-ask, Kristen, please?

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yeah. This is the first time I've seen this undertaking response. I'm going to have to probably take that back to get you a response.

I think, overall, what it is saying is it's just -- the COVID impacts have impacted Extension favourably by about $3 million, when we include those updated COVID impacts.

But it's the 30.3 million that's throwing me off at this point, which I understand. So I think I'll have to take this back just to get a better understanding for you and I can get a response for you.

MS. KATHLEEN MCCANDLESS: Okay. So is that something you just need to look at over the break or -- and report back? Or...

MR. DEAN DUNSTONE: Yes. Yes.

MR. ANTHONY GUERRA: Sorry, counsel, I think we should probably do this by way of an undertaking as well.

MS. KATHLEEN MCCANDLESS: Just to be sure. Yes. Okay.

So just then, if MPI could, please confirm the claims incurred figures at undertaking number 2 which is MPI Exhibit number 57. Confirm the numbers as provided and provide any changes, if necessary.

MR. DEAN DUNSTONE: We'll give the undertaking. Thank you.

--- UNDERTAKING NO. 27: MPI to confirm the claims incurred figures at undertaking number 2 which is MPI Exhibit number 57. Confirm the numbers as provided and provide any changes, if necessary.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now, in the 2021 General Rate Application, as originally filed, figure CI-10.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: The estimated impacts to ultimates related to COVID-19 were $14.5 million in 2019/'20, at line 2.

MR. DEAN DUNSTONE: That's correct.

MS. KATHLEEN MCCANDLESS: And 43.6 million in 2020/'21, at line 3.

MR. DEAN DUNSTONE: That's correct.

MS. KATHLEEN MCCANDLESS: The assumption was that the savings observed during March 16, 2020 to April 15, 2020 would also be realized during the period from April 16, 2020 to May 15, 2020. Yes?

MR. DEAN DUNSTONE: That's right.

MS. KATHLEEN MCCANDLESS: And then, there were no additional savings forecast after that point.

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: And then, in last year's GRA, in the October update -- so that was MPI Exhibit 27 from the 2021 GRA. And I think it's page 28.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. Yes. We see, under Net Claims Incurred, there was a scenario here, showing a $27.8 million lower forecast for physical damage claims.

MR. DEAN DUNSTONE: Yes, I see that.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And then, the second scenario, assuming that COVID continued to Q3, on line -- on page 34.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And line 14. Showed an additional -- if we -- can we just scroll to the bottom of this page, please?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Pardon me, page 39.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So, at page 39, line 14, we see, assuming COVID continuing to Q4, an additional $32 million lower forecast than the first scenario?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: It may help if we jump back to page 34, as well.

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Can you repeat the question, counsel?

MS. KATHLEEN MCCANDLESS: I -- I appreciate I'm making you jumping around a fair bit. So, why don't we start at page 29, and line 14. So, page 29, line 14...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: The -- okay, so we have the $27.8 million lower forecast for physical damage claims from -- in MPI Exhibit 27. And then we -- we show the Q3 COVID scenarios at another $16.7 million lower than forecast, if we subtract the claims incurred for '20/'21-P (phonetic) at line 14 from the claims incurred from page 34.

I apologize. This is a lot of math on the fly.

(BRIEF PAUSE)

MR. TAI PHOA: I'm at least tracking so far with you, counsel. A $60 million decrease in the claims incurred for fiscal year 2020/'21. Sorry --

MS. KATHLEEN MCCANDLESS: Yes, the -- based on the COVID scenario impacts, right. So, Q3 versus Q4.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: That is correct, Mr. Phoa, yeah.

MR. TAI PHOA: I can confirm your numbers, yeah.

MS. KATHLEEN MCCANDLESS: And then assuming that COVID continued to Q4, so if we go to page -- and that would be showing an additional $32 million lower forecast than the first scenario, and that's based on subtracting claims incurred for 2021 on line 14 of page 39 from line 14 of page 29?

MR. DEAN DUNSTONE: Yeah, I think -- yeah, last year we ran some scenarios when we provided the rate update for you in the -- in the '21 GRA. So, yeah, because of the uncertainty of COVID, we -- yeah, ran a couple scenarios to -- to assume COVID impacts ending at the end of Q3.

And then we've ran scenarios where COVID impacts would end at the end of, you know, Q4, the end of the '21/'22 year, at that point. So, yeah, certainly -- I don't know exactly the dollar changes, but it would -- it would definitely be, you know, around $30 million per quarter, kind of thing, makes -- that's a -- a reasonable amount to me that would change, yeah.

MS. KATHLEEN MCCANDLESS: Thank you. And then in the second special rebate application that was filed last year, if we go to Figure 5 of LA-2.2 (phonetic), MPI further decreased the claims forecast from the first scenario in the October update by an additional $68.8 million as shown at line 5, yes?

MR. DEAN DUNSTONE: Yes.

MS. KATHLEEN MCCANDLESS: And that was with a forecast of seven hundred and twenty-six one-thirty-one (726,131)?

MR. DEAN DUNSTONE: That's correct.

MS. KATHLEEN MCCANDLESS: And then in this filing, so in the 2022 GRA, the claims incurred on PF-1 from the filing...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. We see at line 14 for 2021, actual 620.1 million?

MR. DEAN DUNSTONE: That's correct.

MS. KATHLEEN MCCANDLESS: So, about 106 million lower than forecast in the 2021 second special rebate application, correct?

MR. DEAN DUNSTONE: Subject to check,

yes, correct.

MS. KATHLEEN MCCANDLESS: And then as recently seen, the expected impact of COVID-19 for 2021/'22, which was previously assumed to be zero, was a $42.6 million reduction in claims incurred, as shown in Figure CI-10?

MR. DEAN DUNSTONE: Yes, correct.

MS. KATHLEEN MCCANDLESS: And then in the MPI Exhibit 37, rate update, page 20...

Thank you. We see at line 6, an additional reduction of $71.5 million in forecast claims incurred, with the assumption that there will be some impact reducing over time until the end of the year, yes?

MR. DEAN DUNSTONE: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: And then no impact thereafter, yes?

MR. DEAN DUNSTONE: Correct.

MS. KATHLEEN MCCANDLESS: So, the Corporation if of the view that its best estimate is that there will be no impact of COVID-19 on the 2022/'23 fiscal year?

MR. DEAN DUNSTONE: That is correct. At this time that is our best estimate.

MS. KATHLEEN MCCANDLESS: If you were able to attach a probability to each of the following, what would the probability be that COVID-19 will have a favourable impact on claims in 2022/'23?

MR. DEAN DUNSTONE: We -- we discussed that for sure. Discussed that with ICBC, SGI, internally. We've discussed that, certainly. Everything is uncertain. If -- if I had to make, you know, a probability guess, that's quite difficult.

I -- I think there will be permanent changes in -- in behaviours, and driving behaviours, and -- and traffic congestions in 2022 and '23 forward. I don't -- I don't know what they look like. There's still a lot of uncertainty.

Yeah, I think I mentioned before, like, you know, there's definitely lower traffic congestion. That's likely going to continue, but there's also transit ridership. Are they going to start driving or not, or when are we going to see the impact?

So, it's very -- it's too soon to really tell exactly what the overall impacts are, but there will -- you know, I'm -- I'm -- I think there will be some permanent impacts of this. We just don't know it as of yet and -- and kind of wanted to take a cautious approach at this time not to include it in

2022/'23 rate-setting just due to the uncertainty.

So, I'm -- I'm assuming we'll have something in the '23 GRA for that.

MS. KATHLEEN MCCANDLESS: And appreciating that it's not built into the forecasting, does MPI still have sort of a best guess as to what that impact might be in dollar terms?

MR. DEAN DUNSTONE: I don't at this time. I mean, it -- it's very difficult to tell. Maybe 5 percent, maybe -- maybe not, kind of thing. But it would be marginal at this point, I would think.

MS. KATHLEEN MCCANDLESS: And so I take it then your view is that there's a low probability that COVID-19 will have no impact on claims in 2022/'23?

MR. DEAN DUNSTONE: That's one (1) way of putting it, certainly. Yeah. And I -- and I just don't know the magnitude and the direction at this point.

MS. KATHLEEN MCCANDLESS: And what's the likelihood that COVID-19 would have an unfavourable impact on claims in 2022/'23?

MR. DEAN DUNSTONE: Probably highly unlikely. There -- there will be some, probably. Unlikely.

MS. KATHLEEN MCCANDLESS: Thank you. Thanks for your time. Those are all my questions for you.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you very much, Ms. McCandless. We'll break for lunch right now. Could we come back, please, at a quarter after 1:00. Thank you.

--- Upon recessing at 12:04 p.m.
--- Upon resuming at 1:17 p.m.

THE PANEL CHAIRPERSON: Good afternoon, Ms. McCandless.

MS. KATHLEEN MCCANDLESS: Thank you Madam Chair. Before we resume with cross-examination, I just wanted to note that there were two (2) documents that I put to the panel during cross-examination, that I would ask be added as exhibits. So Exhibit PUB Number 23 would be Figure CI-10 from the 2021 GRA and Exhibit PUB Number 24 would be MPI Exhibit Number 27 from the 2021 GRA.

--- EXHIBIT NO. PUB 23: Figure CI-10 from the 2021 GRA

--- EXHIBIT NO. PUB 24: MPI Exhibit No. 27 from the 2021 GRA

MR. ANTHONY GUERRA: Madam Chair, if I may just have a second, as well --

THE PANEL CHAIRPERSON: Certainly.

MR. ANTHONY GUERRA: -- couple of housekeeping questions. So first of all, I'd like just to apologize to one of our back row supports, Ms. Lee, who I unfortunately referred to her as Mr. Lee. So it is in fact Ms. Lee and I apologize for -- for mispronouncing her title.

And also, there was a correction that was made to MPI Exhibit Number 27, just to correct the correction for the wrong appendix number. So, the content of the document is -- is the same, but there was a fresh version that was filed to -- to address that appendix number error.

And then finally, there are a few additional MPI exhibits to file this afternoon, starting with MPI Exhibit Number 64, which is MPI's response to Undertaking Number 6.

MPI Exhibit Number 65, which is its response to Undertaking Number 8.

MPI Exhibit Number 66, which is its response to Undertaking Number 13.

MPI Exhibit Number 67, which is MPI's response to Undertaking Number 14.

MPI Exhibit Number 68, which is MPI's response to Undertaking Number 15.

And the Board will note that in the exchange that just followed up, there was an undertaking given to provide a copy of the Annual Statement and Renewal Notice Template that went out to customers last year, and that's going to be filed as MPI Exhibit Number 69.

We don't have a copy of the Undertaking number yet, so what will happen is tomorrow, when we do have a copy of the undertaking, we'll simply file it with reference to MPI Exhibit Number 69, as being the answer to the undertaking.

--- EXHIBIT NO. MPI-64: MPI's response to Undertaking Number 6.

--- EXHIBIT NO. MPI-65: MPI's response to Undertaking Number 8.

--- EXHIBIT NO. MPI-66: MPI'S response to Undertaking Number 13.

--- EXHIBIT NO. MPI-67: MPI's response to Undertaking Number 14.

--- EXHIBIT NO. MPI-68: MPI's response to Undertaking Number 15.

--- EXHIBIT NO. MPI-69: Copy of the Annual Statement and Renewal Notice Template.

THE PANEL CHAIRPERSON: Thank you, Mr. Guerra. Ms. Dilay...?

MS. KATRINE DILAY: Thank you, Madam Chair. Before starting my cross-examination of this panel, I do also have an exhibit to file on the record.

Late last week, I believe, on Thursday, we circulated a copy of Exhibit CAC-7, which is a revised response to the IR PUB-CAC-1-3 and we've also provided some paper copies, to those present in the hearing room today.

--- EXHIBIT NO. CAC-7: A revised response to IR PUP-CAC-1-3

CROSS-EXAMINATION BY MS. KATRINE DILAY:

Good afternoon MPI Panel. My name is Katrine Dilay. I am the legal counsel for the Manitoba Branch of the Consumers Association of Canada. It's very nice to be with you this afternoon.

I have five (5) general topics of questions. I -- I think what I'll do is pose the question generally and then the witness who would be best suited to answer could respond, and then we can continue as with the follow-up questions with that witness.

So my first topic will have to do with actuarially assumptions. We can go to a reference if you'd like, but would it be correct to say, that consistent with Section 1620.21 to 1620.23 of the Standards of Practice of the Canadian Institute of Actuaries, the application of trend rates is a two (2) step process for MPI?

MR. TAI PHOA: If you -- if you don't mind, can we just pull up the reference, if possible?

MS. KATRINE DILAY: Sure. And maybe -- maybe what I'll do is actually -- so we could pull up the reference, Kristen, if that would work.

So it's the Section 1620.21 and maybe what we can do is instead of -- instead of the question I just posed, maybe I'll get you to agree that in terms of the application of trends for MPI, would the first step be that past trends reflects observed changes in cost conditions that have taken place?

MR. TAI PHOA: Yes, this is correct.

MS. KATRINE DILAY: And would a second step be that future trends reflect changes in cost conditions expected to occur between the end of the experience period and the period the new premiums will be in effect?

MR. TAI PHOA: Yes, this the whole two -- two (2) step trending process that you mentioned about a few seconds ago. Yeah.

MS. KATRINE DILAY: Thank you. So in other words, past trend rates reflect the cost level changes that occurred during the experience period, and future trend rates reflect those changes, as well as the likelihood that those patterns may change?

MR. TAI PHOA: Yes, I would agree with you. Yeah.

MS. KATRINE DILAY: And you'll agree

that actuaries apply trend factors to address estimates based on the experience claim, claims incurred, to cost levels anticipated during the policy period covered under the proposed rate program?

MR. TAI PHOA: Sorry, can you repeat that again?

MS. KATRINE DILAY: For sure. You'll agree that actuaries apply trend factors to adjust estimates based on the experience, claims incurred, to cost levels anticipated during the policy period covered under the proposed rate program?

MR. TAI PHOA: Yes, I would agree. Basically if I may reword that a little bit, based on my understanding, what you're saying is we look at the historical experience and then we trend it forward, based on our expectation of what the future -- what the future trend looks like. Sounds about right?

MS. KATRINE DILAY: Yes. Exactly. And so the future, I think you just referred to the future period, so that would be the policy period that is covered under the proposed rate program.

MR. TAI PHOA: Agree.

MS. KATRINE DILAY: So all else being equal, the higher the selected trend rates, the higher the rate level indication. Would that be pair --

fair?

MR. TAI PHOA: That is fair. Yeah.

MS. KATRINE DILAY: And, generally speaking, would you agree that trend rates are a material assumption in the development of a rate proposal?

MR. TAI PHOA: I would agree. It's -- is -- that selecting trends are -- are important and how we select the trend is very important as well. And we, in terms of claims, on an overall basis, we -- we -- we do have a robust claims incurred -- sorry, claims forecasting process.

And -- and then -- in -- in those processes we -- we definitely look at historical trends, we try and figure out what the new trend is going to look like. We try and adjust for other changes, for example, as my -- as Mr. Dunstone alluded to this morning, things like the changes to the LBAA Agreement.

Things like changes to -- as a result of COVID. So, so yeah, we have a very robust process in terms of trend selection that we do for -- that we do for claims and I do believe, we also do the same for expenses and for revenue.

MS. KATRINE DILAY: Thank you. You'll

agree that pure premium trends, also known as lost -- lost cost trends, are a critical assumption in the determination of rate level indications?

MR. TAI PHOA: Yes, I do agree. We -- we use the pure premium trends at the major classification level.

MS. KATRINE DILAY: And just referring back to my question, can you describe the difference between loss cost trends and pure premium trends?

MR. TAI PHOA: So the way I understand it is that loss cost trends, basically you're looking at various factors. You're looking at frequency and how that's changing, and the frequency is just the number of claims per unit and how that's changing. You are also looking at what we call 'severity' which is how much each -- each claim will cost, and you're looking at historically how that's growing and trying to forecast how they will grow in the future.

You could also be looking at just overall costs, and not necessarily looking at frequency and -- and severity, but just looking at overall costs and -- and getting a sense of how that's growing.

And from an actuarial perspective, what you would do once you have looked at all these different trends is then you'd kind of say: Does that make sense? Do -- do the numbers reconcile?

So what I mean by that is that, whatever you select in terms of frequency and severity trends, if you select them separately, the -- the number should reconcile to what you would have done -- done if you just said, How do I look at loss cost -- overall loss cost growing year over year?

Pure premium trends is -- is -- pure premiums is just the total losses over units. So -- so it's really the product of frequency and severity. So if you took frequency and multiplied by severity, you should technically get the pure premium.

So again that's -- that's just what the pure premium trend looks like.

So, yeah, instead of looking at frequency and severity separately, you're looking at how the pure premiums changed from one (1) year to another, and then you're trending for the pure premium.

MS. KATRINE DILAY: Thank you for that answer. So I think what you just referred to pure premium trends -- and you'll correct me if I'm wrong -- pure premium trends being frequency multiplied by severity?

MR. TAI PHOA: Yeah. So pure premiums is just the losses -- really just the losses over the units. So -- so that's -- so basically it's an average loss, I guess, to put it differently, yeah. But it's -- but you -- you get -- you should get the same thing by taking the product of the frequency and severity, yes.

MS. KATRINE DILAY: And so would you agree that there -- there would be no difference between the loss cost trends and the pure premium trends when the exposure base is not cost or inflation sensitive?

MR. TAI PHOA: There -- there would potentially be differences, and that's because, you know, when -- when you -- when you're trending a set -- so when you're trending different sets, generally, you know, you -- you hope that at the end of the day, you know, your trend -- your -- your trends will -- will sort of reconcile and add up to each other. But of course, when you're -- when you're looking at the trend, you know, there -- there's -- often what you hope for is minor differences.

Like -- so -- so if I took -- if I took a ten (10) year trend for pure premiums, and I took a ten (10) year trend for frequency and severity, I'm hoping that, you know, at the end of the day, when I multiply the two (2) of them, they would give me the -- the pure premium trend. That might not always be the case. I -- so -- so I'm -- I'm just going to be very -- I want to be careful about saying that they will always be the same. Yeah.

MS. KATRINE DILAY: I think what you're saying, and you'll agree with me, is that there should be rare occasions where they're not the same, and in -- on those occasions, you would hope that the differences would be small? Would that be -- would that be fair?

MS. JING LANG: Sorry, we need a second.

(BRIEF PAUSE)

MS. KATRINE DILAY: Okay. We're back.

MR. TAI PHOA: Sorry, Ms. Dilay. I just want to step back a little bit.

My understanding of loss costs, or at least one (1) conferring with, you know, my -- sorry, Ms. Lang and my back row, is that at least -- at least, you know, my understanding of loss cost is that it's just synonymous with -- with pure premiums.

I -- I would appreciate if poten -- poten -- if -- if you could -- if -- if you have a different understanding of what loss cost is, a different understanding of loss cost, because loss cost is just basically like the frequency multiplied by the severity, which is -- which is the same as the pure premium. So -- so in that sense, they're not the same -- they are the same thing, so.

MS. KATRINE DILAY: Thank you. And that -- that was what I was hoping to confirm, so that's -- thank you for that response.

MR. TAI PHOA: Yeah. And I apologize for the nervousness.

MS. KATRINE DILAY: No problem at all. And I -- and I appreciate the detail that you are providing us.

So we're going to move on a little bit, which I think will be beneficial for -- for me definitely. You'll agree that, in terms of MPI's estimation of trends, MPI fits regression models?

MR. TAI PHOA: Yes, we do.

MS. KATRINE DILAY: And you'll agree that regression model is a statistical technique for fitting a curve to a set of data points?

MR. TAI PHOA: I would agree with you.

MS. KATRINE DILAY: And you'll agree that the value of the coefficient represents the trend indication?

MR. TAI PHOA: Yes, I would agree with you.

MS. KATRINE DILAY: And you'll agree that a standard regression model output includes a metric known as a P-Value (phonetic) for each model coefficient?

MR. TAI PHOA: Yes, I would agree with you.

MS. KATRINE DILAY: And it would -- would be -- would it be fair to say that the review of P-Values is a standard process in assessing a regression model?

MR. TAI PHOA: Yes. And obvious -- obviously, you've highlighted a value that we did not calculate, yes.

MS. KATRINE DILAY: Sorry. Can you repeat that? I just missed it?

MR. TAI PHOA: I would agree with you that a P-Value is something that we could calc -- we should probably calculate, and MPI did not do so in its regression analysis.

MS. KATRINE DILAY: And -- and I'll

take you there in a minute. But the P-Value -- you'll agree that the P-Value indicates the probability that the coefficient would have occurred by chance, if the true value of the coefficient were zero?

MR. TAI PHOA: Can you repeat that one (1) more time?

MS. KATRINE DILAY: The P-Value indicates the probability that the coefficient would have occurred by chance if the true value of the coefficient were zero?

(BRIEF PAUSE)

MR. TAI PHOA: Give me one (1) second.

(BRIEF PAUSE)

MR. TAI PHOA: I would agree. Yeah.

MS. KATRINE DILAY: Thank you. And this is going to go back to a response that -- or a discussion we just had about the P-Value being a standard process. But I'd like to take you to Figure CI-35, as an example. So that -- that would be page 45 of the Claims Incurred chapter of the filing.

So if we just look generally at this

table, does MPI report P values with the exponential trend indication?

(BRIEF PAUSE)

MR. TAI PHOA: No, we do not.
MS. KATRINE DILAY: And I think you alluded to this, but would reporting P values help the Public Utilities Board in evaluating the basis of MPI's assumptions as it relates to trends?
MR. TAI PHOA: Potentially. It provides additional information, yes.
MS. KATRINE DILAY: Is it fair to say that the typical threshold for accepting a coefficient is a P value less than or equal to 0.05?
MR. TAI PHOA: Yes, that's typically the value that we use. Yes.
MS. KATRINE DILAY: So that is -- coefficients are statistically significant if there is less than 5 percent chance that we would observe the value by chance?
MR. TAI PHOA: That sounds like the correct interpretation, yes.
MS. KATRINE DILAY: And so, you'll agree that when the P value exceeds 0.05, that means

the model could not discern a statistically significant trend?

(BRIEF PAUSE)

MR. TAI PHOA: Give me a second.

(BRIEF PAUSE)

MR. TAI PHOA: Could you repeat that again?

MS. KATRINE DILAY: Certainly. You'll agree that when the P value exceeds 0.05, the model could not discern a statistically significant trend?

(BRIEF PAUSE)

MR. TAI PHOA: I would say when the P value exceeds 0.05, all it means is that -- let me try and find my words here properly.

(BRIEF PAUSE)

MS. JING LANG: This is Jing. The answer is yes.

MS. KATRINE DILAY: Thank you. And I believe you confirmed this with Ms. McCandless earlier, but you'll agree that MPI uses pure premium trends in allocating the overall rate level change to major classifications?

(BRIEF PAUSE)

MR. TAI PHOA: Yes.

MS. KATRINE DILAY: And this analysis is located in the ratemaking chapter of the General Rate Application, correct?

MR. TAI PHOA: That is true.

MS. KATRINE DILAY: And you'll agree that MPI uses frequency and severity trends to develop the overall rate level in the claims incurred section of the General Rate Application?

MR. TAI PHOA: Yes, I would agree with that.

MS. KATRINE DILAY: And you'll agree that these trends, in the claims incurred section, are based on the same aggregated data as the data used to develop pure premium trends in the ratemaking chapter?

MR. TAI PHOA: Yes, I would agree with that.

MS. KATRINE DILAY: Without going into detail, you'll confirm that you're familiar with the evidence filed by CAC-Manitoba, evidence prepared by Oliver Wyman, which is filed as Exhibit CAC-4?

MR. TAI PHOA: I have read through the evidence.

MS. KATRINE DILAY: And could we please turn to page 12 of that exhibit, which is PDF page 15. Thank you, Kristen.

And if we go down to the table on this page. Without going into detail, you're aware that this is where Oliver Wyman has proposed alternative future trends to the ones MPI used in its filing?

MR. TAI PHOA: Yes, I'm -- I'm aware of that. And -- yeah. I'll leave it there for now.

MS. KATRINE DILAY: And are you also familiar with Exhibit CAC-7 that was circulated last week and filed as an exhibit this morning, which is a revision to PUB-CAC-1-3?

MR. TAI PHOA: I have read the document, yes.

MS. KATRINE DILAY: And, Kristen, if we could turn to that document, page 5, which is the last page. And we don't need to -- to review the whole document, but if we look to the last two bullets, do you see -- or would -- is it your understanding that Oliver Wyman there confirms that the same issues they flagged in their evidence with respect to pure premium trends also exist for the trends in the claims incurred section? Do you see those references?

(BRIEF PAUSE)

MR. TAI PHOA: Yes, I do. Yeah, I see the references. Would you mind repeating the question now that I've had a second chance to look at the evidence provided?

MS. KATRINE DILAY: My question was just whether you -- you confirm your understanding that Oliver Wyman has confirmed that the same issues they flag in their evidence with respect to pure premium trends also exist for the trends in the claims incurred section.

So I'm not asking you to comment, but just that that is your understanding of this document.

MR. TAI PHOA: Yes, that's my understanding.

MS. KATRINE DILAY: And if we turn to -- Ms. Schubert -- to CMMG-CAC-1-1.

(BRIEF PAUSE)

MS. KATRINE DILAY: Thank you, Ms. Schubert. And if we could just look at the question number 1 first and then we'll turn to the answer after.

So you see there, in question 1, that Oliver Wyman was asking to provide a breakdown of the rate indication if their proposed trends were applied?

MR. TAI PHOA: Yes, I do.

MS. KATRINE DILAY: And if we look to the response and the second paragraph of the response to question 1, you see there that Oliver Wyman provided an approximate response, but indicated they cannot fully replicate the MPI model. Correct?

MR. TAI PHOA: Yes, I do.

MS. KATRINE DILAY: And would MPI be able to calculate a revised rate indication, substituting the pure premium trends proposed by Oliver Wyman, for the combined frequency and severity trends used by MPI in the claims incurred chapter?

MR. TAI PHOA: So I'm just going to take a step back, if you don't mind.

So we have -- so Oliver -- obviously,

Oliver Wyman's evidence discusses the pure premium trends that we calculate in ratemaking. I -- at least at this point, based on the evidence that I've seen so far, I do not know what Oliver Wyman is proposing in terms of the changes that they expect us to make in the claims incurred section of the GRA.

I've stated that MPI has a very robust claims incurred -- claims forecasting process. The details of which are provided in the GRA. If that's -- if Oliver Wyman would like to comment on how they believe we should improve the model, we can -- we are definitely open to looking at it.

But, at least at this point, based on what's presented to me, there's no -- nothing here that seems to refer to a suggestion from Oliver Wyman in terms of how we would apply the trends that they calculated for the pure premium to the frequency and severity trends for -- the frequency and severity trends.

MS. KATRINE DILAY: Thank you for that response.

And if -- and if -- if MPI were -- or if I were to ask MPI to distribute the pure premium trend to frequency and severity, and you best see fit, would that help in terms of -- of a request to calculate a revised rate indication?

MR. TAI PHOA: Again, we -- the -- we provided, in the claims incurred section, our best estimate of the future severity and frequency trends based on what we have noticed historically.

So, again, those are our best estimates to date. And if -- if you are asking that we revise those estimates to achieve the pure premium trends as suggested Oliver Wyman, I don't believe that will reflect what our best estimate would be of the future trend. But I could be wrong about what you're asking.

MS. KATRINE DILAY: No, I think -- I think that is what I'm asking. It would be to -- to revise the frequency and severity trends to reflect the pure premium trends being recommended by Oliver Wyman as a -- for information for the Public Utilities Board.

MR. TAI PHOA: Again, like I said, I -- I -- the trends that we provide in the claims incurred section is best estimates. And MPI would gladly run a scenario if Oliver Wyman would like to suggest a different trend for any of the coverages. And we would gladly rerun the -- some of the claims incurred numbers to see whether we come up with something different, based on the suggestion by Oliver

Wyman.

Apart from that, you know, what we provided to the -- in terms of the 2000 -- the -- the claims cost for 2022 is our best estimate based on looking at the historical data and adjusting for potential future changes in terms of the claims payout.

MS. KATRINE DILAY: And just to confirm a response you gave earlier, the pure premium trends equals the frequency multiplied by the severity?

(BRIEF PAUSE)

MR. TAI PHOA: Sure. Yes.

MS. KATRINE DILAY: And so, in terms of a scenario, are you suggesting MPI would not be able to apply the pure premium trends suggested by Oliver Wyman to the combined severity and frequency trends?

(BRIEF PAUSE)

MR. TAI PHOA: Again -- sorry, not again; I should -- I should -- I use that word so often, I should be careful how I use that word.

Like, I just want to reiterate that, you know, there is a process that we follow in terms of the claim's forecast. If -- if there was a scenario that Oliver Wyman would like us to test, we would gladly look at it. However, I think just giving us the pure premium trends and asking us to sort of apply that to the severity and the frequency trends to achieve that pure premium trend, I -- I think that's sort of minimizing the robust process that we have for the claim's forecast.

The claims forecasting process looks -- even at the coverage level, it looks at -- say -- say collision, for example, it looks at total losses, it looks at repairs separately. For comprehensive, we look at the various loss potential; for example, it could be from vandalism, from theft. We -- we sort of break them down.

That's a very huge robust process. We look at the severity. We look at the -- the frequency. We examine those things and then we come up with conclusions that reflects our best estimate.

So to -- to just sort of change those to reflect a pure premium trend, trivializes the sort of robust process that we have that -- that uses best estimates.

So -- so it's not that I don't want to do that, it's just if -- if there was specific areas in the claims incu -- in the claims forecasting process that -- that Oliver Wyman feels that we should review and -- and provide more details, we will gladly test out the scenario. But -- but we can't -- I -- I just don't want to trivialize the -- the full spectrum of the process.

MS. KATRINE DILAY: But you did agree again that the pure premium trends used in the rate making section should be equivalent to the frequency and severity trends multiplied in the claims incurred section, correct?

MR. TAI PHOA: Agree on an overall -- on an overall basis. But to reverse engineer the process, to sort of go back and say -- and say, what am I changing so that I achieve the pure premium trends of zero percent, that's not as -- that's not as easy.

We can't just -- again, I -- like I'm not trying to -- I don't want to trivialize the process. The process -- the claims incurred forecast is a very robust process that we -- we have in place and -- and just going back and just changing one (1) or two (2) factors here and there does not provide a good representation of -- of the overall claims level that we expect for 2022/'23.

MS. KATRINE DILAY: Thank you. I'll move on for now. I might come back to it at -- at the end, but we'll move on for now. Thank you very much for your responses.

Moving on to the issue of territories and uses, at a high level you'll agree that Manitoba is divided in four (4) geographical rating territories?

MR. TAI PHOA: That is the current rate structure, yes.

MS. KATRINE DILAY: Sorry, can you just repeat the...

MR. TAI PHOA: Sorry, that is -- the -- the current rate structures has four (4) territories, and -- and one (1) additional territory which is customers who travel frequently between Territory 2 and Territory 1.

MS. KATRINE DILAY: Thank you. And -- and I'll go -- I'll bring you to -- to confirm what the territories are.

So, you'll agree Territory 1 is Winnipeg, including St. Norbert, Headingley, East and

West St. Paul?

MR. TAI PHOA: Give me one (1) second and let me pull up that -- let me pull up a certain document so that I'm not contradicting the document.

MS. KATRINE DILAY: Thank you.

(BRIEF PAUSE)

MR. TAI PHOA: Just so that we're on the same page, I'm going to ask Kristen to pull up VCR Appendix 1, if -- so that, you know, we are looking at the same reference.

Kristen, that's in Part 6 of the initial application.

MS. KATRINE DILAY: Thank you. This is very helpful. And so there we see Territory 1 includes the City of Winnipeg, as well as the following -- as well as a number of areas and municipalities?

MR. TAI PHOA: Yes, a number of areas and municipa -- municipalities that borders around Winnipeg. Yes.

MS. KATRINE DILAY: And Territory 2 essentially includes areas south of the 53rd parallel, except for the Territory 1 region?

MR. TAI PHOA: Agreed.

MS. KATRINE DILAY: And Territory 3 includes all areas north of the 55th parallel?

MR. TAI PHOA: Agreed.

MS. KATRINE DILAY: And finally, Territory 4 is the area north of the 53rd parallel and south of the 55th parallel, correct?

MR. TAI PHOA: Agreed.

MS. KATRINE DILAY: And you alluded to this earlier, but those individuals who live in Territory 2, but who drive into Territory 1, which is Winnipeg to go to or from school or work have to insure as a commuter, correct?

MR. TAI PHOA: Yeah, that's correct.

MS. KATRINE DILAY: And is this to reflect the fact that they will do a lot of driving in Territory 1 even if they live in Territory 2?

MR. TAI PHOA: Yeah, that's generally the case. And also -- it also reflects the fact that, you know, that travel between 2 and 1, that could be on highways that are -- that where -- where the speed limit is a lot higher.

MS. KATRINE DILAY: And you'll agree that motorists are required to insure their vehicle in various insurance use categories?

MR. TAI PHOA: Yes, I agree.

MS. KATRINE DILAY: And I won't go through all of them, but two (2) examples would be pleasure and all-purpose?

MR. TAI PHOA: Yes, there's pleasure and all-purpose insurance-use category.

MS. KATRINE DILAY: And pleasure insurance, just for -- to confirm, is for passenger vehicles that are not used to drive to or from work -- to or from work or school on a regular basis, correct?

MR. TAI PHOA: In general, that -- that sounds about right.

MS. KATRINE DILAY: And an all-purpose passenger vehicle is used to drive to or from school or work?

MR. TAI PHOA: I agree.

MS. KATRINE DILAY: And, generally, you'll recall that the issue of territories and uses was discussed at last year's GRA?

Do you recall that?

MR. TAI PHOA: Yeah, I recall that discussion.

MS. KATRINE DILAY: And just in terms of reminding ourselves of what the issues were that were discussed, Ms. Schubert, could we please turn to the 2021 GRA transcript at page 1,951.

And were you advised by your legal counsel that I may refer to this transcript today?

MR. TAI PHOA: I was advised by my legal counsel late last night, yes.

MS. KATRINE DILAY: And I -- essentially, I just want to go through some of the -- the excerpts from this transcript.

If we look at lines 8 to 10, you'll agree that here Mr. Johnston, who was then the chief actuary at MPI, indicated that location is a driver of a -- of a difference in risk in most jurisdictions, if not all?

MR. TAI PHOA: I don't have any reason to disagree with Mr. Johnston, so I agree, yes.

MS. KATRINE DILAY: Thank you. So -- so you -- so you see the statement, and you also agree with the statement?

MR. TAI PHOA: I agree with the statement.

MS. JING LANG: This is Jing. I just want to clarify, if I'm reading it as I'm interpreting, it says,

> "location will be a driver of a
> difference in your risk, if not..."

I want to clarify that. Location shouldn't be the only reason of that differentiated risk premium.

MS. KATRINE DILAY: Thank you for that clarification. And indeed, Mr. Johnston was -- indicated it as a driver of a difference in risk, correct?

MR. TAI PHOA: Yes, that is correct. It recognizes territory as being a driver in -- in risk differences, yes.

MS. KATRINE DILAY: And if we turn to page 1956 to 1957 -- so it'll be the bottom of the first page to the top of the second page -- and we might have to go a little bit before this. My apologies, Ms. Schubert.

But is it your understanding from this excerpt that Mr. Johnston and Mr. Williams here were discussing that the Insurance Corporation of British Columbia had recently updated its territorial data to better reflect different regions of the province?

(BRIEF PAUSE)

MR. TAI PHOA: Just to read into the record, Mr. Johnston's comment was:

"If territory was part of that, that wouldn't surprise me."

Unfortunately, I'm not able to comment on -- on whether -- the changes that has happened in British Columbia. We can certainly look into that, but I -- I'm not able to comment on that right now.

MS. KATRINE DILAY: Thank you. And if we turn back to page 1948 to 1949, and specifically the page -- the top of 1949, and you'll agree that in this excerpt here, Mr. Johnston was agreeing that there is a longer-term trend where the vehicle population in Winnipeg and commuter territory is increasing relative to the other rural populations?

(BRIEF PAUSE)

MR. TAI PHOA: Yes, it looks like Mr. Johnston is agreeing to that statement, yes.

MS. KATRINE DILAY: And is that your understanding of the situation as well?

MR. TAI PHOA: Again, it's something that I haven't looked into. I haven't looked at the data to -- I haven't looked intimately at the data, I -- so I can't comment on that, whether that's -- whether that's true or not.

I -- I assume Mr. -- Mr. Johnston, when he answered that question, was more familiar with the data, or at least that was his recollection, so we -- I will accept Mr. Johnston's comments as -- as is, I guess.

MS. KATRINE DILAY: I appreciate that. Thank you. And just a couple more kind of historical or contextual transcript references.

If we turn to page 2197 to 2198, and specifically at the top of page 2198 -- maybe I'll just let you take a quick look at this, and then I'll -- I'll just ask you whether your understanding is the same as mine.

MR. TAI PHOA: I appreciate you giving me some time.

(BRIEF PAUSE)

MR. TAI PHOA: Kristen, if you don't mind just scrolling up a little bit.

(BRIEF PAUSE)

MR. TAI PHOA: That's good.

(BRIEF PAUSE)

MR. TAI PHOA: Okay. Thank you.

MS. KATRINE DILAY: Thank you. And is it your understanding that on this page, Mr. Johnston confirmed that Territory 1 and 2 are much more similar than implied by the current relativity -- relativities underlying the rate application?

MR. TAI PHOA: Yes.

MS. KATRINE DILAY: And the reasonable inference being that territories involving more highway driving may have been undercharged for PIPP? And you'll see that at lines 3 to 5 here.

MR. TAI PHOA: If counsel would give me a minute.

(BRIEF PAUSE)

MR. TAI PHOA: My apologies. Can you just repeat that last question?

MS. KATRINE DILAY: And you'll agree that part of the discussion that Mr. Johnston was having here was that the reasonable inference that -- was that territories involving more highway driving may have been undercharged for PIPP?

MR. TAI PHOA: Yes, that's -- that's Mr. Johnston's inference based on the data that he had available, the analysis that we were -- that was being referenced, yes.

MS. KATRINE DILAY: And if we go to page 2199, specifically lines 9 to 14, is it your understanding on this page that Mr. Johnston was saying that when -- when consideration of DSR is included in the minimum bias procedure, the relative rates between different uses such as all-pleasure -- all-purpose and pleasure become less volatile or more similar? Is that what you see in this excerpt here?

MR. TAI PHOA: Yeah, that's what I see in this excerpt based on the -- again, I say based on the numbers that he was looking at when he was responding to the questions, yes.

MS. KATRINE DILAY: And is one (1) inference that can be drawn from the statement by Mr. Johnston that all-purpose is being overcharged as compared to pleasure?

(BRIEF PAUSE)

MR. TAI PHOA: I don't see any reference there to passenger -- sorry, all-purpose and pleasure, unless I'm mistaken.

(BRIEF PAUSE)

MR. TAI PHOA: It just -- so -- so, again, yeah, there's no -- there's no reference here. I -- I might have to go back to -- to the entire document. I don't see any reference here to all-purpose and pleasure, at least not from the few lines that I'm reading here.

MS. KATRINE DILAY: And just my turn to -- to give me thirty (30) seconds to see if I can just locate my reference. My apologies.

(BRIEF PAUSE)

MS. KATRINE DILAY: I think we'll -- we'll just skip over this question, and that's no problem.

Would it be fair to -- to say -- based on this excerpt and ones we've reviewed before, would it be fair to say that findings from the DSR pricing review cannot be reviewed or understood in isolation from revised relativities, especially as they relate to territories?

MR. TAI PHOA: Ms. Dilay, I apologize for -- I keep asking you to repeat your questions. I'm just trying to -- I -- I want to be able to provide the best answers, so if you don't mind, I just want to make sure I get that question in my head properly.

MS. KATRINE DILAY: Would it be fair to say that findings from the DSR pricing review cannot be reviewed or understood in isolation from revised relativities, especially as they relate to territories?

MR. TAI PHOA: Are -- are you -- sorry. Is the question suggesting that we should use the territory and use relativities from the DSR analysis? Is that -- 'cause I'm just trying to clarify the question.

I think, if -- if I may, just referencing PUB-MPI-1-82, if -- if we can go there for a little while, PUB-MPI-1-82.

(BRIEF PAUSE)

MR. TAI PHOA: Okay. So my understanding -- my understanding of this conversation that Mr. Johnston was having with Mr. Williams last year refers to a similar table that we provided last year, and I -- a similar table that we provided last year.

(BRIEF PAUSE)

MR. TAI PHOA: Sorry, Ms. Dilay. I just need about a minute.

MS. KATRINE DILAY: Thank you.

(BRIEF PAUSE)

MR. TAI PHOA: Okay. So sorry about that, Ms. Dilay. So I believe the -- the conversation between Mr. Johnston and Mr. Williams refers to the differences in the territory and use relativities that MPI is using currently and the territory and use relativities that will determine based on using the minimum bias with the four (4) rating variables together, which is DSR level, rate group, insurance use, and -- and territory.

And I believe Mr. Williams noticed some differences when -- when we -- in terms of the two (2) analyses. Some of the results from this year are -- are shown in PUB-MPI-1-82, which is what I'm bringing up right now.

So -- so MPI continues to recognize that are differences between the two (2) methods, and -- and part of it is the data that we are using. And that's explained a little bit lower in Figure 3 where we compare the data that we're using for the two (2) methods.

But the other part of it is -- is really, when you consider all four (4) rating variables together as opposed to just considering the insurance use and territory, there will be differences.

And then -- and -- and so one (1) of the things that we've committed to, at least in terms of understanding this a little bit better, is that -- and -- and this is respond -- respond to PUB-MPI-2-39 we said:

> "MPI will review its ratemaking methodology for the 2023 GRA to reconcile these differences. On a preliminary basis, MPI will review, using consistent data sets, in both its analysis and the treatment of PIPP losses, and then make appropriate changes based on this

review."

One (1) thing I -- a couple of other things that I would say is that the way we were doing it this year, and -- is no different from how -- how we'd been doing it last year. So -- at least in terms of the approach that we are using, it's the same and so that avoids us any significant rate -- rate dislocations because we -- we are changing the -- the relativities while we are still trying to understand and trying to view why it's different.

And the other thing -- sorry, I'll just leave the other one.

So -- so we are -- so my -- my comment on that is that we were -- we are reviewing it. We -- we notice that there's been a discrepancy in terms of the indications, and -- and -- yeah, and so we -- we hope to come back with a more solid 'what will we do about this' for the 2023 GRA.

MS. KATRINE DILAY: Thank you for that. And I think it'll be on the same topic, but to go back to one (1) last transcript excerpt from last year, which is at page 2,200, lines 20 to 25.

And you'll correct me if I'm wrong, but here Mr. Johnston was agreeing with Mr. Williams that the sensible thing to do would be to address the relativities for all of these variables with the same timing to ensure the correlation between them are accounted for?

MR. TAI PHOA: Yeah. And that's, sort of, what I was alluding to. Definitely want to review why it's different.

So -- so the first question that we want to ask is: Why is it different? The second thing that we want to do is saying: Let's use consistent data sets, first of all, to take away the differences.

And then, of course, at the end of the day, we -- we are -- we have to ask the question: What is the right thing to do, what is the right approach, what is the correct relativities to use? And then apply them appropriately. Yes.

MS. KATRINE DILAY: Thank you for that. I can take you to a reference, if you'd like. But you'll agree that MPI has not conducted a territory review since their introduction?

MR. TAI PHOA: Yes, I would agree with you.

MS. KATRINE DILAY: And, again, I can take you to a reference, if you'd like. But you'll confirm that MPI had indicated last year that the territory review could be done for the next GRA?

MR. TAI PHOA: I would agree with you that that was what we said last year, yes.

MS. KATRINE DILAY: Thank you.

And the next GRA would be the current one, correct?

MR. TAI PHOA: Yeah, that is correct. I'm just going to -- I'll let you ask the next question.

MS. KATRINE DILAY: But you'll agree that MPI has not completed the territory review, correct?

MR. TAI PHOA: I would agree with that, yes.

MS. KATRINE DILAY: And that MPI is planning to complete it and file it in the 2023 GRA, correct?

(BRIEF PAUSE)

MS. JING LANG: Can you please repeat your question?

MS. KATRINE DILAY: So I believe we just agreed MPI has not completed the territory review as of yet, but MPI is planning to complete it and file

it in the 2023 GRA, correct?
MS. JING LANG: As in the 2023/2024?
MS. KATRINE DILAY: Yes.
MS. JING LANG: Is there a reference that you can share with us?
MS. KATRINE DILAY: Yes. Yes. We can go to the reference; Ms. Schubert, it would be CAC-MPI-1-58.

(BRIEF PAUSE)

MS. JING LANG: Yes, if I can -- if I'm reading this response, it does say that it's anticipated a review will be completed maybe by the next GRA.
MS. KATRINE DILAY: Thank you. Moving on to a different topic, which would -- which will be the impacts of COVID-19. So this might be for Mr. Dunstone.
You'll agree that in MPI's initial filing in June of 2021, MPI assumed no COVID-19 impacts after September 30th of this year, correct?
MR. DEAN DUNSTONE: I would agree.
MS. KATRINE DILAY: And, at that time, MPI was essentially forecasting a back to normal, as

of September 30th, 2021, correct?

MR. DEAN DUNSTONE: October 1st, yes.

MS. KATRINE DILAY: Thank you very much for that clarification.

But you'll -- you'll agree that, in the rate update, MPI has included updated assumptions, correct?

MR. DEAN DUNSTONE: That's correct.

MS. KATRINE DILAY: And just to confirm those assumptions. For September and October 2021, MPI has forecasted 20 percent below normal?

MR. DEAN DUNSTONE: That's correct.

MS. KATRINE DILAY: For November and December, MPI has forecasted 15 percent below normal?

MR. DEAN DUNSTONE: Correct.

MS. KATRINE DILAY: And for January and February of 2022, MPI has forecasted 10 percent below normal?

MR. DEAN DUNSTONE: Correct.

MS. KATRINE DILAY: For March of 2022, MPI has forecasted 5 percent below normal?

MR. DEAN DUNSTONE: That's correct.

MS. KATRINE DILAY: And then, as of April 1st, 2022, MPI has assumed a return to normal, correct?

MR. DEAN DUNSTONE: That's correct.

MS. KATRINE DILAY: So, in other words, MPI is forecasting no impacts of COVID-19 on claims incurred after April 1st -- as of April 1st, 2022?

MR. DEAN DUNSTONE: That's correct.

MS. KATRINE DILAY: And you'll agree this is because MPI's best estimate is that things will go back to normal once the pandemic subsides?

MR. DEAN DUNSTONE: That's correct.

MS. KATRINE DILAY: And that is because MPI is simply not able to reliably predict what will happen?

MR. DEAN DUNSTONE: Yes. Too much uncertainty and too much unknown, yes.

MS. KATRINE DILAY: And is MPI aware whether this is the approach taken by other insurers; that is to assume no ongoing impacts of COVID-19?

MR. DEAN DUNSTONE: Yeah. I can confirm with discussions with ICBC and SGI that, for -- for the '22/'23 year, yes, there's no COVID impacts for that.

MS. KATRINE DILAY: And I think you discussed this with Ms. McCandless this morning. But you'll agree MPI is not denying that it is possible there may be long term impacts of COVID-19 in terms of lower claims incurred as compared to pre-COVID-19m correct?

MR. DEAN DUNSTONE: Yeah. I can't deny that, no.

MS. KATRINE DILAY: And you'll agree that public health officials have recently confirmed that Manitoba is entering the fourth wave of the COVID-19 pandemic?

MR. DEAN DUNSTONE: Yes.

MS. KATRINE DILAY: And this is because of rising case numbers in hospital admissions?

MR. DEAN DUNSTONE: That's correct.

MS. KATRINE DILAY: And the province has moved to the restricted or orange level on the pandemic response system, as of October 1st, 2021. Is that your understanding?

MR. DEAN DUNSTONE: That's my understanding.

MS. KATRINE DILAY: And new public health measures were put in place, as of October 5th, 2021. Is that your understanding?

MR. DEAN DUNSTONE: I can accept that, yeah.

MS. KATRINE DILAY: And you'll agree

it's not guaranteed that the fourth wave will be the last wave of COVID-19 in Manitoba, correct?

MR. DEAN DUNSTONE: I would agree.

MS. KATRINE DILAY: And MPI does not deny that it is possible that further restrictions may come into place in the spring of 2022, for example, if there were to be a fifth wave?

MR. DEAN DUNSTONE: Yeah. I cannot deny that, no.

MS. KATRINE DILAY: And spring of 2022 is the time where MPI has assumed things will go back to normal, correct?

MR. DEAN DUNSTONE: That's correct.

MS. KATRINE DILAY: But, again, the forecasts contained in MPI's application, which would be the rate update, in this case are your best estimates, correct?

MR. DEAN DUNSTONE: They are our best estimates, yes.

MS. KATRINE DILAY: But you'll confirm that MPI will continually monitor collision frequency for the impacts of COVID-19?

MR. DEAN DUNSTONE: Yes.

MS. KATRINE DILAY: And MPI will adjust the forecast accordingly?

MR. DEAN DUNSTONE: Yes, we will.

MS. KATRINE DILAY: I can take you to a reference, if you need. But you'll agree that the Public Utilities Board has previously asked MPI to file comparison of monthly claims costs versus budget for a time period in order for the PUB to -- for the PUB, pardon me -- to monitor the Corporation's financial performance during the COVID-19 pandemic?

MR. DEAN DUNSTONE: I recollect that a little bit, yeah.

MS. KATRINE DILAY: And you'll agree that excess capital is the result of better than expected claims experience on prior policies?

MR. DEAN DUNSTONE: Yes.

MS. KATRINE DILAY: But the capital that is -- that is collected, essentially, is returned to future ratepayers or current ratepayers?

MR. DEAN DUNSTONE: Current ratepayers, yes.

MS. KATRINE DILAY: And it may include individuals who have not lived -- who did not live in Manitoba during the pandemic, is that possible?

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yeah, that is correct.

MS. KATRINE DILAY: And you'll agree that, given the experience of the past eighteen (18) months, there is a possibility that MPI will continue to accumulate excess capital due to lower claim's costs?

MR. DEAN DUNSTONE: There is possible -- possibility for that, yes.

MS. KATRINE DILAY: But you'll agree that in its application MPI has not specified how it will return capital to ratepayers after the current special rate application, which is before the Public Utilities Board?

MR. DEAN DUNSTONE: Yeah, this is our best estimate up to the end of 2021/'22. So that -- at this point, that we're -- any excess capital as of March 31st, 2022 would be returned, but anything after that, no.

MS. KATRINE DILAY: And so you'll agree that MPI has the discretion to come to the Public Utilities Board to apply for a rebate application when it deems that capital has sufficiently accumulated?

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yeah. So I guess that -- the methodology that we apply for rebates is -- is -- well, it is set out in our rebate applications there. So, obviously, over the last eighteen (18) months it's very unique and different times, so this brought on the rebate applications.

MS. KATRINE DILAY: And so would you agree that, essentially, until the next general rate application, between now and then, it is within MPI's discretion to come to the Public Utilities Board with a rebate application when it deems that capital has sufficiently accumulated?

MR. DEAN DUNSTONE: I'm not sure how the process would work. I'm sure we would work with -- with government, with the Public Utilities Board. You know, if these unique circumstances continue, then, I mean, we -- we have to, you know, take care of the financial well-being of Manitobans. And if -- and if we continue to, you know, collect excess premiums and build our capital, then I could foresee possibly another rebate at this time.

MS. KATRINE DILAY: But currently, there's no moment in time or a specific capital level where MPI would automatically come to the Public Utilities Board to apply for a rebate between now and the next general rate application?

MR. DEAN DUNSTONE: No.

MS. KATRINE DILAY: Sorry, just to confirm. So you're agreeing with my statement?

MR. DEAN DUNSTONE: Can you repeat your statement?

MS. KATRINE DILAY: Yes, for sure.

Currently, there's no moment in time or specific capital level where MPI would automatically come to the Public Utilities Board to apply for a rebate between now and the next general rate application being filed?

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yeah. So at this point the -- you know, the third special rebate application is before us at this point, which takes us to the end of March 31st, 2022. I don't foresee, at this point, any -- any other further rebate applications coming. You know, probably the next time we -- we speak on this is likely at the 2023 GRA, I would expect.

And -- and as you know, there -- there could be some possible changes coming for that that we're considering, but at this point, no.

MS. KATRINE DILAY: And the possible changes you're referring to are to the Capital Management Plan?

MR. DEAN DUNSTONE: Yes.

MS. KATRINE DILAY: And -- and so just to go back to my question, so you'll agree that there's no specific moment in time or specific capital level where MPI would automatically come to the Public Utilities Board for a further rebate, correct?

(BRIEF PAUSE)

MR. DEAN DUNSTONE: Yeah, at this point in time there's no specific level outlined where we'd come to the PUB for a rebate.

MS. KATRINE DILAY: Thank you.

Madam Chair, I still have two (2) areas of questioning, and I will be coming back, likely, to -- to a discussion from earlier. I -- I think in terms of estimating how much time, I would say probably around twenty (20) to twenty-five (25) minutes if I were to guess.

So, I leave it up to you in terms of the -- the afternoon break.

THE PANEL CHAIRPERSON: Thanks, Ms. Dilay, please proceed. We'll continue with you. Thank you.

MS. KATHLEEN MCCANDLESS: Ms. Dilay, sorry, I just want to clarify the last question you had, you're also welcome to ask that again tomorrow at the CPM panel.

MS. KATRINE DILAY: Thank you for that.

CONTINUED BY MS. KATRINE DILAY:

MS. KATRINE DILAY: I'd like to ask some questions about complex claims and the personal injury protection plan. I'm not sure who would be the best person to answer that. Thank you.

So, could we turn to the IR CAC-MPI 1-76? And in the preamble here -- are you familiar with this IR response or this Information Request?

(BRIEF PAUSE)

MR. TAI PHOA: Actually, I'm not familiar with this request. Give me one (1) second to confirm.

(BRIEF PAUSE)

MR. TAI PHOA: Sorry, can you give me the reference once again?

MS. KATRINE DILAY: CAC-MPI 1-76.

MR. TAI PHOA: Thank you.

(BRIEF PAUSE)

MR. TAI PHOA: Sorry, Ms. Dilay, I -- I'm not familiar with this question, so I'm just taking a -- a minute to look at it to ensure that I'm the right person to answer the questions.

MS. KATRINE DILAY: Thank you.

(BRIEF PAUSE)

MR. TAI PHOA: I'll let you proceed with your questions, Ms. Dilay. I will -- and -- and I'll see how far I can go.

MS. KATRINE DILAY: Thank you. I appreciate that. So, based on what we see in the preamble here, you'll agree that this is trying to provide a bit of -- a summary of the discussion of the issue of complex claims in the 2021, 2020, 2019, and 2018 GRAs?

MR. TAI PHOA: That seems to be the pre -- in the preamble, yes.

MS. KATRINE DILAY: And we can turn to a reference if you'd like, but you'll agree that in this year's GRA, the 2022 GRA, MPI has refi -- has referred to the increasing complexity of claims as a risk?

MR. TAI PHOA: Yes.

MS. KATRINE DILAY: And when we refer to 'increasing complexity of claims', you'll agree that MPI is referring to a change in medical science that increases claims complexity?

MR. TAI PHOA: Let me refer to my back row. I'm probably going to have to do a lot of that for this -- for this line of questioning.

MS. KATRINE DILAY: And if you'd like, we could pull up the reference. Would that help?

MR. TAI PHOA: That would help, yeah.

MS. KATRINE DILAY: Kristen, could we go to part 7, Risk Management Framework, appendix 5, page 4?

(BRIEF PAUSE)

MS. KATRINE DILAY: So, you'll agree here that this is a -- the -- this year's scorecard, which refers to the increasing complexity of claims as a risk?

MR. TAI PHOA: Yeah, based on what the scorecard is showing, yes.

MS. KATRINE DILAY: And, Kristen, if we could go back to the -- the IR 1-76, and if we look at the reference here in -- from the 2021 GRA, so that first italicized paragraph.

And if you look at the second sentence, you'll agree there it refers to a change in medical science that increases claims complexity?

(BRIEF PAUSE)

MS. JING LANG: This is, Jing. Yes, I see that.

MS. KATRINE DILAY: And if we go on in that same sentence, this is relating mostly to injuries such as concussion and mental health claims, correct?

MR. TAI PHOA: That seems to be what's

written here, yes.

MS. KATRINE DILAY: And then if we keep going, it refers to a resulting increase in reported injury relapses and precedent setting court decisions that expand coverage?

MR. TAI PHOA: That's what's written there, yeah.

MS. KATRINE DILAY: And if we go to the response to part A, Ms. Schubert. And so, here -- so this is the -- the question -- you'll agree this is asking, essentially, to confirm that the risk scorecard that we just looked at from the 2022 GRA was the same issue identified in the 2021 risk scorecard?

And, Kristen, if we look to the response. You'll agree here this is referencing the same issue, that -- that that was MPI's response, correct?

MR. TAI PHOA: That is MPI's response, yes.

MS. KATRINE DILAY: And you'll agree that as an insurance company, these types of complex claims are characterized as a risk, because of the uncertainty in terms of forecasting for these types of claims?

MR. DEAN DUNSTONE: I would agree.

(BRIEF PAUSE)

MS. KATRINE DILAY: And if we look to the response here before us at section B, MPI has indicated there that it continuously reviews trends as it relates to complex claims, and that duration has stabilized based on controls put in place to mitigate the risk of increasing claims complexity.

You see that?

MR. DEAN DUNSTONE: I see that.

MS. KATRINE DILAY: And then MPI goes on to state that the figure below, which we'll look at in a -- in a minute, demonstrates that in the more recent loss years less claims will remain ongoing beyond the two (2) year stage, correct?

MR. DEAN DUNSTONE: Correct.

MS. KATRINE DILAY: And if we just look at the -- the figure, just so we have a visual aid, in plain language, Ms. Schubert, if we could go to the next page. Thank you.

So, in plain language, this means that a larger percentage of claimants are receiving income replacement benefits for a shorter period of time, after the 12 month mark. Correct?

MR. DEAN DUNSTONE: I'm just waiting for the chart to load up here. Oh there it is.

MR. TAI PHOA: Yeah. Sorry. Could you just repeat that question and maybe -- maybe, Kristen, if you can just roll it up a little -- go -- go up a little bit to the written response.

MS. KATRINE DILAY: And -- and there is -- there is also an IR that relates to my specific question, which we could bring up as well if it's of assistance.

MR. TAI PHOA: Agreed. I -- I -- so -- so Figure 1 actually just shows that there are less people now who are -- there are less claimants right now who are staying -- who we are paying for beyond the 24 months. So -- so if you look at the -- the -- the two (2) lines, between 2011 to 2017, once you get to the 24 months about 10 1/2-11 percent are remaining.

Right now, what it looks like is closer to 9 percent are remaining. Yeah.

MS. KATRINE DILAY: But in terms, and you'll agree that it's a -- that there are less -- I guess less claimants receiving those benefits even after the twelve (12) month mark. Correct? That line is lower starting after the twelve (12) month mark?

MR. TAI PHOA: Yeah. I will agree. Yeah. So the -- the -- we are seeing -- we are seeing less people who are on-going beyond the twelve (12) months, and that's -- that's just based on the case management -- the -- the claims management that we are having right now. Yeah.

MS. KATRINE DILAY: Thank you. And you'll agree that brain injuries also contribute to increasing claims complexity and we can go to a reference if you'd like.

MR. TAI PHOA: I would agree with you.

MS. KATRINE DILAY: Thank you. And, you'll agree generally that as a society, our understanding of brain injuries and complex claims more generally is evolving?

MR. TAI PHOA: Yes. I would agree with that.

MS. KATRINE DILAY: And as a society we are seeing this in our approach to sports and also elsewhere?

MR. TAI PHOA: That sounds about right. Yeah.

MS. KATRINE DILAY: Our societal attitudes and understandings about brain injuries and mental health are evolving and has changed materially in the recent past? Would that be fair?

MR. TAI PHOA: Yeah. I mean there's -- there's significant changes there. Yeah.

MS. KATRINE DILAY: And because this understanding is rapidly evolving in the society, you'll agree that for an insurance company, there are uncertainties in terms of how to adequately forecast for these types of claims and compensation for victims.

MR. TAI PHOA: Well, it -- it makes the -- it makes the forecasting process a little bit harder. You're right.

MS. KATRINE DILAY: And when we talk about compensation, this could relate to income replacement for victims?

MR. TAI PHOA: Yeah. Income replacement. Yes. And -- and might be other -- other -- other benefits as well.

MS. KATRINE DILAY: Such as, medical treatment for example?

MR. TAI PHOA: Yes.

MS. KATRINE DILAY: And in light of our evolving understanding, you'll agree that it is incumbent on MPI to be aware of best practices as it relates to complex claims, such as mental health and brain injuries?

MR. TAI PHOA: Give me one (1) second. Yeah. I -- I -- I would assume that, you know, the -- the folks out there at claims are actually looking at what's the best practice to help the claimant to get back on their feet and -- and -- and where the case is a little bit more serious, they're also helping them with -- making sure that, you know, they are adequately covered.

MS. KATRINE DILAY: So, and you referred to this -- to the team looking at best practices and then they -- it -- would it be fair to say that they would also implement best practices in their own assessment -- in MPI's own assessment of PIPP claims?

MR. TAI PHOA: I would agree with that.

MS. KATRINE DILAY: And you'll agree that, in light of our evolving understanding, there is a risk that what is considered industry standard or best practice today may be revealed to be inadequate tomorrow or at a later point in the future?

MR. TAI PHOA: Sorry, can you repeat that? I was -- I -- I -- I was distracted for about two (2) seconds.

MS. KATRINE DILAY: And my apologies, it's a long question.

You'll agree that, in light of our evolving understanding regarding complex claims, there is a risk that what is considered industry standard or best practices today may be revealed to be inadequate tomorrow or at a later point in the future?

MS. JING LANG: This is Jing. I'm going to jump in here.

Medical science -- medical sciences is always evolving, so there's a possibility. Correct.

MS. KATRINE DILAY: Thank you. And there is a possibility it could be, in fact, revealed to be grossly inadequate in terms of industry standards and best practices today?

MS. JING LANG: There's a possibility.

MS. KATRINE DILAY: Thank you. Moving on to questions on the fleet program. I did touch upon the fleet program with the expenses. I believe it was the Expenses and Revenue panel, but I have some questions that were directed -- I was -- I was advised were better directed to this panel.

MR. TAI PHOA: Yes.

MS. KATRINE DILAY: So just to confirm what we're talking about, you'll agree that fleets are ten (10) vehicles or more registered to a single registered owner?

MR. TAI PHOA: Yes.

MS. KATRINE DILAY: And you'll agree that MPI's fleet program operates by pricing commercial fleets on an after-the-fact basis, providing discounts or surcharges based on the loss ratio of the fleet in the prior year?

MR. TAI PHOA: Yes.

MS. KATRINE DILAY: And year over year fleet program rebates exceeds surcharges, correct?

MR. TAI PHOA: Yes. There's an -- every bit every year.

MS. KATRINE DILAY: And, I can bring you to a reference, but for the test year, 2022/'23, net fleet rebates are forecast at just under $18.2 million?

MR. TAI PHOA: Yes.

MS. KATRINE DILAY: And you'll agree that the costs of the rebates associated with the fleet program are recovered from the private passenger, commercial and public major classes?

MR. TAI PHOA: I would agree.

MS. KATRINE DILAY: And if we can turn, Ms. Schubert, to the ratemaking chapter of the filing at Part 6 and page 44 of that document.

And if we go to line 13, so you'll see here that the three (3) major classes of private passenger, commercial and public each pay $20.05 per policy on average to fund the fleet program? Or the fleet rebates?

MR. TAI PHOA: Yes. I agree.

MS. KATRINE DILAY: And we can go to a reference if you'd like, but you'll agree that this amount is derived as the total fleet rebate divided by the total units?

MR. TAI PHOA: Yes, I agree.

MS. KATRINE DILAY: And you'll agree that MPI allocates the fleet rebates to these major classes because only vehicles in these major classes are eligible for the fleet program?

MR. TAI PHOA: I agree.

MS. KATRINE DILAY: And if we look at, Ms. Schubert, CC-MPI-2-26, on page 2.

So you'll agree that in the response to part A here, there's a total of 59,124 fleet vehicles insured by MPI?

MR. TAI PHOA: Yes. I agree.

MS. KATRINE DILAY: And then below, MPI has listed the proportion of fleet vehicles in each major class. Correct?

MR. TAI PHOA: I agree. Yes.

MS. KATRINE DILAY: And you'll agree that the net rebates of the fleet program are distributed among some proportion of those 59,000 vehicles that are eligible for a rebate on an after-the-fact basis?

MR. TAI PHOA: Yes. Those 59,000 or so fleet vehicles are part of the Fleet Program and depending on their loss experience, they either get a -- a surcharge or a rebate. And, yes, they are the ones who are receiving the $18 million that we are forecasting for 2022/23. Yes.

MS. KATRINE DILAY: So if we look at the proportion -- the proportions listed here by MPI, in terms of the three (3) major classes, you'll agree that in the private passenger class 96.3 percent of the vehicles in that class are not fleet vehicles. Correct?

MR. TAI PHOA: 96.2 percent are not fleet vehicles. Yes.

MS. KATRINE DILAY: But that 96.3 percent of the vehicles are -- are still paying $20.05 per policy, on average, to fund the fleet program rebates. Correct?

MR. TAI PHOA: Yeah. And I think we explained that in the -- the next part of the thing, so maybe I should, just quickly discuss the -- the fleet rebate.

So, as -- as you alluded to in -- in the question, you know, there is -- we have a fleet program that comprises of vehicles that -- sorry, registered owners that have ten (10) or more vehicles, and so what we do is we say -- we -- we look at the loss experience of -- of this group, and -- and I believe at 70 percent -- at a 70 percent loss ratio, they receive nothing. Thereafter, they either get a net rebate or a surcharge.

The net rebate is up to 33 percent of their premiums, and the surcharge is up to 150 percent of their premiums -- sorry, not the net rebate; the rebate is up to 33 percent of their premiums and the surcharge is up to 150 percent of their premiums, or an additional 50 percent on their premiums.

So what happens year-over-year is that we are -- obviously, the -- the -- year-over-year, we are seeing a net rebate, as -- as pointed out, and that obviously speaks to the fleet program and the fact that, you know, the fleet vehicles are actually doing -- performing well in terms of their loss ratios.

And they're -- they're -- and that's expected because -- you should even -- when we -- we talk about larger fleets, they have incentives to sort of control who's driving their vehicles, they have incentives to make sure that, you know, their vehicles are -- are properly handled and -- and whatever -- whatever the incentive may be. They might even have a -- if you have a really huge fleet, you might even have a -- a safety program for your -- for your drivers just to make sure that things are -- you know, that you -- you -- your drivers are well trained and -- and to -- to be handling the vehicles that you're handling.

So -- so historically -- so historically, as you've pointed out, there's always a net rebate, which means, you know, that they're doing the fleet pro -- the fleet vehicles are doing well.

So now what -- what this means for -- for the rest of us as -- as ratepayers is that -- and -- and again, this -- this is sort of alluded to in the response to 'B' which I would just read into the record. MPI -- so in our response to CAC-2-26B:

"MPI understands that the Fleet Program is both accessible and

beneficial to all vehicles in the
above major classes."

So I just going to quickly elaborate on 'accessible'. It means, you know, any one of us could access the fleet programs subject to us having ten (10) vehicles. And benefic -- and -- so -- so then -- continuing on, sorry:

"Almost all insurance uses in these major classes have access to the Fleet Program. Further, to the extent the fleet pro -- fleets perform well in regards to managing towards a lower number of accidents, and therefore the net rebate means safer roads for all users.

So recognizing this, MPI submits that it is appropriate that the costs are shared on a per-unit basis by the above three (3) major classes."

So just to elaborate a little bit on that, how fleet vehicles perform -- so obviously there is something about fleet vehicles and how they are performing. The fact that they are having a net rebate suggests that these vehicles are actually --

these fleets are actually managing their vehicles properly and they are trying to make sure that, you know, they -- they have to -- their -- their drivers are safer, they -- that they're causing less accidents which -- which drives their loss ratio.

So to the extent that they are doing well in this means the rest of us are doing well. It means there's less accidents on the road. It means our loss cost as a whole is less.

Usually, for the most part, there's two (2) vehicles involved, so a fleet vehicle involved with another vehicle, that's two (2) accidents. And -- and so to -- to have -- to have the accident not happen is actually a good thing.

So -- so in that sense, that's why we find that, you know, everybody shares in the costs of these -- of what we consider savings as a -- that -- that's resulting from the fleet operations. So -- so to that extent, it is appropriate to have the costs shared by everybody who's not a fleet vehicle as well.

MS. KATRINE DILAY: Thank you for those clarifications. I do just want to -- to confirm my understanding, if we go back to the Part A of the response, and then I will take you back to Part B of the response, as well.

So -- so just to confirm my understanding, I'm not sure -- I can't recall if -- if you had confirmed it, but in terms of a private passenger class, the 96.3 percent of the vehicles who are not fleet vehicles, they are still paying that twenty-eight dollars and five cents ($28.05) per policy on average?

MR. TAI PHOA: Yes. I -- I -- yeah, that's right.

MS. KATRINE DILAY: And similarly, in the Commercial Class, 58.45 percent of the vehicles in that class are not fleet vehicles?

MR. TAI PHOA: Yes, that is correct.

MS. KATRINE DILAY: And they are paying the twenty dollars and five cents ($20.05) per policy on average to fund the fleet program rebates, correct?

MR. TAI PHOA: Yes, that's correct.

MS. KATRINE DILAY: And if we go to Part B which you -- you helpfully pointed us to -- so you pointed out, if we look at this response, essentially, you can -- you'll confirm that MPI is indicating that to the extent that fleets perform well in regards to managing towards a lower number of accidents, it means safer roads for all users, correct?

MR. TAI PHOA: Yeah, that's what the response was. Yes.

MS. KATRINE DILAY: And you'll agree that all users would mean all those who use the roads?

MR. TAI PHOA: Yes, of course.

MS. KATRINE DILAY: And this would include motorcycles and trailers, correct?

MR. TAI PHOA: Motorcycles, yes. Trailers are generally -- trailers generally don't drive on their own, so for -- at least most of them are sort of -- don't drive on their own, they are attached to something. So -- so, yes, it really -- but -- but you're right, so to the extent that it reduces the number of accidents, it applies to all vehicles, yes.

MS. KATRINE DILAY: But the two (2) classes of motorcycles and trailers are not levied a fleet rebate premium, correct?

MR. TAI PHOA: Agreed. But then that brings me back to the first point, is that the fleet program is not accessible to them. So -- so the fact that, you know, motorcycles aren't -- aren't -- you can't -- the Fleet Program does not cover the -- sorry, motorcycles are not -- cannot access the Fleet

Program, so -- so we don't it is appropriate to -- to charge them for it.

MS. KATRINE DILAY: Thank you. Madam Chair, I just have one (1) last -- I'm -- one (1) last question, and then I will be -- I will be done. But I am hoping to go back to the actuarial assumptions and the pure premium trends recommended by Oliver Wyman.

And so I'm wondering if MPI would be willing to provide -- as a scenario for the Public Utilities Board's information, to please calculate the revised rate indication based on the pure premium trends recommended by Oliver Wyman, using the same pure premium trends for all claim categories for each coverage, and distributing the pure premium trend to frequency and severity, as MPI best sees fit.

(BRIEF PAUSE)

MR. TAI PHOA: Can you just give me a minute to consult with my back row.

MS. KATRINE DILAY: Thank you.

(BRIEF PAUSE)

MR. TAI PHOA: Sorry, Ms. Dilay, but

this is causing a bit of a delay. My apologies.

MS. KATRINE DILAY: And I wonder, Madam Chair -- and I'm not sure what MPI would think of this, but perhaps we could take the break to -- to see if we can sort it out, and come back after the break and see if we're able to confirm. But I'll see -- I'm suggesting this. I'm not sure if MPI -- if that would be agreeable to MPI or to the Board.

THE PANEL CHAIRPERSON: Mr. Guerra, do you have any comments on that?

MR. ANTHONY GUERRA: Leaving aside the fact that we've already put into evidence that we don't think that much -- there'd be much value in coming to -- to -- through with this exercise, my concern right now, and that's a question I don't have answered, is whether or not this can be produced within the time frame of this hearing, given that resources are already being dedicated to a project.

So we just want to make sure that if this is something that, subject of a motion, that we can -- we can respond with -- with what the actual response time would be.

THE PANEL CHAIRPERSON: Thank you for that. Let's take the break now then, and we'll come back at -- at quarter after 3:00. Thank you.

--- Upon recessing at 2:57 p.m.
--- Upon resuming at 3:22 p.m.

THE PANEL CHAIRPERSON: Ms. Dilay...?

MS. KATRINE DILAY: Thank you, Madam Chair.

So I'll -- I'll advise that MPI counsel did come to see me. And my understanding is that MPI is prepared to give the undertaking and that I should read it into the record for clarity.

So the undertaking would be to please calculate a revised rate indication, substituting pure premium trends proposed by Oliver Wyman for the combined frequency and severity trends used by MPI to determine the overall rate indication.

Please use the same pure premium trends for all claim categories for each coverage and Please distribute the pure premium trend to severity and frequency as you best see fit.

Is that acceptable?

MR. ANTHONY GUERRA: Yes, counsel. We'll give the undertaking.

--- UNDERTAKING NO. 28: MPI to calculate a revised rate indication, substituting pure premium trends proposed by Oliver Wyman for the combined frequency and severity trends used by MPI to determine the overall rate indication.

And use the same pure premium trends for all claim categories for each coverage and distribute the pure premium trend to severity and frequency as you best see fit.

MS. KATRINE DILAY: Thank you. Those are all my questions, Madam Chair.

THE PANEL CHAIRPERSON: Thank you, Ms. Dilay. Oh, I'm sorry.

MS. KATRINE DILAY: I was just going to advise Ms. Meek, I believe, will be coming in. And so, I will be stepping out. If you will give us just two (2) minutes to do so.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Mr. Hacault, are you on the line at the moment?

(BRIEF PAUSE)

MR. ANTOINE HACAULT (by Teams): Yes, I am, Madam Chair.

THE PANEL CHAIRPERSON: Thank you. I understand that you expect your cross-examination to take approximately two (2) hours. Is that accurate?

MR. ANTOINE HACAULT (by Teams): That's right. It may be shortened because I had sent to MPI, on Sunday, late in the day, some aids to cross-examination. And if I can use those, it may be that I can get through, I'm going to call it, my tedious cross-examination on numbers far quicker.

THE PANEL CHAIRPERSON: Okay. Thank you.

And Ms. Meek, can you advise how long you expect your cross-examination to take?

MS. CHARLOTTE MEEK: I expect to be about thirty (30) to forty-five (45) minutes.

THE PANEL CHAIRPERSON: Okay. Thanks very much.

Mr. Hacault, I think that given that Ms. Meek's cross-examination will take us past 4:00, we'll ask you to return tomorrow morning and start your cross-examination then, so that you won't be interrupted.

MR. ANTOINE HACAULT (by Teams): Thank

you, Madam Chair. That would be appreciated.

I've also communicated with Board counsel to see whether it's possible for me to attend in person. And also, whether it's possible to have one (1) consultant, Jeff Crozier, be there with me.

I understand that that's going to be considered and that I'm to be advised whether it's just me that's possible or whether both of us are possible, or neither. Thank you.

THE PANEL CHAIRPERSON: Certainly. Yeah, we'll make sure that you are advised tomorrow morning. Thank you very much. And we'll see you then.

Ms. Meek, please proceed.

CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Thank you. Good afternoon. My name is Charlotte Meek. I represent the Coalition of Manitoba Motorcycle Groups.

I'd like to start off by looking at the methodology currently used by MPI to discount claims costs. So if we could start at Part 6 Ratemaking, page 21.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: If you go down to line 21. So, here, it reads:

"MPI uses the investment return to discount future payments as based on the market value weighted yield of the marketable bonds portfolio maintained by MPI, i.e., the new money yield. The investment return of 2.46 percent reflects the projected yield as at the midpoint of the rating year 2022/'23, i.e., October 21st, 2022."

Do you see that there?

MR. TAI PHOA: Yes, I do. And just to provide an update, the investment rate based on the rate update that we provided in October is 2.34 percent.

MS. CHARLOTTE MEEK: Thank you. And then, I'd like to skip to Part 5 Claims Incurred. Page 10. And we'll go to line 13.

And so, here, this is a little bit long, but I'd like to read this in as well.

It says here:

"The application of assumed loss development patterns results in a protection of paid and reported losses by fiscal period from the current year until all claims are paid and reported losses by a fiscal period from the current year until all claims are paid.

These payment cash flows are discounted to a present value basis at the end of each fiscal year, using the assumed investment return at that date."

Do you see that there?

MR. TAI PHOA: Yes, I do.

MS. CHARLOTTE MEEK: Okay. So to summarize the above -- and you'll have to bear with me a little bit here -- I understand then that MPI's methodology is to first project paid and reported losses over the fiscal year. Is that correct?

(BRIEF PAUSE)

MR. TAI PHOA: Yeah. So what we do is -- at MPI, what we do is we project losses by what we call loss year. And then, we -- and then, we have to figure out how that -- sorry, in respect to any loss year, we have to figure out the cash flows for those losses until everything is paid out. Yes.

MS. CHARLOTTE MEEK: Sure. So you use a discounting method to accommodate for the assumed investment return. Is that correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Okay. And then, one number is calculated for the assumed investment return and that is based on an average across all coverages and all major classes. Is that correct?

MR. TAI PHOA: Yes. So, like I shared this morning, we calculated the -- the current rate of return that we use -- or the new money yield -- based on the duration of the unpaid claim liabilities as a -- as a point in time.

MS. CHARLOTTE MEEK: Sure. And that's the duration of the unpaid claims liabilities across all major classes. So it's one number effectively.

MR. TAI PHOA: Yes, it's an overall number. Yes.

MS. CHARLOTTE MEEK: Thank you. Yeah. And then, I'd like to just quickly go to an exhibit from last year, please. So this is CMMG Exhibit 3 from the 2021 GRA. And this was a confidential Information Request from CMMG that was then put on the public record by MPI.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: And the question -- oh, it's loading, but I'll start off a little bit.

The question here was, basically, asking MPI about MPI's appetite for risk. And it was also discussing the significant impact that interest rates have had on the motorcycle class.

And then, I want to just look at MPI's response. Just give it a moment to load.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: Thank you. So the first paragraph there, we can see MPI indicates that it does not support the idea of creating a special backing portfolio for motorcycle claims liabilities.

However, MPI recognized that a reasonable consideration would be to apply interest rates at points on a yield curve that correspond to the duration of the liabilities for discounting purposes.

And they suggest that 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, so there would be no substantial benefit in using that approach in the near term.

MPI also stated, in the application, it would consider making this change in the 2022 GRA, after a more thorough impact assessment is completed for all vehicles.

So here, we see that MPI suggested the concept of using points on a yield curve to correspond to the duration of liabilities. Is that correct?

MR. TAI PHOA: Yes, that is correct. And, yeah, just to follow up on that, the -- the Public Utilities Board also ordered us to do the same. And we have filed our response as part of the application this year.

MS. CHARLOTTE MEEK: Thank you. Yeah. And we'll get to that.

And so, that proposal, it was intended

to provide a more appropriate discount rate for the major classes because each major class has a different makeup of coverages. Is that correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: So, for example, the motorcycle major class is made up of ninety-one (91) -- I think someone said today 92 percent PIPP claims. Whereas the private passenger major class is made up of only 26 percent PIPP claims.

Is that correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Okay. So that means that each major class may have a different duration point on the yield curve. Is that right?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: So as MPI notes in this Information Response -- or Information Request, sorry -- it was proposed as a methodology that may assist, in particular, in ameliorating the impact of interest rate volatility on the motorcycle class. Is that correct?

MR. TAI PHOA: Yeah. So that is correct, yeah. At least we are -- were responding to the PUB order.

MS. CHARLOTTE MEEK: Right. And

would you agree that, this year, the yield curve has returned to a more normal sloping -- a more normal upward sloping curve?

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: I could go to a reference, if that would be helpful.

MR. TAI PHOA: Yeah. That would be helpful. Thank you.

MS. CHARLOTTE MEEK: Sure. If we could go to Exhibit 27, page 3, figure 2.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: So this is the investment return over sixteen (16) years. And it shows a gradually increasing and that demonstrates the upward sloping curve. Is that accurate?

MR. TAI PHOA: Yeah, for -- for durations one (1) to sixteen (16), yeah. I agree with that.

MS. CHARLOTTE MEEK: Thank you. And then, if we can go to page 1 of this exhibit.

So as you alluded to, this is the

ultimate rate indication that MPI provided this year. Is that correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Okay. And so, as you mentioned previously, the Board gave a directive and the directive was as follows:

> "In the 2022 GRA, the Corporation shall provide a rate indication by major class -- by major use class, including the use of interest rates at points on the yield curve corresponding to the duration of liabilities in the determination of the rate indication for each major class. As well as an alternative rate indication by major use class, excluding this change."

Is that correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Okay. So the way the directive is written, it indicates that MPI will provide a rate indication using points on the yield curve and will also provide an ultimate rate indication excluding that change. Is that true?

MR. TAI PHOA: Yes, that is true. And

the way MPI interpreted the second part of the directive is that, basically, we are comparing what we're doing now -- which is the alternative rate indication -- excluding this change to what it would like with the change.

MS. CHARLOTTE MEEK: Right. So the ultimate rate indication, basically, provides both, right? It provides excluding the change and what it would be -- like, there's the last figure on the end of the document here that we'll go to eventually.

MR. TAI PHOA: Yes, I agree.

MS. CHARLOTTE MEEK: Okay. But it does note here that the PUB was expecting the rate indication in the GRA to be provided using points on the yield curve. Is that correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Okay. So you'd agree that's not exactly what happened, but MPI had a different interpretation of this directive?

MR. TAI PHOA: Sorry, could you repeat the question again? I might have missed something. Yeah, just maybe repeat that question again.

MS. CHARLOTTE MEEK: Sure. I'll -- I'll try to repeat it for you.

You'd agree that what was ordered by

PUB, that the rate indication in the GRA would be provided including the use of interest rates on points on the yield curve. That did not actually happen.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: The rate indication in the main GRA was not provided using points on a yield curve, it was using a single point?

(BRIEF PAUSE)

MR. TAI PHOA: My apologies, Ms. Meeks, (sic) for taking so long. I will agree with you that we did not use the interest rates points on the yield curve for this application.

My understanding of the directive was more a question of looking -- bringing forward to the PUB what the two (2) methods were -- the difference between the two (2) methods, so that is -- so that the Board can -- the Board and Interveners can look at it and decide on whether that is the methodology they would like to proceed with.

So, that was my understanding of the directive. I can see where you're coming from, just reading it -- the directive.

MS. CHARLOTTE MEEK: Thank you for that clarification.

So, I'd like to now go to Figure 4 of this exhibit, so page 5. You'll have to bear with me; these kinds of figures are always challenging.

So, on line 3 I understand that we can see the rate indication without the change. That's correct, right?

MR. TAI PHOA: Yes, that is correct.

MS. CHARLOTTE MEEK: Thank you. And if we look at line 7, we can see what the rate indication would be with this change.

Is that correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Okay. And then line 8 gives us the impact and change -- or the change between those two (2)?

MR. TAI PHOA: Yes, that reflects the difference between what would happen if we did -- if we made the change, yes.

MS. CHARLOTTE MEEK: Okay. And we can see that for each major class, except trailers and off-road vehicles, that this change increased the rate indication.

Is that correct?

MR. TAI PHOA: Yes, that is true.

MS. CHARLOTTE MEEK: Okay. So, it increased the private passenger by 2.1 percent, correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Commercial by 2.4 percent?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Public by 2.3 percent?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: And motorcycles by 4 percent?

MR. TAI PHOA: That is correct, as well.

MS. CHARLOTTE MEEK: Okay. So, this change did not have the desired effect, as proposed by MPI, despite the fact that the yield curve is inclining. Is that right?

MR. TAI PHOA: That is correct. So, just to -- just to clarify a little bit, again. Historically, what we've done is we use a -- an investment return that corresponds to the duration of (INDISCERNIBLE) liabilities. We talked about that this morning.

So, that duration, like I men -- like I -- I spoke about it this morning, is -- is a lot longer than the claims -- than the duration on, say rating the 2022/'23. So, as a result of that, what would happen when we -- if we shift the methodology is that now you are looking at a short claims which -- sho -- a shorter duration for just the rating year itself.

And because of that, the new money yield will -- with decrease, and even for long-term -- long-term coverage, because now -- now you have to recognize that there is the -- we are -- we are just looking at one (1) year, as opposed to the many years that built up the (INDISCERNIBLE) liabilities.

So -- so, because of that, on an overall basis, we are looking at about a 2.1 percent higher rate indication.

And -- and the results are a little bit -- significantly higher for motorcycles; that's because the -- the -- again, motorcycles are very much driven by PIPP and the -- any -- when it comes to discounting, if you're -- if -- if you have a longer tail, then the impact of discounting is greater.

MS. CHARLOTTE MEEK: Okay. Thank you.

And if we could go up now to the bottom of page 1, I'd just like to review the methodology that was used for this alternate rate application.

So, this section indicates that MPI first determined the duration of cashflows for the rating year '22/'23 separately for the following.

And we can scroll down a little bit, please, Kristen.

So did it separately for the following: for claims costs, claims expenses, non-claims costs and other income sources.

Is that correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Okay. And then we can see under 'claims cost', MPI indicates that durations were determined separately for each coverage listed there.

Is that correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Okay. And if we go to page 3, we can see the different coverages and their corresponding durations in respect of investment return discount.

Is that correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Okay. So, here MPI has determined the duration for each coverage and applied that duration for that coverage to all major classes.

Is that correct?

MR. TAI PHOA: That is correct.

MS. CHARLOTTE MEEK: Okay. So, that -- they did that rather than determining a duration of liabilities by major class so, for example, a duration of liabilities for the Motorcycle Class, a total duration of liabilities for the Private Passenger Class.

Is that correct?

MR. TAI PHOA: Yes, I -- I would -- I would agree with you on that one. I -- I just want to add in there that we -- we -- when we look at cashflows, we look at cashflows on an overall basis. It is -- I -- I believe we have mentioned the past -- it is very -- it is difficult to look at, you know, ex -- projected payment patterns for -- for certain major classes, esp -- especially when it comes to things like PIPP coverages, namely, indemnity, accident benefits other, and -- and the accident benefits other.

So -- so we use -- we -- we did not

look at cash flows at the major class level, but look at it on an overall basis. And then -- and then depending on the composition, like for example, motorcycles are heavily PIPP, so -- so you -- so motorcycles will get the benefit of the coverages with the long-term durations.

MS. CHARLOTTE MEEK: Okay. So, had MPI done it the opposite way, had calculated a total duration per major class, that would result in a different result of duration per major class.

Would you agree with that?

MR. TAI PHOA: I -- I would agree with that somewhat. However, I don't believe the differences will be significant. Again, like -- and so, we are trading off, you know -- again, it is -- it is very hard to accurately determine a cashflow for -- for certain major classes, major -- for certain major classes with very small -- not -- I wouldn't say small, but where -- where the -- the small number of vehicles in the major class can result in a lot of significant vol -- volatility or significant differences year-over-year.

MS. CHARLOTTE MEEK: Okay. So, you're saying for some major classes, because they have a smaller number of individuals within that class, it creates volatility and it's more difficult to determine cashflows?

MR. TAI PHOA: Yeah. So -- so we -- like -- like you alluded to in the claims forecasting process, you know, we are looking at lost development patterns -- we are trying on -- on an overall basis. So, in order to sort of say what is the cashflow for say the Motorcycle Major Class, we'll have to figure -- try and figure out, based on historical indications, how that will flow year-over-year.

But when it comes to something like PIPP, where the losses are -- are -- even -- even on an overall basis, for something like PIPP, it is often difficult to select lost development factors that properly reflects the historical.

And -- and so when you bring it down to a more granular level like motorcycles, that will -- that makes it even a lot more difficult when -- when -- especially because the Motorcycle Major Class only has about, I believe about eleven thousand (11,000) units a year, or something like that.

MS. CHARLOTTE MEEK: So, you say that it's difficult, but it is possible to do?

MR. TAI PHOA: Nothing's impossible, if -- if -- if that's the question.

MS. CHARLOTTE MEEK: Good --

MR. TAI PHOA: -- whether -- whether -- whether the data -- whether such an indication is reliable and -- and the whole concept of being statistically significant, whether that is correct, you know, that -- all those things have to come into consideration as well. Certainly we -- certainly, you know, there -- there will be a lot of variability and -- any -- any number that we select, might not be appropriate.

MS. CHARLOTTE MEEK: And I just want to confirm, you did previously say that if the alternate rate indication was done that way, you didn't think it would be significantly different from the way that MPI has done the alternate rate indication here. Is that correct?

MR. TAI PHOA: No, I don't think it would be significantly different -- different, again, you know, motor -- motorcycles are given -- based -- based on the methodology, and given that motorcycles are 92 percent long till, the methodology the -- the revised methodology does recognize the higher yields for those coverages.

So, you know, where income replacement identity is 2.01 percent, you know, for normal, then we, that -- that's recognizing when -- when we figure out the major class rates for motorcycles.

So I -- I think this methodology works, and you'd be able to sort of -- and it's -- it's probably more accurate than trying to figure out payment patterns for PIPP for motorcycles.

MS. CHARLOTTE MEEK: Okay. If we could turn to the transcript of proceedings from last year, so this would be the October 20 transcript from 2020. Page 502. You go to line 22.

So this was my cross-examination of Mr. Johnston last year, and I just want to read through a little bit of what he says, so he says:

"What we have up -- I don't want to go too far off base here, but what we have put forward in this application is a recognition that using a single discount rate is -- there are fairness issues with -- with that. So in a normal environment where long-term bonds have higher yields than short term bonds, we're not in -- we're in a fairly flat interest rate environment today. There is

definitely merit that we should have
a different discount rate for
motorcycles in all classes to
reflect the nature of the claims in
those classes."

So would you agree that the methodology that's been used by MPI is not the same as the methodology described by Mr. Johnston here?

MR. TAI PHOA: Kristen, if you don't mind, just scrolling down a little bit, I just want to make sure that I read Mr. Johnston's comment appropriately.

So I -- I don't -- I don't believe -- I don't believe there's any difference because we are actually using a different discount rate for motorcycles than say private passenger and that's because, again, there's 90 percent weight to PIPP. And so PIPP is discounted differently than collision based on the -- the revised methodology.

So, to the extent that motorcycles have more PIPP claims, your discount factor would be a lot larger than -- than say the private passenger itself.

MS. CHARLOTTE MEEK: Okay. Maybe we could go back then to the Board Order. So back to Exhibit 27, page 1. Thank you, Kristen.

So, in the Board Order you'll agree that it indicates that what MPI do is we'll use interest rates at points on the yield curve corresponding to the duration of liabilities for each major class use.

Would you agree that the duration of liabilities for each major use class indicates a total duration for that major class, rather than a breakdown of the duration of coverages?

MR. TAI PHOA: Sorry, Ms. Meeks, (sic) I -- I just want to be very sure of the question you're asking. Can you just, if you don't mind, just repeating that again?

MS. CHARLOTTE MEEK: Sure. I just want to note the language that was used in the Board directive, which indicates that the Corporation shall provide a rate indication using points -- interest rates at points on the yield curve, corresponding to the duration of liabilities for each major use class.

So, it specified that -- the way the points on the yield curve are going to be applied is based on the duration of liabilities for each major use class, rather than a duration for each coverages then applied to the major classes.

MR. TAI PHOA: I -- I -- I read this a

little bit differently because the directive says, the use of interest rates at points on the yield curve, corresponding to the duration of liabilities, in the determination of the rate indication for each major use class.

So I -- I -- I read this a little bit differently. I read this as saying when you are -- when you are determining the rate indication for each major use class, what -- I want you to do is instead of using that single point for -- on -- on -- of 2.46 percent, I want you to figure out what is your -- the duration of the different liabilities by coverage and -- and -- and up -- and -- and determine and -- and calculate the yield curve -- the -- the yield, based on the yield curve, based on that duration.

And then, so -- so -- so that's kind of how I -- that's how I read it when -- in terms of dealing with this question.

MS. CHARLOTTE MEEK: Okay. Would MPI be willing to provide an updated alternate rate indication using my interpretation of this directive, so using points on a yield curve, corresponding to the duration of liabilities by major class?

(BRIEF PAUSE)

MR. ANTHONY GUERRA: So -- so Counsel, your -- your question is whether or not it's -- it's possible to provide this analysis and -- and I think there -- there are -- there is another question that comes from that, which is to say, is it -- is it possible within the time frame that -- that works for the purposes of this hearing.

And so I think that's the -- the question that needs to be posed to the witness because he does have some comments that he would like to make on that.

CONTINUED BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Sure.

MR. TAI PHOA: Yeah. So, I'm just going to quickly comment on the feasibility of getting this done.

So, a couple of comments. One, like I said, we are looking at -- so -- so -- what -- what this would require me to do -- require -- the -- the work that is required is that we have to select LDFs for all the major classes in order to determine the payment pattern of all the major classes.

This is -- this in itself is -- is

difficult and potentially very inaccurate because -- especially for small groups like -- and -- and in all fairness, the only group that's large, when it comes to PIPP losses, is -- is the -- private passenger major class and all the others are -- are fairly smaller and -- and so -- so that -- that's going to be one (1) of the things that has to be done.

The second point, of course, is that -- just in terms of the timing, you know, such a -- such an undertaking would -- would take at -- at least a week, a whole week to just get it done.

It would be -- just to be very confident in terms of what we're doing, and -- and confident in terms of the selections that we make so that we are -- we provide the most accurate reflection of what this looks like to the Board.

And then, of course, it's pieces -- like I said earlier, the difference would probably be not very material. You know, I -- we're -- we're like, I -- I can see -- I can see us forcing our way to trying to figure out loss development factors but, at the end of the day, we sort of have to select what's reasonable and where no reasonable selections can be made, we probably will -- will revert back to the overall indications.

So, I -- I just, my -- my -- my feel on this is that, you know, that we are not going to be very significantly different from what's presented in this -- this particular submission.

MS. CHARLOTTE MEEK: Thank you for those comments. I think you mentioned your concerns about whether or not the numbers would be reliable. I would take no issue with MPI providing comment as to the reliability of the numbers provided in alternate rate indication.

So if you had concerns about, you know, the size of a certain major class and whether the reliability of the LDFs selected for that, I would have no issue with MPI providing those comments within the undertaking.

You also noted that -- you said the change in the numbers may not be material. Could you confirm, is that in terms of all the major classes? Like it could be quite material for one (1) major class and less material for the other major classes?

So, for example, as you noted, duration is so important for the motorcycle major class, so it could have a more significant impact on the numbers that we're looking at for the motorcycle class than it would for other vehicle classes perhaps.

MR. TAI PHOA: Yeah, and I think -- and I think we are appropriately -- as I said earlier, I think we are appropriately reflecting the duration for the motorcycles because, like I said, we -- the -- it is more heavily weighted to PIPP losses. And so we recognize the higher discount -- discount factors applicable to the longer durations.

I -- I will say -- when I say -- when I say, "not material," I would -- I would -- my -- my reference is to all major classes. So when I say it's not -- it would not be materially different for all major classes as presented right now.

MS. CHARLOTTE MEEK: But it could be materially different for the motorcycle major class?

MR. TAI PHOA: I would -- I would think they would not be materially different for the motorcycle major class either because, like I say, we are already reflecting the duration of the group based on the weights of the -- the relative weights of the -- the claims costs, so.

MS. CHARLOTTE MEEK: So you're saying because the weights, because, for example, the motorcycle class has a large PIPP category, that there's already a weighted factor?

MR. TAI PHOA: Yeah. So we already --

so -- so 90 percent of PIPPs -- 90 percent of motorcycle costs or -- or more is PIPP, and so when we look at -- when -- when we -- when we apply the discount and then we apply the allocation by major class, naturally, you know, the -- the most -- again, the -- the impact of the discount will be highest on the PIPP coverages. And that would be reflected in what's allocated to the -- to the motorcycle major class.

MS. CHARLOTTE MEEK: In terms of the timing that you said that it might take, I understand that the -- the LDF charts or the tables for LDF patterns, those are easily accessible for MPI. It's just a question of selecting which factor would be the most appropriate?

MR. TAI PHOA: To be fair, Ms. Meek, we have to create the -- the -- we have to create the historical triangles that will allow us to actually even select the -- the -- those factors.

So -- so we have to start basically from scratch and -- and then look at the historical numbers, select factors, make sure that, on an overall basis, it makes sense, and then -- and then we can apply, you know, some of the -- the other things.

And I'm just -- I'm just assuming that

we will have a few snags on the road as well. That's just how it goes. You should even be -- when we talk about doing a different analysis, so there will be other -- other questions to answer as we go along.

MS. CHARLOTTE MEEK: Sure. Maybe I can speak to why I believe that this information's relevant.

I think I've indicated that the directive from the Board could be interpreted two (2) ways. I think this suggestion was made by MPI in order to -- or with the hopes that it would help with ameliorating the interest rate impact on the motorcycle class.

MPI has not come to the Board with any other alternative to alleviate interest rate impacts on the motorcycle class. It is our perspective, or CMMG's perspective, that this alternative interpretation of the Board directive would in fact help to prepare the rate determination for the motorcycle class.

And therefore, I think it's important that the Board has that information before it in order to make a determination as to whether the alternate rate indication as provided by MPI is accurate or whether there's another alternate rate indication that could actually assist.

THE PANEL CHAIRPERSON: Just give us a moment, please.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you, Ms. Meek. Could you please provide us with the wording of the undertaking that you are looking for from MPI?

MS. CHARLOTTE MEEK: I was seeking that MPI would provide an updated alternate rate indication which uses points on a yield curve corresponding to the duration of liabilities by major class.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you. Given the suggested timing -- this would take one (1) week -- we are hoping that it would be available prior to the end of the hearing.

So certainly we are in agreement with the request for the undertaking and would ask that MPI attempt to expedite that to the extent possible so it can be of value in the hearing. Thank you.

MR. ANTHONY GUERRA: Madam Chair, with respect, we didn't actually object to the undertaking, but we didn't also provide our reasons for objection.

So I would like just to put it on to the record now because I do think it's improper for unfortunately this Board to have a decision without hearing MPI's position as to whether or not it can actually fulfil this.

I also --

THE PANEL CHAIRPERSON: I'm sorry. I thought you had indicated that you thought it was going to take too long, and that was the reason for the objection.

MR. ANTHONY GUERRA: No, but I would like to put on to the record that we do have our witness, Ms. Phoa -- Mr. Phoa rather -- who would be providing the -- the research and the completion of that.

Mr. Phoa is actually being presented here as a witness for the balance of this week and so will not be attending to this project for the balance of this week. So when Mr. Phoa says that this is a week-long project, it's a week-long project that will start next week.

And so I just want to make sure that

everyone's aware. We're not challenging this on the basis of relevance, but we do have concerns about whether or not this is something that can be done within a reasonable time period for the rest of this hearing.

And I would note for the Board's consideration that this was information that was provided to my friend as early as September 15th, and, you know, it's -- it's one thing to -- to ask for the information, but it's another thing to ask for the information in a way that it's not practical to -- to respond to.

We don't want to be seen as being obstructionist, but at the same time we do have practicalities here. We -- we don't work twenty-four seven (24/7), and we don't, you know, make -- take these undertakings lightly. We want to do a good job on it.

So, I would just note for the Board's consideration that if the Board were to order this, this is not something that can be done before the end of the hearing.

(BRIEF PAUSE)

MR. ANTOINE HACAULT (by Teams): It's Mr. Hacault here. Sorry to interrupt.

Having listened to some of the exchange, I can give notice to MPI that tomorrow I'll be asking questions as to whether a more limited undertaking which would focus only on taxicab and only on motorcycles would take less time.

I understand the statement that for all major classes it would take a week. But I'm giving notice that I'll ask questions and make the similar request for undertaking, but a more limited one to focus only on two (2) major classes, being the taxis and the motorcycles.

THE PANEL CHAIRPERSON: Thank you, Mr. Hacault.

Ms. Meek, what's your response to that?

MS. CHARLOTTE MEEK: So I could put the question to MPI to see if that would reduce their time lines for providing this undertaking.

THE PANEL CHAIRPERSON: Certainly. Thank you.

MR. TAI PHOA: So a couple of points.

1. If we -- if we are deciding that -- that -- sorry, if -- if doing loss development factors for motorcycles is really onerous in itself, trying to

do that for an even smaller group like taxis, I -- the only one -- I'm very cautious about testifying about the validity of those results.

The second piece, of course, is that while it appears that we could just do it for motorcycles and taxis, in -- practically we can't, because at the end of the day we still need to balance everything back to the overall rate indications. We still need to -- we still need to look at it for the other major classes, so that -- to provide a more -- the most accurate project -- the most accurate rate indications by major class.

So -- so it looks like we should be able to but, you know, in reality the most -- the most accurate picture that we can paint is if we did it for everybody in the same way.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you. We will discuss this following the end of the day today and provide a response by tomorrow. Thank you.

CONTINUED BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Thank you, Madam

Chair. I just have a few quick snapper questions, I think -- as Mr. Williams would say -- to end my cross today.

I'd like to look now at some information that you discussed with Ms. McCandless this morning. If we could turn to MPI Exhibit 63, slide 6.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: This is your presentation from this morning.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: I think we don't even need to go there. I can maybe just ask you to confirm.

In your presentation, you noted that there was an increase in operating expense that had an impact of .8 percent.

Could you confirm that?

MR. TAI PHOA: That is confirmed.

MS. CHARLOTTE MEEK: Thank you. And then we're going to jump to another exhibit. I'm sorry, Kristen. Exhibit 52, please.

Ms. McCandless also put this to you this morning. So this was a pre-ask from CMMG, which notes an increase in data processing expenses, which relates to the operating expenses impacting the rate indication of approximately 14.3 million.

Is that correct?

MR. DEAN DUNSTONE: That's correct.

MS. CHARLOTTE MEEK: Thank you, Mr. Dunstone.

And with Ms. McCandless, you confirmed that this was due to a change in standards, which means that expensing, licensing, or subscription costs can no longer be capitalized. Is that correct?

MR. DEAN DUNSTONE: That's correct.

MS. CHARLOTTE MEEK: Okay. And can you confirm whether the increase in data processing expenses, is that entirely due to the change in standards or -- which prevents capitalization or are there other increases to that expense that have been co-mingled into that number?

MR. DEAN DUNSTONE: Yeah, I can't confirm that right now, but it -- it could be -- there could be other co-mingled data processing in there. I'm not sure.

MS. CHARLOTTE MEEK: Would MPI undertake to provide a breakdown of -- of that 14.3 million and how much applies to the new standards that prevent capitalization?

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Yes, Counsel. We'll give the undertaking.

MS. CHARLOTTE MEEK: Thank you.

--- UNDERTAKING NO. 29: MPI to provide a breakdown of the 14.3 million data processing expenses and how much applies to the new standards that prevent capitalization

CONTINUED BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: I just have some general questions regarding motorcycle licences in Manitoba.

Can you confirm that there are approximately eighteen thousand (18,000) motorcycles registered in Manitoba? Is that correct?

MR. TAI PHOA: Subject to check, sure.

MS. CHARLOTTE MEEK: Thank you. And can MPI provide the number of motorcycle licences that are either a Class 6L or Class 6F currently?

MR. TAI PHOA: My recollection, the last time this was discussed it was about seventy thousand (70,000).

MS. CHARLOTTE MEEK: Seventy thousand (70,000). Thank you. That's sufficient.

And can MPI also provide data over the last four (4) years where a motorcycle was involved in a collision where the driver was not the registered owner of the vehicle?

MR. TAI PHOA: Sorry, please, repeat that question again?

MS. CHARLOTTE MEEK: Sure. I guess I'm asking for another undertaking as to whether MPI could provide data over the last four (4) years where a motorcycle was involved in a collision where the driver was not the registered owner of the vehicle?

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Yes, counsel. We'll give the undertaking.

MS. CHARLOTTE MEEK: Thank you.

--- UNDERTAKING NO. 30: MPI to provide data over the last four (4) years where a motorcycle was involved in a collision where the driver was not the registered owner of the vehicle

CONTINUED BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: If we could go now to -- this will be my last question -- PUB-MPI-2-38. I believe this was put to you by Ms. McCandless this morning again. If we can go to the answer to 'A'.

Sorry. Actually, can we go to the question posed at 'A'. I apologize.

And again I mean 'B'. I'm sorry about that.

So the question here at 'B' says:

"Please, confirm that the use of severity groups weighted by incurred amounts would reduce the rate indication by about negative 1.4

percent with a large impact mainly for motorcycles. In other words, please, confirm that changing from weighted severity groups indicated trends by incurred amounts to weighting by claim counts has increased the rate indication by about 1.4 overall."

And I'm wondering if you can confirm what the impact would be on the motorcycle rate indication if MPI used severity groups by incurred amounts, rather than claims counts?

(BRIEF PAUSE)

MR. TAI PHOA: Sorry, Ms. Meeks. Just give me one (1) moment to make sure that I'm comparing apples to apples.

MS. CHARLOTTE MEEK: Sure.

(BRIEF PAUSE)

MR. TAI PHOA: Okay. So if we went back to PUB-MPI-1-78, I have here page 12 -- the last page of PUB-MPI-1-78. Perhaps, we could go there.

The last page, so -- yeah.

So this is -- this is the results by major classification of the particular scenario. As you can see, the required rate change for motorcycles is minus 2.7 percent, going down a little bit.

All right. So by comparison, what we filed in the June -- the June filing, the motorcycles were 1.1 percent. So that's a change of 3.8 percent.

MS. CHARLOTTE MEEK: All right. Can I just -- could you scroll up to the top of this page, please, Kristen?

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: So this provides the effect on all major classes, where it would be -- severity groups were done by incurred amounts, rather than claims counts.

MR. TAI PHOA: Yeah. This is the initial question that -- so PUB-30 -- PUB-2-38 refers to C -- PUB-1-78, and this is the -- our initial response.

So if you -- if you scroll down a little bit, Kristen, you can see that the 1.4 percent is the difference between the 4.2 percent that you see for the full credibility required change, and the 2.8 percent that was filed in the June GRA. So -- so that's -- That's the comparison.

MS. CHARLOTTE MEEK: Perfect. Thank you very much for that explanation. Those are my questions.

THE PANEL CHAIRPERSON: Thank you very much. It's quarter after 4:00 and we'll adjourn for the day and resume tomorrow at 9:00 with Mr. Hacault. Thank you.

--- Upon adjourning at 4:17 p.m.

Certified Correct,

____

Wendy Woodworth, Ms.