MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2023/2024 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Irene Hamilton, K.C.	- Panel Chairperson
Robert Gabor, K.C.	- Board Chair
Susan Nemec	- Board Member
George Bass, K.C.	- Board Member
Susan Boulter	- Board Member

HELD AT:

Public Utilities Board

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Day 9

APPEARANCES

Kathleen McCandless	)Board Counsel
Robert Watchman	)Board Counsel
Kara Moore	)Board Counsel
Roger Cathcart	)Board Advisor
Blair Mantketelow-Eckler (remote)	)Board Advisor
Steve Scarfone	)Manitoba Public
Michael Triggs	)Insurance
Anthony Guerra	)
Jordan Lang (Student-at-law)	)
Byron Williams	) CAC (Manitoba)
Chris Klassen	)
Karen Wittman	) Taxi Coalition
Sharna Nelko	)
Charlotte Meek	) CMMG
Jennifer Sokal	) IBAM
Michael Weinstein	)
Christian Monnin	) Bike Winnipeg
Charles Feaver (np)	)

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--- Upon commencing at 2:12 p.m.

THE PANEL CHAIRPERSON: Thank you. Welcome back to Mr. Giesbrecht, Ms. Low, and Ms. Ostapowich.

Mr. Scarfone, could you please introduce your back row?

MR. STEVE SCARFONE: Yes. Yes, because you know the front row. Just before I do, Madam Chair, Mr. Guerra reminded me, probably because he's younger, by a month or two (2), that that information that I -- I just read into the record was on the confidential module.

So, should read it again in the public record and it was a -- an answer in response to the net present value for the DVA line of business as it concerns NOVA, negative -$103.2 million. And on the insurance side, the net present value is a negative -$85.7 million.

So, before you is the Capital Management Plan Panel.

THE CHAIRPERSON: Can I interrupt you just a moment?

MR. STEVE SCARFONE: Yes?

THE CHAIRPERSON: Do you have exhibits

to introduce as well?

MR. STEVE SCARFONE: I -- I thought I might, but it appeared that we were out of order. So they're straightening out the order of those exhibits.

THE CHAIRPERSON: Oh, they are. Okay.

MR. STEVE SCARFONE: Yeah. So we'll have to read those in and catch up tomorrow morning.

THE PANEL CHAIRPERSON: Okay, that's fine. Thank you. Sorry, go ahead.

MPI CAPITAL MANAGEMENT PLAN/FIVE-YEAR FORECAST/REVENUE PANEL:

CARA LOW, Resumed

MARK GIESBRECHT, Resumed

CHERITY OSTAPOWICH, Resumed

EXAMINATION-IN-CHIEF BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: So, the Capital Management Plan panel is before you. In conjunction with that they'll speak to the five (5) year forecast in revenues.

In the back row behind Mr. Guerra is Dean Dunstone, he's manager of Capital Management and beside him is Tyler Clearwater, an Actuarial Analyst

2. In addition to those gentlemen, also in the back row providing support to the panel is Mark Russo, Financial Forecasting Specialist, Khurram Masud, who you heard from earlier in the hearing, he's Director of Pricing.

Ngoc Ly, another Actuarial Analyst 2. Christie Way, she is our Director of Injury Claims Management, and Christine Zhou, Director of Business Insights and Analytics.

Oh, and sorry, Mr. Bunston, our Director of Asset/Liability Management and Investment Management is also listening in and supporting panel members.

So, I -- I believe before you is the presentation that Ms. Low will provide. And so, Ms. Low, if you're prepared to proceed with that, and just confirm, of course, that this presentation and its content will form part of your examination-in-chief here today.

MS. CARA LOW: I confirm that.

MR. STEVE SCARFONE: Thank you.

MS. CARA LOW: Good afternoon. It's good to be back yet again. Our presentation today are -- it's going to be in two (2) different parts. So, if you can flip to the next slide. There we go.

Yeah, perfect.

First I'm going to speak at a very high level. Why do we need a Rate Stabilization Reserve? This will be referred as the RSR many times throughout the presentation.

I will then speak to the current Capital Management Plan which we've often referred to as the CMP.

The third item will be the proposed changes to the CMP. I will then hand it over to Cherity, beside me and she will walk you through the five (5) year forecast and the application of the revised CMP. So if we can -- yeah, move forward one (1) more. Thank you.

So, I thought I would start us off with an analogy to personal finance. I find that there's a lot of times confusion between actuarial ratemaking and the capital management of the RSR.

So, I just want to start off with a very simple analogy. Every two (2) weeks many individuals receive a paycheque and that goes into their bank account. They use these funds to pay for everyday costs, so things like their mortgage or their rent, car payments, gas, groceries, and so on.

The hope is that the money going into

the chequing account is enough to cover all the expenses going out of the chequing account every two (2) weeks.

In addition, many people would have a savings account. A savings account isn't for daily or weekly expenses, it's for when the car breaks down, and the roof is leaking, or when the furnace needs to be replaced.

The savings account is built up over time when there's extra money to put aside into the savings account.

For MPI, the first bank account is akin to our insurance pricing. The pricing actuaries are trying to predict the costs of the upcoming rating period so that the premium collected is equal to the expenses incurred, less expected investment income related to the premium collected.

The RSR is a savings account in the analogy. Actuaries will always price for the expected or average cost. We don't price for a bad year. We don't price for a good year. We price for an average cost year.

So, the RSR is not expected to go up or down due to pricing, because we forecast for net income to be zero. However, actual claims and expenses will come in either over budget or under budget.

Just like other insurance companies, we will have good claim years and we will have bad claim years. If under price, the additional cost must come from the RSR. This is the same as when our paycheque doesn't cover the bills over the two (2) weeks and we have to dip into our savings account to pay for the mortgage payment.

If over price, the additional premium revenue goes into the RSR. Again, like our personal life, if we have money left over at the end of a pay period, we can put additional money away into savings.

However, the RSR is not just for fluctuations and insurance claims experience year-over-year, rather, the main goal is to be there for large unexpected adverse events, such as inflation or a large hailstorm. These are like the personal life events of our car breaking down or the furnace needing replaced.

So when we speak about capital management at MPI, we are referring to the management of our savings account, known as the RSR and not about the pricing of insurance. Next slide, please.

The intent of the Capital Management

Plan is to be transparent with our stakeholders by stating how much should be in the RSR and what to do if the level is too high or too low.

The current CMP targets a point estimate for the minimum capital test or MCT. The estimate is 100 percent. The MCT is an industry standard metric. It is the ratio of how much capital we have, so how much is in our savings account, divided by the minimum amount of capital required to support the risks that we have assumed.

When MPI is at 100 percent MCT, that means that RSR is exactly at the minimum amount required to support the risk level that we have taken on.

Back in 2019, MPI had envisioned that the MCT would hover around 100 percent. If it dipped below a 100 percent, a capital build would be applied. If we went over 100 percent, a capital release would be applied. The capital builds and releases are explicit surcharges or discounts applied on top of actuarially sound rates.

The rates charged to ratepayers are not impacted by capital builds or releases, rather the builder release is on top of the AAP rates. The RSR, and thus, the MCT fluctuates up and down for many reasons. This could be better or worse than expected claims experience, investment results, transfers from the Extension line of business, inflation, hailstorms, or past claims closing for more or less than expected. Next slide, please.

So, the current steps for the application of the CMP can be seen on the slide. What we do is we forecast a year end MCT for the Extension line of business. If the forecasted MCT exceeds the targeted 200 percent, then we forecast how much money can be transferred from the Extension line of business over to the Basic line of business.

Then we look at the forecasted year end, MCT for the Basic line of business. If the ratio is forecasted to be under 100 percent, we apply for our capital build and the capital build is to be over five (5) years and capped at 5 percent.

So, if we need -- have an actuarial need for a rate increase of 2 percent, that means the capital build can't be more than 3 percent. So, it's an overall 5 percent. If the MCT is forecasted to be above 100 percent then we apply for a capital release. Next slide, please.

So, those were the current CMP steps. We are proposing three (3) changes. Experience over the last two (2) years has changed our opinion regarding the appropriateness of the current version of the CMP. The underlying objectives have not changed, but we believe that there's more reasonable ways of achieving the objectives.

So, the three (3) changes are: the first one, we now understand a single target is not feasible due to natural fluctuations in the MCT. We are proposing to move to a range with a lower threshold of 100 and an upper threshold of 120.

The second change is to replace a capital release with a capital rebate. The rebate would be initiated when the MCT exceeds 120. The amount of the rebate would be the amount needed to get us back to 100 percent. And the capital build would remain unchanged.

And the last change is to move away from making decisions on forecasts and basing financial decisions on actual results.

So, let's look at each one (1) of these changes in a little bit more detail. So, MPI believes it's prudent to move away from a single MCT target to a range in order to create stability. The MCT naturally fluctuates, even in stable times.

And as seen during the pandemic, it can

have extreme movements during abnormal times. MPI believes that 100 percent continues to be the minimum amount needed, because this aligns well with the industry, as well as the risks that we're assuming.

If we -- if we stay with a point estimate of 100 percent, it means we're either continuously building or rebating. So, where does 120 percent for upper threshold come from? The upper level needs to make economic and operational sense.

The upper threshold needs to be high enough so then we're not continuously rebating for very small dollars. So, that 120 percent equates roughly around $80 million -- 75 to $80 million with an average per policyholder of a hundred dollars.

The 120 percent was discussed here last year, as it's appropriate, based on plausible adverse scenarios in past financial condition tests. And this year we did approach our external appointed actuary to have him do a review to determine what he believes should -- the upper threshold should be.

We did not tell him to confirm the 120. I'm sure he was aware of the 120, but we did not ask him to confirm that. He ran his own scenarios and came back and recommended a 120.

For comparative purposes, SGI releases

capital when it exceeds 140. And ICBC releases capital at 160. So both upper thresholds are higher than MPI's proposed 120. Next slide, please.

There are four (4) reasons why MPI believes we should move away from a capital release and instead, rebate any excess capital we have. Insurance pricing is forward-looking. We're looking to collect enough premium for claims and expenses for the upcoming future rating year.

A capital release is releasing excess capital that was built up in the past. A new ratepayer shouldn't be benefiting from excess capital that was built up in the past.

Rebates can go to ratepayers quicker than a release as a release takes up to twenty-four (24) months to be fully released.

Currently, the 5 percent capital release is applied on top of the actuarially determined rates. So when the capital release, which is a temporary measure, is removed, it looks like rates are going up. The rates are not going up. The capital release is being removed. This is very confusing for ratepayers.

The rebate will make it much more obvious that -- to the consumer that it's due to a build-up of capital. Our savings account is too high, and it's not a change in rates.

And then our last proposed change is moving away from forecasted figures. Actuaries like to think we're right. We're never right. It's how much are we wrong.

No one has a crystal ball. So, for example, last year we applied to -- for a rebate amount that we forecasted would get us back to an MCT of a hundred (100). Due to bad driving conditions that March, in February and March, and inflation on our PIPP index benefits, we landed at 95 percent MCT and not at the 100 percent that we had forecasted.

MPI intends to apply for a rebate when the MCT exceeds a hundred and twenty (120) to adjust us back to a hundred (100) with a couple of parameters around that.

The first would be if there's known future events that will drop us below 100 percent in the forecast period, and the second, if there's an item driving up the MCT that's beyond our control.

We currently have an example of this in our forecast that Charity will be walking you through in a minute where we have large unrealized gains in our pension.

The pension liability has significant volatility due to the long-term nature of it against unhedged interest rate risk. If we were to rebate on these unrealized gains, we run the risk of falling below 100 percent when the interest rates reverse. MPI has no ability to liquidate our pension and crystalize the unrealized gains.

I'm now going to turn it over to Charity to walk you through the forecasted numbers and the application of the Capital Management Plan.

MS. CHARITY OSTAPOWICH: Thanks, Cara. Can you move the slide -- yeah. Thanks.

All right. Good afternoon. We will now turn our attention to the five (5) year forecast. The five (5) year forecast will show expected rebates in the future based on what my colleague Cara just presented about the Capital Management Plan.

So before we dive into the five (5) year forecast, we will touch on what assumptions were updated in the rate update and revenue forecasting. The claims forecast, expense forecast, and investment income forecast were touched on in other panels, so these will not be presented today.

So the key forecast changes and the rate update. So these include the projections. These were re-forecasted using the actual financial results as of July 31st.

When the Application was first submitted in July, it was based on March 31st actuals. Both inflation and interest rate assumptions were updated based on August information. This affects the rate indication, claims forecast, expense forecast, and the investment forecast.

An additional line for the MCT was added which shows the MCT ratio without the AOCI/EFB, so that's the Accumulated Other Comprehensive Income and Employee Future Benefits.

Potential rebates are based on the MCT excluding the impact of unrealized gains on EFB liability valuation. There can be volatility, as Cara had mentioned, arising from frequent and large interest rate movements which impact the valuation of unrealized gains.

MPI is proposing that this should not be considered for rebate purposes as MPI cannot liquidate and realize the gains in the EFB as they belong to its employees and not ratepayers. The Basic and Extension pro forma statements were revised to reflect these changes.

So revenue and forecasting and capital

release. So the majority of earned revenues stem mostly from motor vehicle premiums. The revenue forecast for the Basic line of business is based on several assumptions.

So we expected -- the expected growth in the earned units is around 1 percent for the forecast period. There is a rate decrease of 1.6 percent for the '22/'23 year and a .1 percent rate decrease for the '23/'24 year. The other forecast years do not assume any other rate changes. These rate changes are earned over the course of two (2) years.

The upgrade factor assumption: This varies from 2.41 percent to two point five five (2.55) over the forecast period. So this assumption measures changes in the average vehicle premium that occur from sources other than rate changes such as vehicle upgrades and Driver Safety Rating upgrades.

The five (5) year forecast also includes the capital release provision. The capital release is earned over two (2) years which means the capital released from last year would continue to earn over the '22/'23 year, as well as there was another capital release that started in '22/'23. So there are two (2) being earned over the '22/'23 year.

The capital release provision is removed in future forecast years starting in the '23/'24 year.

This table shows the five (5) year forecast for net income and capital. The fiscal years are the columns, and line items for the income statement, equity, and MCT ratio are the rows. There are a few items to take note of.

For the capital release, there is close to double the release for the '22/'23 year which has to do with that two (2) year earning period of the capital release that was mentioned on the prior slide.

There is 16 million of net loss projected by the end of '22/'23 year which impacts the Rate Stabilization Reserve. There is high variability in this estimate as it does depend on future increasing interest rates and the winter season.

There are two (2) lines for the MCT. The first one you'll be familiar with, so that's just the MCT ratio line there, and this is the way it's been calculated -- the MCT has been calculated in the 2023 GRA that we submitted in July. The second MCT ratio excludes the employee future benefits as presented in the AOCI.

There is also an accrued rebate of 110

million expected in the '25/'26 year. This is based on the MCT ratio excluding the AOCI/EFB. The rebate is primarily driven by forecasted Extension transfers. Next slide, please.

So the next two (2) slides will focus on the '22/'23 and the '23/'24 forecasted MCT ratios. The waterfall chart on this slide shows the composition of the '22/'23 MCT ratio.

So starting with the MCT from '21/'22, which was 95 percent as of March 31st, 2022, the net income decreases the MCT ratio by 4 percent. Net income is comprised of underwriting income and investment income and the capital release.

The largest contributor to the MCT ratio is the transfer of excess funds from Extension which adds fifteen (15) points to the MCT ratio.

The change in the AOCI without the Employee Future Benefit is shown separately from other items, and this was done for transparency. This change to AOCI without EFB reduces the MCT by 3 percent.

There are other balance sheet items, and this is adding 2 percent, resulting in a forecasted MCT by the end of the '22/'23 year to be 104 percent. Next slide, please.

For the '23/'24 year, the opening MCT ratio is 104 percent, which is what you would have seen on the previous slide as the ending MCT ratio. There is little movement in net income as this is dropping the MCT by 2 percent. There is also little change to the MCT from other items, which is decreasing the MCT by 1 percent.

The largest contributor to the change in the MCT is from the Extension transfer which results in a forecasted MCT of 110 percent.

There are no expected rebates for the 2022/'23 and the 2023/'24 fiscal year.

Thanks for your time. This concludes our presentation.

THE PANEL CHAIRPERSON: Thank you very much.

MR. STEVE SCARFONE: Thank you, Madam Chair.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thanks to Ms. Low and Ostapowich -- Ostapowich for that presentation. Just a couple of questions.

One to Ms. Low and it's concerning the analogy that she provided about the savings account and the chequing account.

Ms. Low, why is it important for the Corporation to keep separate its -- its ratemaking from its capital considerations?

MS. CARA LOW: We need to ensure that we have capital available for when there's an adverse event. The RSR has been used over the last few months in order to move money from the RSR over to the claims liabilities because our PIPP benefits are indexed to inflation.

And so, if we didn't have that money in order to ensure that the benefits have liability -- adequate liability sitting there, we would have had to go out to the ratepayers with a capital build in order to ensure that we can do the indexation.

MR. STEVE SCARFONE: Okay. And thank you for that. So, just more simply, the Rate Stabilization Reserve, and we've heard from Mr. Bunston earlier in this proceeding has seen gains in the investment of those monies, correct?

MS. CARA LOW: Correct.

MR. STEVE SCARFONE: Where does that money go? Where does the investment money go from the Rate Stabilization Reserve?

MS. CARA LOW: Back into the RSR.

MR. STEVE SCARFONE: Okay. It's not applied against claims?

MS. CARA LOW: Right. So, back to your personal finance example. You wouldn't take the interest out of your savings account to pay for your daily coffee.

MR. STEVE SCARFONE: Okay. And we saw the purpose of the RSR, one (1) of which is -- is to guard against unexpected variances that were unforeseen. The example you provided was a hailstorm --

MS. CARA LOW: Yes.

MR. STEVE SCARFONE: -- which, of course, is tied to claims, correct, people making hail claims?

MS. CARA LOW: It is tied to claims, yes.

MR. STEVE SCARFONE: But that's different than -- than the ratemaking process that you undertake under AAP?

MS. CARA LOW: Correct, yes.

MR. STEVE SCARFONE: And is that because it's unforseen?

MS. CARA LOW: No, it's foreseen, it's just not expected every year.

MR. STEVE SCARFONE: Okay. Okay. We've seen the Capital Management Plan as -- as you've just presented with a number of changes for the Board's consideration, and if I got them all correctly, one (1) of which is the 120 percent threshold?

MS. CARA LOW: Correct.

MR. STEVE SCARFONE: And that would trigger a rebate?

MS. CARA LOW: Yes.

MR. STEVE SCARFONE: Second of which will be the manner by which the rebate is determined. It will be based on actual numbers, not forecasted numbers, if I'm not oversimplifying?

MS. CARA LOW: No, that's correct, yes.

MR. STEVE SCARFONE: The --

MS. CARA LOW: Actual audited financial statements.

MR. STEVE SCARFONE: Thank you for that. You said the rebate methodology -- or sorry, the build methodology isn't changing as -- as between the two (2)?

MS. CARA LOW: That is true.

MR. STEVE SCARFONE: And so, if a

build provision was required, it currently is that that would occur over five (5) years, if I'm -- remember correctly?

MS. CARA LOW: That is correct.

MR. STEVE SCARFONE: And that remains the case?

MS. CARA LOW: That remains the case.

MR. STEVE SCARFONE: Okay. And then the last big change would, of course, be the removal of the capital release provisions being recommended in favour of a rebate?

MS. CARA LOW: Correct.

(BRIEF PAUSE)

MR. STEVE SCARFONE: And if we could go to -- Kristen, if you'd go to slide 13, please. And I'm just wanting to get some understanding on the interplay between the five (5) year forecast and consideration of rebates.

And so, I'm expecting that the response to this will be that there are factors in the five (5) year forecast that will determine whether a rebate is paid?

MS. CHERITY OSTAPOWICH: Correct.

MR. STEVE SCARFONE: And I heard you say that one is not expected until the fiscal year 2024/'25, is that correct, as currently forecast?

MS. CHERITY OSTAPOWICH: '26/'27. Oh, no, you're right, '25/'26, pardon me.

MR. STEVE SCARFONE: Okay, '25/'26. And that, as I understand it, has changed given the overstatement of -- of the investment monies from the mismatch that we heard about earlier, correct?

MS. CHERITY OSTAPOWICH: Correct.

MR. STEVE SCARFONE: And the rebate that's now proposed under the new CMP, we've heard it's triggered at 120 percent.

Is that an automatic rebate that will occur once that number hits 120?

MS. CARA LOW: No, because we have to make sure that in the forecast period we wouldn't dip below a hundred because the last thing we would want to do is a rebate knowing full well that there's something planned that could bring us then back down to -- under a hundred.

MR. STEVE SCARFONE: And the example that you provided, Ms. Low, was the pension liability?

MS. CARA LOW: That was the second reason we may not do a rebate, is we would want to do it after the pension liability.

MR. STEVE SCARFONE: Okay. And so, if I'm understanding correctly, if the Corporation has forecasted something that is of concern to them, notwithstanding that the -- that the capital might exceed one twenty (120), it could be that a rebate application is not brought before this Board?

MS. CARA LOW: Yes, that is true.

MR. STEVE SCARFONE: And how would the current inflationary environment affect those considerations for a rebate -- if it prevailed into the rebate year?

MS. CARA LOW: Currently, we have put aside for higher inflation for the last -- for the next three (3) years. If it's sustained longer than three (3) years, we will have to move more money from the RSR over to our claim liabilities, and that will -- if your RSR goes down, your MCT will go down.

MR. STEVE SCARFONE: And we've seen some of these in the adverse scenarios that are reflected in the financial condition test report, correct?

MS. CARA LOW: That is correct.

MR. STEVE SCARFONE: Another one would be an unexpected drop in the equity portfolio?

MS. CARA LOW: Correct.

MR. STEVE SCARFONE: And unexpected changes in interest rates?

MS. CARA LOW: Yes, that's correct.

MR. STEVE SCARFONE: All of these would affect the capital position of the Corporation and ultimately whether a rebate occurs?

MS. CARA LOW: Yes.

MR. STEVE SCARFONE: And we've heard, and just heard, a bunch of evidence about an increase to the NOVA budget.

Where does that fall in line on the FCT analysis?

MS. CARA LOW: We did run a scenario where the FCT -- then there was another re-baseline, which there isn't planned another re-baseline, this is, you know, a hypothetical situation, and it didn't hardly make a difference. It was a very small impact. It was a very small impact.

MR. STEVE SCARFONE: So, it wouldn't have made the top five (5) adverse scenarios?

MS. CARA LOW: No, it did not.

(BRIEF PAUSE)

MR. STEVE SCARFONE: And just one (1) follow-up question. We saw -- or we heard from you, Ms. Low, that, based on the old methodology, providing a capital release based on forecasted numbers, the Corporation found itself below its MCT target, correct --

MS. CARA LOW: Correct.

MR. STEVE SCARFONE: -- by 5 percent?

MS. CARA LOW: Yes.

MR. STEVE SCARFONE: So, how is it that the Corporation wasn't now seeking a build provision to bring it back up to one hundred (100)?

MS. CARA LOW: Similar to what we talked about during the Ratemaking Panel and the claims forecasting is claims continue to be lower than expected. Plus, we're seeing higher discount rates or our liabilities are dropping, so there's been -- there's a lot of different factors.

MR. STEVE SCARFONE: Okay. Thank you for that. I have no further questions for the panel members.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone. Ms. McCandless, do you have any estimate of how long you might be?

MS. KATHLEEN MCCANDLESS: The better

part of an hour, I would say. So, perhaps it's a good idea to break now before I get started.

THE PANEL CHAIRPERSON: Yes, let's do that so that your cross isn't interrupted. So we'll come back, please, at five (5) to 3:00.

--- Upon recessing at 2:43 p.m.
--- Upon resuming at 2:57 p.m.

THE PANEL CHAIRPERSON: Thank you.

Ms. McCandless...?

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Good afternoon. Welcome back to the members of the MPI panel.

Just some questions on the request with respect to the Capital Management Plan. As was shown in your presentation this afternoon, MPI is proposing the removal of the 5 percent capital release provision going forward, yes?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And if we go to MPI Exhibit number 58, and I'm looking at pro forma 3. I think it's page 69 of the PDF.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. So this pro forma, if we just -- we can scroll up to the top. This shows the -- the changes in equity with the .1 percent rate decrease.

And based on MPI's current projections, if we look at rebate to policyholders, we see that MPI would not be projecting a rate rebate until the 2025/'26 fiscal year?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And if NOVA or compensation costs rose further above what's being projected right now, could that potential rebate be delayed into the future?

MS. CHERITY OSTAPOWICH: One minute.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: This is Mark responding. Yes. Broadly speaking, if there are impacts to the Project Nova and how they -- they run out, depending on what those differences are, there could be impact to -- the potential for rebate.

MS. KATHLEEN MCCANDLESS: Thank you.

If we scroll to the bottom of pro forma 3, I'm looking at the MCT ratio. At line 28, we see that it -- it is projected to be over 120 percent by -- by a hundred thousand dollars ($100,000) at the end of 2023/2024, correct?

And maybe, Kristen, if we could scroll up to the top so that we can see the column there. So line 28 for 2023/'24 fiscal shows an MCT ratio of 120.1 percent?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. And then if we could please go to Exhibit number 57, and first to pro forma 1 which I think is page 2 of 6 at the bottom. It says "two (2) of six (6)" at the bottom. Thank you.

And so this pro forma shows the statement of operations for -- and this -- this represents the continuation of the capital release based on a new money yield of 4.17 percent using a ten (10) year duration.

So a 4.24 percent new money yield reduced by seven (7) basis points for investment management fees?

MS. CARA LOW: That is true.

MS. KATHLEEN MCCANDLESS: And under

this scenario, if we jump ahead to pro forma 3, we can see that, with the continuation of the capital release provision down at line 28, the MCT ratio stays above 100 percent for 2022/'23 and throughout the forecast period, yes?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And this scenario would represent a breakeven rate for MPI?

MS. CARA LOW: Yes. We always use a breakeven rate.

MS. KATHLEEN MCCANDLESS: And without taking you to a reference, can MPI confirm that under all three (3) possible yield rates discussed -- so 4.05, 4.17, or 4.24 percent -- that MPI forecasts that it would be over 100 percent MCT and could maintain the current capital release provision in the 2023/'24 rating year?

MS. CARA LOW: Subject to check. I just want to clarify something. In the pro formas, we don't have any breakeven rate increase going forward. All we have is for the next rating year, and then it's just assumed to be zero percent in the forecast year.

MS. KATHLEEN MCCANDLESS: Yes, understood.

MS. CARA LOW: Yeah. Okay.

MS. KATHLEEN MCCANDLESS: So -- and I think Mr. -- Mr. -- pardon me, Ms. Ostapowich, your answer was subject to check. It would be correct under any of the three (3) scenarios, the MCT would stay above 100 percent MCT?

MS. CARA LOW: That is correct.

MS. KATHLEEN MCCANDLESS: And so in light of this information, can MPI explain why it's proposing the removal of the capital release?

MS. CARA LOW: We went through that in the presentation. One (1), it's confusing to people 'cause they think it's a reduction in rates, and it is a temporary measure. So when we remove that, it looks like it -- there's an increase to rates. Second -- for the capital release.

And then second of all, the excess capital was built up from the past ratepayers. So if you're new, if you moved to Manitoba and you're new, why should you benefit from the people who've paid in the past was another one.

MS. KATHLEEN MCCANDLESS: So just to understand point 1 of your response then, what you're saying is, going forward, if -- if the Board were to approve the request for the removal of the capital release, then it will appear to ratepayers going forward, once that's removed, that they are receiving a rate increase, effectively?

MS. CARA LOW: That's how it could be perceived.

MR. ANTHONY GUERRA: Counsel, just one (1) -- and one (1) other point that is a legal issue. Given that there have been recent developments with the passing of the Budget Implementation Act as -- I think it's called BITSA, MPI's position will be that this Board no longer has the jurisdiction to be able to issue a capital rebate -- or capital release provision. It has to be a capital rebate; that's the only way

MS. KATHLEEN MCCANDLESS: And I don't intend to ask the panel about their interpretation of the act, so thank you for the clarification on -- on that, Mr. Guerra.

But, Mr. Guerra, just -- just one (1) question. I -- I think MPI was anticipating that BITSA would -- would receive royal assent in two (2) days from today. Is that still MPI's understanding?

MR. ANTHONY GUERRA: That is our understanding. It'll probably be in the evening.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. So bearing that in mind, just in theory then --

THE PANEL CHAIRPERSON: If I can interject, could you please spell out BITSA.

MS. KATHLEEN MCCANDLESS: Kristen, could you pull up BITSA for me, please. I did send it to Ms. Schubert earlier, so she should -- hopefully she has it somewhat handy.

So it's the Budget Implementation and Tax Statutes Amendment Act --

THE PANEL CHAIRPERSON: Thank you very much.

MS. KATHLEEN MCCANDLESS: -- 2022.

THE PANEL CHAIRPERSON: Sorry for interrupting.

MS. KATHLEEN MCCANDLESS: No worries. Thank you.

(BRIEF PAUSE)

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Are we okay to proceed? Okay. Thank you.

So now I'd like to look at the financial condition test, and that's MPI Exhibit number 53. And if we go to the first page under FCT 1.1. Thank you.

MPI has determined that its MCT must remain above 35 percent in order to meet its going-concern capital requirements, yes?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And we understand MPI's position is that it is required to comply with the reserves regulation, notwithstanding the Board's finding in Order 176/'19.

And so MPI's interpretation of the reserves regulation was that it needed to have a plan to -- to get back to 100 percent MCT within a five (5) year period, correct?

MS. CARA LOW: Correct. That would be a minimum. So if we went below, we had to get up to the minimum.

MS. KATHLEEN MCCANDLESS: And through reverse stress testing, as we see here in FCT 1.1, MPI has determined that the MCT ratio must remain above 35 percent MCT in order for Basic to meet the going-concern capital requirements, correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: So in other words, MCT -- the MCT could not fall below -- or if it were to fall below 35 percent, it would not be able to return to a 100 percent MCT in five (5) years through the routine application of capital rebuilding fees, yes?

MS. CARA LOW: That is true, yes.

MS. KATHLEEN MCCANDLESS: And subject to check, would you agree that that 35 percent is lower than MPI's previous FCT assumption which was of around 50 percent MCT? We can go to the reference if that's preferable.

MS. CARA LOW: No, we're okay. That is correct.

MS. KATHLEEN MCCANDLESS: And the FCT at MPI Exhibit number 53, does that reflect the current approved Capital Management Plan, or does it reflect MPI's anticipated or proposed Capital Management Plan?

MS. CARA LOW: The proposed.

MS. KATHLEEN MCCANDLESS: So then it reflects -- it does not reflect MPI's interpretation of the reserves regulation, it reflects MPI's interpretation or understanding of the forthcoming Bill 45?

MS. CARA LOW: That is correct.

MS. KATHLEEN MCCANDLESS: At figure

FCT-1, this is the base scenario, yes?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And this base scenario has the MCT above 100 percent for 2022/'23, and then a rebate in 2025/'26?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And, Ms. Low, is -- is an MCT typically based on existing legislation?

(BRIEF PAUSE)

MS. CARA LOW: One (1) minute, please.

(BRIEF PAUSE)

MS. CARA LOW: Usually your base scenario, it's your business plan, so it's your best estimate, and that would include any expected changes that you're expecting to happen in the near future, and then you adverse scenario test it.

MS. KATHLEEN MCCANDLESS: So, was an alternative scenario run in which the current approved Capital Management Plan was applied, along with MPI's interpretation of the reserves regulation?

MS. CARA LOW: I don't believe we did.

MS. KATHLEEN MCCANDLESS: Ms. Low, yesterday I provided your counsel with a copy of the Canadian Institute of Actuaries educational note on guidance for the 2022 reporting on capital and financial condition testing for life, P&C, and mortgage insurers?

MS. CARA LOW: Yes, I received that. I have read it.

MS. KATHLEEN MCCANDLESS: And, yes, you are familiar with this educational note --

MS. CARA LOW: Yeah.

MS. KATHLEEN MCCANDLESS: -- as we all are, I'm sure. Light reading.

So, are you -- would it be your understanding that it is expected that there will be IFRS 17 quantitative and qualitative analysis in the FCT completed in 2022?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And you consider that MPI has complied with this through the appendix 8 base scenario with -- and it's appendix 8 of the FCT exhibit. That's the base scenario with a .86 percent rate change -- rate decrease?

MS. CARA LOW: Sorry, what's the

question? This is a base scenario.

MS. KATHLEEN MCCANDLESS: Yes. We would have to go appendix 8 to have a look at the appendix 8 base scenario.

MS. CARA LOW: Yes. Just back to the CIA educational guidance. We're well aware that you're supposed to have your IFR 17 impacts included in your FCT. We don't have the model ready. We expect to have it ready in the next few weeks, but we just do not have the model ready.

MS. KATHLEEN MCCANDLESS: So -- but just to understand your evidence, Ms. Low, so MPI considers that it has complied with the educational note through provision of the -- of appendix 8, correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And what was the projected MCT under this scenario if they're -- I don't believe that -- that may be in the exhibit, but we'd need to jump ahead a little bit.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: It look like it provides total equity, but it may -- there may not be an MCT calculation?

MS. CARA LOW: We haven't completed the MCT model under IFRS 17 yet.

MS. KATHLEEN MCCANDLESS: What were the assumptions that went into this alternative scenario?

MS. CARA LOW: Sorry, for the -- you're talking the IFRS 17 scenario?

MS. KATHLEEN MCCANDLESS: Yes.

MS. CARA LOW: It's only there for presentation view of the statements. Like, the numbers haven't been validated. We're still working through the impact of IFR 17. So it's only there for the presentation.

MS. KATHLEEN MCCANDLESS: Yes, understood. But my question was, what assumptions went into it? So, are you able to speak to what assumption was used for the premium acquisition expenses?

MS. CARA LOW: One (1) minute, please.

(BRIEF PAUSE)

MS. CARA LOW: Again, it's just there for presentation. We don't have any assumptions in there for -- under IFRS 17. It's just how the balance sheet is going to be presented.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So, with respect to IFRS -- and sorry, just -- just to go back to your response, Ms. Low. So, my understanding is that there were no assumptions built into this scenario?

MS. CARA LOW: No. It's IFRS 4 just mapped into the IFRS 17 format. There's no change in the assumption.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. That -- and was that stated anywhere in the FCT? No, it's not a memory test. If you don't know the answer, that's fine.

MS. CARA LOW: I don't know the answer.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So, with respect to IFRS 17, which is insurance contracts, and IFRS 9, financial instruments, we've discussed earlier in this GRA that the -- the changes are being implemented effective January 1, 2023?

MS. CARA LOW: That's when IFRS 17 comes into effect. It'll be April 1st.

MS. KATHLEEN MCCANDLESS: It will have an impact on the 2023/'24 fiscal year?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: At the outset of your presentation, Ms. Low, you referred to the purpose of the Rate Stabilization Reserve, and that's found at slide number 4 of the presentation, which is MPI Exhibit number 92.

The purpose is to protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results and due to events and losses arising from nonrecurring events or factors?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And from a policy perspective, does the Corporation hold the view that the larger the Rate Stabilization Reserve, the greater there is -- the greater the protection to Manitoba motor -- motorists?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And so, the

smaller the amount in the reserve then, there's less protection provided to Manitoba motorists?

MS. CARA LOW: That is true.

MS. KATHLEEN MCCANDLESS: So, with the implementation of IFRS 9 and 17, there -- you would acknowledge there will be an impact on the capital of the Corporation?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And earlier in this Hearing, the Corporation had indicated it is currently estimating what that impact will be?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: I wanted to confirm the Corporation's position on each of the key changes resulting from the implementation of IFRS 17 with respect to premium acquisition expenses.

The Corporation has stated that it will be writing off premium acquisition expenses?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: The Corporation could have elected to not write off the premium acquisition expenses, correct?

MS. CARA LOW: I'm going to hand that over to Mark.

MR. MARK GIESBRECHT: Yes, that is

correct.

MS. KATHLEEN MCCANDLESS: And the most recent estimate was provided by Mr. Gandhi on October 20th. And I believe, Mr. Giesbrecht, you were part of that panel.

And Mr. Gandhi provided an estimate of $64.8 million on the year-end -- for the year-end March 31, 2021, as the amount that would be written off?

MR. MARK GIESBRECHT: That sounds correct, yes.

MS. KATHLEEN MCCANDLESS: Is that the most up-to-date figure?

MR. MARK GIESBRECHT: There would be an updated number. It would not change materially from then to now, so in ballpark terms, it would be roughly the same.

MS. KATHLEEN MCCANDLESS: Give or take a million or 2 or...?

MR. MARK GIESBRECHT: A million or 2, I imagine, yes.

MS. KATHLEEN MCCANDLESS: So that accounting policy decision then would have -- the impact would be a reduction in the Rate Stabilization Reserve by $64.8 million, give or take. Correct?

MR. MARK GIESBRECHT: Yes, there would be a one time impact on transition that would reduce -- that -- that impact in isolation would have a -- a reduction in total equity.

MS. KATHLEEN MCCANDLESS: And the alternative accounting policy decision would have resulted in no change to the Rate Stabilization Reserve. Correct?

MR. MARK GIESBRECHT: In isolation, yes, that's correct.

MS. KATHLEEN MCCANDLESS: With respect to marking to market of MUSH bonds, under IFRS 9, the Corporation has stated that it will be marking to market the MUSH bonds as of April 1, 2023?

MR. MARK GIESBRECHT: That's correct.

MS. KATHLEEN MCCANDLESS: And that -- that expectation -- or that decision is not expected to be changed?

MR. MARK GIESBRECHT: I would not expect so. No, that -- that has been approved by our committee of the board.

MS. KATHLEEN MCCANDLESS: Mr. Gandhi's evidence on October 20th was that the Corporation's expectation was that there -- that would have a positive impact on transition.

Do you recall that evidence?

MR. MARK GIESBRECHT: I do. There is variability there based on where interest rates go between now and then, as that has a direct impact on the market value of any fixed income holding.

So that is, again, subject to change prior to actual implementation.

But in the -- in the previous figures we had been looking at, there was a substantial gain. That gain has changed as interest rates and inflation have risen dramatically in the past number of quarters.

MS. KATHLEEN MCCANDLESS: And are you aware of Mr. Bunston's evidence that the impact, as of August 31, 2022 interest rates, was an $8.5 million adverse impact on transition?

MR. MARK GIESBRECHT: I think that was as of September, but that does not surprise me.

MS. KATHLEEN MCCANDLESS: So subject to check, that would be a reduction on the Rate Stabilization Reserve, accepting that premise of $8.5 million?

MR. MARK GIESBRECHT: Subject to check, yes.

MS. KATHLEEN MCCANDLESS: At this

time, is there a more up-to-date number?

MR. MARK GIESBRECHT: That number can be calculated on a -- on a monthly basis. So any given month end, that number can be updated.

And it will change every single day and month, moving forward.

MS. KATHLEEN MCCANDLESS: With respect to risk adjustment, under IFRS 17, the Corporation provided evidence previously that it intends to use the quantile approach and select the ninetieth (90th) percentile.

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And this approach was selected because it would result in a risk adjustment comparable to the current claims provision for adverse deviation?

MS. CARA LOW: Correct. And also very -- which is our risk appetite of our board.

MS. KATHLEEN MCCANDLESS: And we have now received the paper on risk adjustment and that was filed as MPI Exhibit 71. And I'm looking at page 8 of 12. Yes. Thank you, Kristen. If we could just scroll up a little bit here.

So Section 9 discusses the quantitative analysis of risk adjustment options and the discounted risk adjustment provisions and confidence levels for each of the risk adjustment approaches are outlined in these two (2) tables. Correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And I'm going to be asking you about the -- the first one we see here on the -- on the screen.

So if we look at the left-hand side of the table here, beside -- the first column beside lines of business and margin method, we look at the -- the claims provision for adverse deviation.

For Basic, it shows $196.2 million using the margin method?

MS. CARA LOW: Correct. So that's a current methodology.

MS. KATHLEEN MCCANDLESS: And then, if we move to the right-hand side, under the quantile method column, 90 percent, which is what the Corporation's approach will be, that shows $206.8 million. Yes?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And so that -- the rough math then would be an increase in liabilities of $10.6 million at that point in time at least?

MS. CARA LOW: Yes, that would be true.

MS. KATHLEEN MCCANDLESS: That would translate into a $10.6 million reduction in the Rate Stabilization Reserve?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: Ms. Low, you just mentioned that the selection of a percentile for risk adjustment is at the discretion of the Corporation based on its risk appetite.

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: So judgmentally, the Corporation could select any of the other quantile methods, including the 80 percent. Correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And if we look at the quantile method at 80 percent, that would translated -- translate to a risk adjustment of $123.3 million. Correct?

MS. CARA LOW: That would be correct. Yes.

MS. KATHLEEN MCCANDLESS: And if we then do the math, comparing that against the margin method, that would have amounted to a $72.9 million reduction in liabilities and a corresponding increase in the Rate Stabilization Reserve?

MS. CARA LOW: Yes, that is true.

MS. KATHLEEN MCCANDLESS: And if, alternatively, the Corporation had selected the cost of capital method, then the indicated risk adjustment was $77.1 million. Correct?

MS. CARA LOW: Well, in this chart. But this is why we walked away from the cost of capital method is it requires a selected return on equity. And as you can see, at the bottom there, we use a 6 and 10 percent.

And we don't have a selected return on equity, so we didn't -- we were struggling with what to use.

MS. KATHLEEN MCCANDLESS: Thank you. Apart from the table that's provided here, does the Corporation have any more recent estimate of the impact of its risk adjustment selection?

MS. CARA LOW: No, this was run by a consultant for us because we were still waiting on the implementation of the software so we can do the internal modelling.

MS. KATHLEEN MCCANDLESS: So I just took the panel through three (3) components of the impact of selection in IFRS approaches.

So the first was the $64.8 million impact. Then there was the $8.5 million impact on -- interest rate impact as mentioned by Mr. Bunston. And the $10.6 million impact based on the selection of the ninetieth (90th) percentile under the -- or 90 percent under the quantile method versus the margin method.

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And so, if we add all that up, according to my math, that means that there's a total of $83.9 million impact on -- adverse impact on the Rate Stabilization Reserve resulting from these selections.

MS. CARA LOW: That sounds correct. But there's other factors and -- yeah, we haven't done the full model yet.

MS. KATHLEEN MCCANDLESS: Thank you. I'm -- I'd like to go to CAC-MPI-1-69 from the 2022 GR and this has to do with discounting under IFRS-17. Thank you, Kristen. And if we could, please, go to figure 1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. So the Corporation advised, in last year's GRA, that the estimated day one (1) impact from changes to the claims discount rate was a reduction in liabilities of $150 million. Correct? And that's at line 3.

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And the Corporation has -- has advised that their current approach would be to use the top-down approach because it would enable the Corporation to better achieve asset liability matching?

MR. MARK GIESBRECHT: That is correct.

MS. KATHLEEN MCCANDLESS: And are the benchmarks -- and this may be a better question for Mr. Bunston, so if that's the case, then I believe he's going to be coming back later this week so.

But are the benchmarks expected to result in a yield curve that is quite consistent with the current investments?

MR. MARK GIESBRECHT: I believe that would be generally correct. But we could confirm that with Mr. Bunston when he's back.

MS. KATHLEEN MCCANDLESS: And is it anticipated that this current approach would result in a smaller reduction in liabilities than what was estimated in the 2022 GRA?

MR. MARK GIESBRECHT: I don't know if

we have that estimate readily available. We are working through a parallel run as -- as we speak. That work has started and that will complete over the -- the coming months, before we head into this calendar year.

So, we'll then have the ability to -- to provide, with more precision, what that number will actually be.

MS. KATHLEEN MCCANDLESS: Would a reasonable estimate of the expected yield of curve -- yield curve, based on this approach, be about the equivalent of the current claims discount rate on average?

MS. CARA LOW: Since we're choosing a top-down approach and where you start with the reference portfolio, that should be very similar to our current way of doing things, but then the top-down approach we removes market and credit risk.

So, you're going to get a lower discount rate, which is going to be unfavourable. But then, corresponding to that, the investment yield PfAD is going to be removed. So, it depends if you're talking about just the present value calculation or the present value calculation including the investment provision for adverse deviation.

MS. KATHLEEN MCCANDLESS: There would no longer be an interest rate provision for adverse deviation, correct?

MS. CARA LOW: Right.

MS. KATHLEEN MCCANDLESS: And how much is the current interest rate -- PfAD, in dollar terms?

MS. CARA LOW: Well, it's fifty (50) basis points in dollar terms. We -- we have it, but we'll just have -- we need to look it up. Can we come back to that, it will just take a minute.

MS. KATHLEEN MCCANDLESS: Oh, sure, yeah, if it's going to take a while, I can move along and come back to that.

MS. CARA LOW: It's around seventy-five million (75,000,000).

MS. KATHLEEN MCCANDLESS: Okay. Thank you. So, then, would the current selection, approximately, result in an improvement in equity about equal in magnitude to the current interest rate PfAD, provision for adverse deviation?

MS. CARA LOW: I'm thinking right now is that it is going to be a favourable impact, but we haven't done the complete modeling yet.

MS. KATHLEEN MCCANDLESS: So that's MPI's best estimate at this time?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: Okay, thank you. So, a few moments ago I took you through the -- the decisions having an adverse impact on the RSR of about $84 million.

And those decisions, then which would result in a reduction in the Rate Stabilization Reserve you would accept, they would then require MPI to look elsewhere for -- to be able to maintain or build the MCT ratio up to 100 percent?

MS. CARA LOW: That would be true.

MS. KATHLEEN MCCANDLESS: So, possibly with increases in -- in rates down the road, that could be a -- an impact?

MS. CARA LOW: Right, but then the capital builds is after. We don't believe that the -- Extension transfers can get us back to the 100 percent.

So, as long as it's in the forecasted period, the Extension transfers gets us back to 100 percent, then we don't need the capital build.

MS. KATHLEEN MCCANDLESS: Now, given the four (4) estimates that we've discussed, so -- the 64.8, 8.5, 10.6 and I believe, the last, was about seventy-five (75) million.

MS. CARA LOW: Seventy-five (75).

MS. KATHLEEN MCCANDLESS: Seventy-five (75) million. Is the Corporation able to provide alternative scenarios, PFs-1 through 3, under IFRS 17 reflecting these current positions and their impact?

MS. CARA LOW: One minute, please.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: So -- so a couple of things, Ms. McCandless. So I -- I'm told that it's -- we can provide the information at a high level, in time for tomorrow, so that it could be used in the undertaking panel.

But it would be kind of high level, so that's what we can do in that short space of time.

MS. KATHLEEN MCCANDLESS: Understood. And -- and just to that point, the preference would be that those alternative scenarios be based on the assumptions in Pre-ASK 1 and Pre-ASK 2, if possible -- if -- if not -- yes, possible?

Okay, thank you. So, I'm going to read that into the record because that's a pretty long undertaking. So, that would be to -- for the Corporation to provide two (2) alternative scenarios of PFs 1 through 3, under IFRS 1, reflecting MPI's current positions and the impact of those positions on the writing off of premium acquisition expenses, the marketing to market of MUSH bonds, under IFRS 9, the risk adjustment selection under IFRS 17 and the interest rate provision --- or the calculation of the interest rate for the provision of adverse deviation.

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

MS. KATHLEEN MCCANDLESS: And I -- I -- based on the assumptions in Pre-Ask 1 and Pre-Ask 2.

MR. ANTHONY GUERRA: Yes, thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 42: MPI to provide two (2) alternative scenarios of PF's 1 through 3, under IFRS 1, reflecting MPI's current positions and the impact of those positions on the writing off of premium acquisition expenses, the marketing to market of MUSH bonds, under IFRS 9, the risk adjustment selection under IFRS 17 and the interest rate provision -- or the calculation of the interest rate for the provision of adverse deviation based on the assumptions in Pre-Ask 1 and Pre-Ask 2.

CONTINUED BY MS. KATHLEEN MCCANDLESS

MS. KATHLEEN MCCANDLESS: At the beginning of my questions, we discussed the reserves regulation and the Corporation's position on the reserves regulation and you -- the Corporation would -- would acknowledge that despite the fact that the regulations said that anything in excess of 100 percent MCT had to be used to reduce rates and not for rebates, that the Corporation did apply for three (3) rebates, 2020 and '21. Correct?

MR. STEVE SCARFONE: Yeah, will -- will acknowledge that, but under the special circumstances that those applications were brought.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Yes. Thank you. And now, I'd -- I'd just like to ask some questions with reference to the new legislation and I think we'd be going to page 51 of the PDF, Kristen. Thank you. And if we could scroll down to the anticipated section 18(4), please. Thank you.

So, Ms. Low, in response to questioning from Mr. Scarfone, in your direct, you did talk about what the Corporation may or may not do, if the MCT ratio exceeds 120 percent at the beginning of a fiscal year and that it won't be an automatic application to the Board for a rebate at 120 percent MCT. Correct?

MS. CARA LOW: It wouldn't be automatic, but the plan would be if it exceeds 120 to bring an application forward. As long as we meet those two (2) conditions, that going forward, in the forecast period, the MCT remains above 100 percent and there's nothing that's beyond our control, like the unrealized gains and the pension liabilities.

MS. KATHLEEN MCCANDLESS: And I not -- I don't want the witnesses to interpret the legislation, so I'm mindful of that. I'd just like to gain some understanding of what the Corporation intends to do, assuming that this legislation comes into force.

So, 18(5) provides that if the Rate Stabilization Reserve's MCT ratio is less than, or projected to be less than its target MCT ratio at the beginning of a fiscal year, the Corporation must ensure that its revenue from universal compulsory automobile insurance is sufficient to allow the reserve's target MCT ratio to be achieved within the five (5) year period beginning with that fiscal year.

And we -- we did see in the presentation from this afternoon that -- and maybe we could go to slide -- no -- 16 from MPI Exhibit number 92.

For the 2023/'24 capital forecast for Basic, the Corporation is -- is forecasting an Extension transfer. Correct?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: $37 million?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And the Corporation would acknowledge that historically Extension has been used to provide the required capital for premium growth to Basic?

MR. MARK GIESBRECHT: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: And does the

Corporation intend to use or -- or forecast Extension transfers going forward --

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: -- to make up any deficit in Basic?

MR. MARK GIESBRECHT: Yes, within the -- this Application, all of the transfers forecasted for Extension are to Basic.

MS. KATHLEEN MCCANDLESS: And does MPI consider Extension transfers to be part of the revenue that it can take into account when determining if its revenue is sufficient to allow the reserve's target MCT ratio to be achieved within the five-year period?

MR. MARK GIESBRECHT: That is an input.

MS. KATHLEEN MCCANDLESS: Thank you. And, then, one -- one question about slide 14. Thank you, Kristen.

Just for clarification, the -- this is the updated Basic Net Income and Capital Forecast and, when we're looking at line item '21/'22 Actual, it shows a capital release of thirty-six million dollars ($36,000,000), yes?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: That doesn't

correspond with MPI Number 50 -- Exhibit Number 58, Pro forma 1, and that's page 6 of 56. Sorry, there are many exhibits. So, I have to make sure I had my reference correct. We'll be looking at PF-1? Thank you. Yes. Okay.

So, line 4 shows a capital release of seventy-three point three million dollars ($73,300,000) actual 2021/'22. So that doesn't seem to correspond with what's in the slide presentation.

Can -- can you explain?

MR. MARK GIESBRECHT: I think you're looking at written versus earned but we can confirm that. Yeah. That's our understanding is you were comparing written versus earned.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. Those are all my questions.

THE PANEL CHAIRPERSON: Thank you, Ms. McCandless. At this point, I would ask the Interveners to indicate how long they might be, so we can determine whether we need to adjourn today or proceed. Mr. Williams...?

DR. BYRON WILLIAMS: I think order wise, we're think Ms. Meek then myself then Ms. Wittman. If called upon, I might be half an hour but I -- I would suggest starting with Ms. Meek.

THE PANEL CHAIRPERSON: And, Ms. Meek, what is your estimate of time?

MS. CHARLOTTE MEEK: I think I would estimate about half an hour.

THE PANEL CHAIRPERSON: Perfect. Would you please proceed. Thank you.

CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Sure. I'd like to just start by going to the presentations, so, sorry, Kristen, I'm going to go a little bit out of order here. If we could just open Exhibit 92 which was your presentation from today. If we could go to page 4, please. Thank you.

Now, I believe you answered some questions, with Ms. McCandless, on this point, the purpose of the -- the RSR, and you had confirmed, with Ms. McCandless, that, the more funds in the RSR, the more protection motorists have from unexpected variances in the forecast; is that correct?

MS. CARA LOW: That is correct.

MS. CHARLOTTE MEEK: Okay. And you would agree that that protection that's afforded by more funds in the RSR, that needs to be balanced with the principle that the Corporation shouldn't hold an excess of reserve funds. Would you agree with that?

MS. CARA LOW: I would agree. Yes.

MS. CHARLOTTE MEEK: And you would agree, then, that the Corporation still has an ongoing duty to engage in adequate forecasting methodologies that strive towards actuarially indicated rates for motorists. Is that correct?

MS. CARA LOW: Yes. That is correct.

MS. CHARLOTTE MEEK: Thank you. And, if we could go to Part 7, RSR, appendix 2, page 1, please. Thank you.

And here MPI has provided some data for the Rate Stabilization Reserve between the years 2003/'04 up to forecasted -- forecasted years for '25/'26. Is that correct?

MS. CARA LOW: Yes. That is correct.

MS. CHARLOTTE MEEK: Okay. And if we look in Column C, that represents transfers from Extension. Is that accurate?

MS. CARA LOW: Yes.

MS. CHARLOTTE MEEK: Okay. And, in the far right column, that column's titled "PUB -- PUB Approved RSR Range," and we can see there's some years where there's an approved range and some years where there's just a target. Is that correct?

MS. CARA LOW: That's what I see there. Yes.

MS. CHARLOTTE MEEK: And, so, you can see, at lines 17 and 18, those represent the years 2018/'19 and 2019/'20. That would be where PUB accepted the 100 percent MCT on a trial basis.

Is that correct?

MS. CARA LOW: Yes. That is correct.

MS. CHARLOTTE MEEK: And, so, we can see there, that the target jumps from a range of a hundred and four million (104,000,000) to three hundred and fifty million (350,000,000) up to three hundred and fifty-six millions (356,000,00), is that correct?

MS. CARA LOW: I see that. Yes.

MS. CHARLOTTE MEEK: Okay, and, in Column A, so, back on the left side, in lines 23, 24, this provides the forecasted RSR balance at the beginning of each fiscal year. Is that correct?

MS. CARA LOW: Yes.

MS. CHARLOTTE MEEK: Okay. And, if we look at line 24, in Column D, we can see there's an anticipated rebate to policyholders in the '25/'26 years. Is that correct? I -- I believe that was the testimony earlier today?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: And is that based on the proposal of the new MCT target of 120 percent?

MS. CARA LOW: Correct. Yes.

MS. CHARLOTTE MEEK: And, so, we can see there that this would occur, at that point, there would be over five hundred million (500,000,000) in the RSR at the beginning of the fiscal year.

Is that correct?

MS. CARA LOW: That is correct.

MS. CHARLOTTE MEEK: Okay. And, so, Ms. McCandless asked you some questions about the -- the current Bill that's before the House, Bill 45. I'm, again, not going to ask your interpretation but just the general concept of -- of the Bill.

So, that -- basically, that Bill anticipates that it will require MPI to maintain a minimum MCT ratio of 100 percent in the RSR.

Is that correct?

MS. CARA LOW: Yes.

MS. CHARLOTTE MEEK: And it outlines that, where the MCT ratio exceeds 120 percent at the beginning of the fiscal year, the Corporation will, then, apply to PUB for approval of a rebate?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Correct? And, so, you had just previously confirmed that that wasn't automatic but it may apply?

MS. CARA LOW: Yes.

MS. CHARLOTTE MEEK: Okay. And, so, that's different from what's currently happening with the current Capital Management Plan, where the current plan creates a release that were to occur over a several year period?

MS. CARA LOW: Yes, over three (3) years.

MS. CHARLOTTE MEEK: Okay. And, so, the new methodology that's outlined in Bill 45, that will have the effect of Manitobans not receiving any relief in the form of reduced rates or a rebate until the RSR is 20 percent higher. Correct?

MS. CARA LOW: The capital never goes into the rates. The capital release is on top of the rates.

MS. CHARLOTTE MEEK: Right, but it will mean that ratepayers don't see any sort of relief. So, in terms of a rebate or relief, until an additional 20 percent is added in?

MS. CARA LOW: That is correct. Yes.

MS. CHARLOTTE MEEK: And, I think, Ms.

Low, during your testimony today, you had indicated that part of the Corporation's rationale for what they had proposed within the Application is that, and you can correct me if I'm wrong, but I think I heard you say something like ratepayers in the future should not benefit for the build-up that's financed for ratepayers in the past. Is that correct?

MS. CARA LOW: Yes. Ratemaking is prospective. Build up of excess was retrospect.

MS. CHARLOTTE MEEK: Okay. But you would agree that -- that an RSR is always built up by historic surplus of funds. Is that correct?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Okay. So, it's always going to be previous ratepayers who are creating that surplus, which is then released at a future date?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Okay, thank you. I'd now like to turn now to an IR from CMMG. If we could go to CMMG-MPI-1-23, please, and, so, if we just scroll down to Question A. Thank you. Oh. Yeah. That's perfect. Thank you.

So, just to -- to give some detail as to what CMMG had requested here, we had requested that a figure in the Application be updated to include a further three (3) columns. So, the first was the beginning RSR expressed as a percentage MCT. The next was gross premiums written and the third being the beginning RSR/over the gross premiums written.

And we had asked for that to kind of be placed into a chart. So, if we can scroll down to Figure 1, please. Okay. So, this figure provides a couple of points. I'm just going to kind of lay that out for the record here. So, we can see the blue X's represent the beginning RSR balance.

Is that correct?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Thank you. And the -- the red provides the PUB approved RSR minimum, correct?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: And then green is providing the RSR maximum?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: And then the purple is representing the approved RSR target?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Okay. So, as we talked about before, in some years there's a range and some years there is a target. So we can see from the '09/'10 year up to 2018/'19 year there's a range for all of those years except '16/'17. There's one (1) year where there's a target.

Is that accurate?

MS. CARA LOW: That looks to be accurate, yes.

MS. CHARLOTTE MEEK: And then we can see there's a target range moving forward from the '19/'20 years onwards?

MS. CARA LOW: Yes.

MS. CHARLOTTE MEEK: Thank you. And you would agree then that in the years from 2009/2010 up to 2022 -- sorry, 2021/'22 MPI has been below the target, or minimum range three (3) times.

Is that correct? So in the '15/'16 year, '17/'18 year, and the '19/'20 year.

MS. CARA LOW: That looks to be correct.

MS. CHARLOTTE MEEK: Okay. And you'd agree with me that in the '15/'16 year the target, or minimum range, increased to a level that was greater than the previous year's maximum target?

MS. CARA LOW: That looks to be the case.

MS. CHARLOTTE MEEK: And the same in the 2019/2020 year. Is that -- is that correct as well?

MS. CARA LOW: Yes, that appears to be true.

MS. CHARLOTTE MEEK: Thank you. Okay. And if we could scroll down, I believe there's an Appendix to this IR as well. So this is -- we're still on CMMG-MPI-1-23A. This is Appendix 1.

Okay. So, in the furthest right column, we had requested that MPI provide the beginning balance -- beginning RSR balance as a percent of gross premiums written.

Is that correct? Sorry, I know it's a little bit small, so the furthest right column.

MS. CARA LOW: Yes, that is correct.

MS. CHARLOTTE MEEK: Okay. And we can see that in the years 2009/2010, so that's at line 8, up until the '18/'19 year at line 17, the premium written percentage is between 10 and 21 percent.

Is that correct?

MS. CARA LOW: That is correct.

MS. CHARLOTTE MEEK: And then the '19/'20 year that increases to 25 percent?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: And following that year was the introduction of the 100 percent MCT, that's the same year we talked about earlier?

MS. CARA LOW: Yeah.

MS. CHARLOTTE MEEK: Thank you.

MS. CARA LOW: That's correct.

MS. CHARLOTTE MEEK: And then in the following two (2) years we see that increase to approximately 40 percent. Is that accurate?

MS. CARA LOW: That is accurate.

MS. CHARLOTTE MEEK: Okay. And in those years we saw a substantial rebate to customers for a -- for the COVID-19 pandemic?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: And we can see that in column D, the rebates that were provided?

MS. CARA LOW: Yes.

MS. CHARLOTTE MEEK: Okay. And we can see then in the following years, so looking back again at the furthest right column, the MCT ratio is now at 120 percent based on the -- the proposal from MPI.

Is that -- is that the numbers that we're looking at here?

MS. CARA LOW: For the forecasted period, yes. We would be using the 120.

MS. CHARLOTTE MEEK: Thank you. And the -- the percent RSR to the gross premiums written is now anticipated to remain above 30 percent for those years as forecast?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Thank you. And you indicated earlier today in your testimony, Ms. Low, that there were -- there was a time in the last several months where MPI was forced to dip into the RSR to make up for inadequate funds in -- in Basic.

And I think you indicated that was a result of the unexpected inflation impacts?

MS. CARA LOW: That would be correct.

MS. CHARLOTTE MEEK: Okay. And are you able to confirm the dollar amount that was pulled out of the RSR and transferred to Basic for that purpose?

MS. CARA LOW: Sixty-four million at the end of -- the year end, fiscal year end, so for March 31st. And then for September 30th it's 70 million and that's for the indexation of PIPP benefits.

So, on April 1st of every year there's an increase into the -- to the benefits the claimants are receiving and it's tied to Manitoba CPI. So, historically when it was set -- reserved, so set up on our balance sheet, it was reserved for a 2 percent increase every year.

MS. CHARLOTTE MEEK: Okay. Thank you. And can you confirm whether in the years provided in this figure, from the 2003 to the current year, aside from that transfer that you just explained, so I guess that was two (2) different transfers that -- that occurred?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Okay.

MS. CARA LOW: One for March and one for September.

MS. CHARLOTTE MEEK: Thank you.

MS. CARA LOW: Yeah.

MS. CHARLOTTE MEEK: Has there been any other year where a fluctuation in Basic required MPI to transfer funds from the RSR?

MS. CARA LOW: I'd have to check.

MR. MARK GIESBRECHT: This is, Mark, speaking. Yes, you'll see the transfers in the previous years, 2014/'15 through 2018/'19. So in those years the -- the assumptions are used for rate making. There was a -- what I would call -- maybe an aggressive interest rate assumption of interest rates rising.

For many, many years the -- the banks, the economists would expect rates to deviate back to the mean and -- and rise as they were at historic lows. That never happened until recently. And so in those years there was an -- an anticipation of rates rising that had a direct impact on -- on the premiums required.

When that didn't come to fruition there was a requirement to -- to transfer -- to cover the -- the losses that Basic had sustained for -- for a period of a number of years.

MS. CHARLOTTE MEEK: Can you identify which column are you looking at?

MR. MARK GIESBRECHT: So, you have transfer from non-Basic. Column C.

MS. CHARLOTTE MEEK: Okay. So I -- I'm -- maybe I'm misunderstanding. I thought that was confirmed to be transfers from Extension. That was transfers from --

MR. MARK GIESBRECHT: From Basic and Extension.

MS. CHARLOTTE MEEK: -- into -- okay. So, that was transfers from Extension into the RSR fund?

MR. MARK GIESBRECHT: Yes. Yeah, to my knowledge, Basic has never transferred otherwise. It's always Extension into Basic.

MS. CHARLOTTE MEEK: It's always been Extension into the RSR?

MR. MARK GIESBRECHT: That's right.

MS. CHARLOTTE MEEK: Okay. Thank you. And I just want to, for a moment, go back to the years we were talking about where money was rebated to customers during the COVID-19 pandemic.

And I'm wondering if MPI can provide some information about in the event that the current methodology that we're talking about now, having a hundred -- a range from 100 percent MCT to 120 percent MCT, can MPI provide some information about what the rebates would have been to customers during the COVID-19 pandemic had the current range that MPI is proposing today been in place at that time?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: So, 20 percent roughly speaking is between 75 and 80 million in ballpark terms. And so, had we rebated to 120, that would be about 75 to $80 million less.

So, if we had roughly 500 million, you'd subtract that -- that 80 million and that would have been, in ballpark terms, the amount of the rebate that would have been rebated to Manitobans under that scenario.

MS. CHARLOTTE MEEK: Okay. Thank you. And if we could now turn to MPI Exhibit 73, please.

(BRIEF PAUSE)

MS. CHARLOTTE MEEK: And this exhibit was filed in response to a question posed by CAC, asking MPI to provide some capital calculations for the portfolios that were provided in another IR, which was PUB-MPI-1-128E, Appendix 1.

So, on the first page here we see there's a -- a list of asset classes on the left-hand side and there's a column there that's titled 'Total Risk'. Is -- is that correct?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: And so, there's some different amounts that are listed relating to different asset classes. So we can see that there's no risk that has been assigned to RBs, provincial bonds or MUSH bonds or leverage bonds.

There's no MCT charge or risk applied there. Is that correct?

MS. CARA LOW: That is true, yeah.

MS. CHARLOTTE MEEK: And then the pink highlighting we can see that there's a charge for Canadian equities of 30 percent?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: And then a charge for global equities of 40 percent?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Okay. And then looking a little bit higher up we can see for corporate mid-term bonds there's a 4 percent charge?

MS. CARA LOW: Yes. Yes.

MS. CHARLOTTE MEEK: And then for corporate long-term bonds there's a charge of 3.7 percent. Is that correct?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Okay. And if we can scroll down to page 5, and I appreciate this might be a -- an investment's question, but let me know if you're able to answer this. MPI's provided a calculation of how those last two (2) numbers that we looked at were determined, so the -- the mid-term bonds and the long-term bonds.

Can you advise if the -- the percentage amounts that were used to create these calculations, how these amounts were determined? Were they pulled from the Mercer Report? Are you able to answer that question?

MS. CARA LOW: No, I cannot. We could find out.

MS. CHARLOTTE MEEK: Would it be possible for MPI to -- to provide an undertaking to just confirm how those -- those calculations were provided, appreciating it's an investment's question?

MR. STEVE SCARFONE: Well, Mr. Bunston's on the back row.

MS. CARA LOW: Yeah. He just responded. Yes, they were provided by Mercer.

CONTINUED BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Okay. Perfect. Thank you.

And then if we could scroll up to page 3, please. Okay. And so then we have the -- the minimum capital that is required along the bottom line of this chart, and that's provided for each of the asset mixes.

And I think your testimony on previous

days, Ms. Low, you had indicated that this relates to asset liabilities but doesn't include other liabilities such as like claims risks of Basic.

Is that correct?

MS. CARA LOW: Exactly, and this is just for the investment risk. So there's also premium risk, claims risk, operational risk, and then a diversification benefit as well.

MS. CHARLOTTE MEEK: Thank you. Okay. So I'd like to just turn back to part 7 of the main Application, please, RSR page 9. So if we can scroll out a little bit. Thank you.

So on the last bullet point on this page and going on to the next page, MPI indicates that there are industry standards set by OSFI, which is Office of the Superintendent of Financial Institutions of Canada, and that OSFI requires property and casualty insurers to maintain a 100 percent MCT ratio.

Is that correct?

MS. CARA LOW: That is their minimum, yes.

MS. CHARLOTTE MEEK: Okay. And then MPI goes on to say that OSFI has a supervisory target of 150 percent. Is that correct?

MS. CARA LOW: That is correct, yes.

MS. CHARLOTTE MEEK: Okay. And can you advise whether MPI would consider the 120 percent range that they've proposed of the MCT as a supervisory target?

MS. CARA LOW: No. I mean, for OSFI, the supervisory target of one fifty (150) is when they would come into your office and take some control and monitor what you're doing. We have an upper threshold and a lower threshold is what we're proposing.

MS. CHARLOTTE MEEK: Okay. And considering that OSFI has the 150 percent supervisory target, why has MPI applied for the top end of the MCT to be 120 percent?

MS. CARA LOW: Well, we went through some analysis with the financial condition test and also an exercise with our appointed actuary, and we decided that one twenty (120) is where we needed to be so that there's not too much capital sitting there, and yet there's still enough for those adverse scenarios that could really hurt our solvency position.

MS. CHARLOTTE MEEK: Okay. And then further down in -- in this section of the application, MPI goes on to discuss that OSFI also recommends an intergal -- internal target be created by insurers which they refer to as the ORSA, or the Own Risk Solvency Assessment. Is that correct?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Okay. And MPI confirmed that they do not -- or the Corporation doesn't currently have an ORSA process.

Is that correct?

MS. CARA LOW: That is correct.

MS. CHARLOTTE MEEK: Okay. And instead, as -- as you mentioned, MPI has used the financial condition test to support the MCT target.

MS. CARA LOW: In the past, yes.

MS. CHARLOTTE MEEK: And MPI confirmed that the -- the FCT test being used is inadequate as it does not assess the risk associated with the purpose of the RSR. Is that correct?

MS. CARA LOW: That is correct.

MS. CHARLOTTE MEEK: Okay.

MS. CARA LOW: It looks at scenarios, and we wanted to look at a broad range of possibilities.

MS. CHARLOTTE MEEK: Okay. And so I guess my question is: Why has MPI decided not to develop an ORSA process given its comments that the FCT calculation is inadequate?

MS. CARA LOW: We don't have the resources right now.

MS. CHARLOTTE MEEK: Okay. Does MPI have any plans or intention to create an ORSA process at some point in the future?

MS. CARA LOW: It's something we talk about, but it's not something we've landed on or decided on.

MS. CHARLOTTE MEEK: Okay. Those are my questions. Thank you very much.

MR. MARK GIESBRECHT: If I may, I -- I would like to -- to comment on one (1) question that we just spoke a minute ago regarding the question of the impact of 120 percent and what that would have done to rebates over the pandemic period.

I should have stated that the 120 percent would be the trigger amount. However, the rebate would -- would be back to 100 percent, and therefore, on that basis, there actually would have been no impact to the rebates that were paid to Manitobans. It's just as a trigger.

And during the pandemic we were well above 120 percent, so in that regard, it actually would have no impact on the -- the amount rebated to Manitobans.

MS. CHARLOTTE MEEK: Okay. Thank you for that clarification.

THE PANEL CHAIRPERSON: Thank you. Thank you, Ms. Meek. Thanks very much to this panel. We'll adjourn for the day and see you tomorrow at nine o'clock. Thank you.

(PANEL RETIRES)

--- Upon adjourning at 4:05 p.m.

Certified Correct,

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Wendy Woodworth, Ms.