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

THE PANEL CHAIRPERSON: Good morning, everyone.

Mr. Williams...?

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

CARA LOW, Resumed
MARK GIESBRECHT, Resumed
CHERITY OSTAPOWICH, Resumed

CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Good morning, members of the panel. Just as I discussed with My Learned Friend Mr. Scarfone yesterday, we do have certain questions related to MPI Exhibit 73 which have implications both for investments and for the MCT. So we're going to leave those questions to the -- to the undertaking questioning on Thursday.

Ms. Low, it's your understanding that Manitoba Public Insurance is a provincially-owned Crown corporation with a statutory monopoly on the provision of Basic automobile insurance in the

Province of Manitoba, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: So if Manitobans want their automobiles to be on the roads in Manitoba, they must get their Basic auto insurance from MPI.

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And it's your understanding, based upon your participation in this proceeding, that rates for Basic insurance are set by the Public Utilities Board.

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And so if Basic automobile insurance policyholders in Manitoba are unhappy with MPI, shocking as that might sound, whether for service or its management or rates, they can't go anywhere else to get Basic insurance?

MS. CARA LOW: That would be true.

DR. BYRON WILLIAMS: Okay. And of course, you're familiar with the Office of the Superintendent of Financial Institutions known by the acronym as OSFI, O-S-F-I?

MS. CARA LOW: Yes, I am.

DR. BYRON WILLIAMS: And it's a federal agency, you'll agree, with the mandate to oversee the safety and soundness of Canadian financial institutions, correct?

MS. CARA LOW: That sounds correct.

DR. BYRON WILLIAMS: And federally regulated property and casualty insurances -- insurers are under the oversight of OSFI?

MS. CARA LOW: Yes, that is correct.

DR. BYRON WILLIAMS: And many of the companies regulated by OSFI operate in a competitive marketplace. Agreed?

MS. CARA LOW: Very true.

DR. BYRON WILLIAMS: And in the event of a bad financial year, a company in a competitive marketplace you'll agree has to be mindful of excessive rate increases that may lead to its customers fleeing to its competitors.

MS. CARA LOW: True enough. When you're in a competitive market, one (1) of the considerations is your market share when you're doing your pricing.

DR. BYRON WILLIAMS: And unlike Crown monopolies like Manitoba Public Insurance, privately-owned property and casualty insurers in the competitive marketplace do not have the implicit backing of the Province of Manitoba in the event of a bad year, agreed?

MS. CARA LOW: Every insurance company is different. Some are stock companies, some are mutual companies that don't have access to capital. There's a lot of different companies out there.

DR. BYRON WILLIAMS: To the extent that it's a privately-owned company, it wouldn't have the backing of a province like MPI does.

MS. CARA LOW: That would be true.

DR. BYRON WILLIAMS: Thank you. And you'll agree that one (1) of the objectives of OSFI in its general regulatory role is to make sure that federal regu -- federally regulated property and casualty insurers have sufficient reserves to weather an adverse year and -- and a loss of -- of ratepayers.

MS. CARA LOW: OSFI is there to ensure that the insurance companies are financially sound.

DR. BYRON WILLIAMS: And OSFI, of course, has developed targets and tests to ensure the company (sic) it -- it regulates stay in business in the event of severe adverse events and meet their obligations to their insured, correct?

MS. CARA LOW: Yes, yes.

DR. BYRON WILLIAMS: And the MCT is one (1) of the tools that OSFI employs to ensure that a property and casualty company under its regulatory purview main -- maintains both adequate capital and adequate and appropriate forms of liquidity. Agreed?

MS. CARA LOW: MCT would be one (1) tool, yes.

DR. BYRON WILLIAMS: And it is one (1) of several indicators that OSFI uses to assess an insurer's financial condition, correct?

MS. CARA LOW: It would be the main tool. One of many, but it's a main tool.

DR. BYRON WILLIAMS: Ms. Low, I'm not sure if you're aware of this or not, but are you aware whether or not there was a review of Manitoba Public Insurance undertaken by Judge Robert Kopstein in the 1980s?

MS. CARA LOW: I can't answer that.

DR. BYRON WILLIAMS: So, you're -- you're not familiar with the Kopstein report?

MS. CARA LOW: No, I am not.

DR. BYRON WILLIAMS: And so, you wouldn't be familiar with any analytic distinctions, if any, that Judge -- Judge Kopstein may have drawn between MPI as a Crown corporation and federally regulated property and casualty insurers? Okay. Thank you.

I brought it with me just in case you

did.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Ms. Low, the -- the current purpose of the Rate Stabilization Reserve is to protect motorists from rate increases that would otherwise have been necessary due to unexpected variances from forecasted results or due to events and losses arising from nonrecurring events or factors. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And so, the intent of the Rate Stabilization Reserve, as it has developed in Manitoba, is to act as a cushion against a bad year or a series of bad years, correct?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: And practically speaking, if Basic MPI has a bad year resulting in negative net income and assuming no transfers from Extension, no transfers from Manitoba, the Basic retained earnings will drop?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And conceptually, Basic MPI could have a bad year due to a calamitous weather event?

MS. CARA LOW: Yes. We forecast for a net income to be zero, but it could be positive or a negative.

DR. BYRON WILLIAMS: Yeah. And one (1) of the factors that might lead to a negative is a calamitous weather event. Agreed?

MS. CARA LOW: Yeah.

DR. BYRON WILLIAMS: Basic MPI also conceptually could have a bad year due to a sharp drop in the value of its bond portfolio due to unexpectedly high inflation, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: Conceptually, MPI also could have a bad year due to imprudent management activities such as a dramatic increase in operating expenses, correct?

MS. CARA LOW: It would have to be unexpected. Expected costs are built into the pricing but unexpected costs come out of the RSR.

DR. BYRON WILLIAMS: And assuming no -- no transfer from Extension and negative net income, the retained earnings would be reduced in the event of any of those three (3) hypotheticals I shared with you?

MS. CARA LOW: That is true.

DR. BYRON WILLIAMS: So, the Basic RSR can act as a cushion against bad weather. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: It can also act as a cushion for bad -- bad management or imprudent investment choices. Agreed?

MS. CARA LOW: Agreed. Again, we do live in Winnipeg, so we do have bad weather factored in our expectations, so it has to be worse than expected.

DR. BYRON WILLIAMS: Right. And the example I used was a calamitous weather event.

MS. CARA LOW: Yes.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: I'm not surprised you didn't read the Kopstein report although I would recommend it for a nighttime reading at some time in the future.

But when you joined MPI, did you review prior Board Orders for insight into how the Public Utilities Board, in the exercise of it -- its independent rate setting function, had determined an appropriate RSR for rate-setting purposes?

MS. CARA LOW: I did go through the transcripts for the last four (4) years.

DR. BYRON WILLIAMS: Puts you ahead of myself. And you're aware that over time, the Public Utilities Board has considered a variety of approaches to determining the Rate Stabilization Reserve, including percent of premiums, risk variance, and -- and Dynamic Capital Adequacy Testing?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And I take it you're aware that for a number of years the RSR target was set after consideration of the Dynamic Capital Adequacy Testing results of MPI, agreed?

MS. CARA LOW: That is my understanding.

DR. BYRON WILLIAMS: And it would be your understanding that -- during that period, that MPI, despite its relatively small actuarial unit, was able to perform that type of analysis on an annual basis for the PUB?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: Now, as a provincially owned Crown monopoly, you'll agree that Manitoba Public Insurance is not regulated by OSFI?

MS. CARA LOW: That is true. We do consider OSFI as industry best practices, though, because many provincial regulators look to OSFI for their own regulations.

DR. BYRON WILLIAMS: On that point, you'll agree that the level of rigour in terms of provincial regulators varies across Canada.

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: Based on your direct evidence, would it be fair to say that the external appointed actuary did an independent review of the upper threshold for the MCT and ultimately recommended 120 percent.

MS. CARA LOW: Yes, it was an independent review.

DR. BYRON WILLIAMS: When the external appointed actuary was retained, would it be fair to say that they were not asked to review alternatives to the MCT for setting a reserve in the context of a Crown monopoly, with a statutory monopoly.

MS. CARA LOW: Sorry, could you repeat?

DR. BYRON WILLIAMS: You didn't -- you focused them on the MCT. You didn't ask them to look at some of those other ways of evaluating appropriate rate setting in the context of a -- the purpose of the RSR.

MS. CARA LOW: Correct. We were looking at a range and we wanted to get independent review where the upper threshold should be. So we told -- we asked him not to consider the one-twenty (120); to do an independent review, and what would he recommend as an upper threshold.

DR. BYRON WILLIAMS: And you restricted the independent external actuary to an MCT framework.

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: And the starting point for the MCT framework was a target of 100 percent?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: So their mandate would not -- I'll leave that.

Now, Ms. Low, my -- our clients and MPI may disagree with how the RSR is calculated, but you would agree that to the extent that reserves are excessive, this would raise concerns of intergenerational equity. Agreed?

MS. CARA LOW: Could you elaborate?

DR. BYRON WILLIAMS: You spoke

yesterday about how rate setting is a forward or perspective exercise. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And you also talked about excessive capital. You recall talking about excessive capital yesterday?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And you were making the point -- at least as we understand it -- that the build up of excessive capital has taken place over time.

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: It's a function of historical events.

MS. CARA LOW: Exactly.

DR. BYRON WILLIAMS: And as a function of historical events, to the degree that there is excessive capital, that is money that was paid in to -- from the ratepayers of prior years.

MS. CARA LOW: Agreed. Yes.

DR. BYRON WILLIAMS: Okay. And so, when we speak of intergenerational equity as a regulatory concept, that speaks in terms of the fairness to ratepayers over time.

MS. CARA LOW: I understand, yes.

DR. BYRON WILLIAMS: Yes. And you were alive to that fairness because you were trying to speak to the importance of being fair to yesterday's consumers who may have contributed to excess reserves.

MS. CARA LOW: Exactly. Agreed.

DR. BYRON WILLIAMS: Okay. So I think we're agreed, but it does -- I'm hoping you will agree, that to the extent there are excessive reserves, this creates issues of intergenerational equity for those ratepayers who have historically contributed to those reserves. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And when excessive reserves are in the hands or the bank accounts -- or in the investment portfolio of MPI, rather, it -- than in the hands of ratepayers, there is an opportunity cost to those ratepayers. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: To the extent that there are excessive reserves, those are funds that consumers might have used for purposes other than the investment portfolio of MPI. Agreed?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: Conceptually, they might have used any -- their share of excess reserves to pay down their credit card, for example.

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And you would agree that the cost of capital for consumers may differ from the cost of capital for MPI. Agreed?

MS. CARA LOW: I would agree to that, yes.

DR. BYRON WILLIAMS: Ms. Low, I have three (3) questions which I think -- the next three (3) questions are within your knowledge but if they're not, you'll just let me know. Okay?

MS. CARA LOW: Okay.

DR. BYRON WILLIAMS: You're aware that MPI's made roughly one hundred and twenty million (120) worth of transfers from excessive reserves in Extension auto insurance to DVA over the last two (2) years?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And as a member of -- as a senior official in MPI and as a -- as a participant in this proceeding, you're aware that MPI takes the position that absence a contrary directive from Manitoba, it can use excess reserves from Extension as is its board sees fit.

MS. CARA LOW: Could I pass this over

to Mark?

DR. BYRON WILLIAMS: To Mr. Giesbrecht?

MS. CARA LOW: Yeah.

DR. BYRON WILLIAMS: For sure.

MR. MARK GIESBRECHT: Yes, as management and the board, we're responsible for MPI. We have to look at the operation holistically and -- and all of the lines of business and -- and, you know, make decisions that are in the best interest of the entire entity when may require periodic transfers from one line to another that is not always between Extension and Basic.

DR. BYRON WILLIAMS: Okay. Thank you for that. And this can be either to Mr. Giesbrecht, but I think it's -- is more appropriate to Ms. Low.

Based upon your evidence yesterday, MPI also takes the position that it is under no obligation to undertake a rate rebate to Basic ratepayers, even if its existing retained earnings for Basic are over 120 percent MCT.

MS. CARA LOW: We may apply for a rebate, depending on the circumstances. If we know the -- if we believe the MCT will fall below 100 percent, in the forecast period, we would not rebate.

DR. BYRON WILLIAMS: And so, just based upon your evidence today and today, (sic) MPI sees it having a discretion, in terms of whether to apply or not to apply for a rate rebate to Basic, even if that amount is above 120 percent MCT. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: To Mr. Giesbrecht or Ms. Low, as you see fit. Based on your participation in the GRA process, the General Rate Application process, you're aware that the Public Utility Board is task with determining just and reasonable rates.

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: And, based upon your participation in this process, you're aware that one of the things the Public Utility Board is looking at is whether expenditures are just or -- are prudent and reasonable. Agreed?

MS. CARA LOW: Agreed. Yeah.

DR. BYRON WILLIAMS: And, again, based upon your participation in the PUB process, you are generally aware that the PUB may choose to grant the rates proposed by MPI, or it may choose to grant different rates, whether higher or lower. Agreed?

MS. CARA LOW: Yes. Yes.

DR. BYRON WILLIAMS: In terms of the development of the Capital Management Plan, has MPI examined the potential for a conflict where a capital build provision of a certain level is necessary to get to the 100 percent target, but the independent regulator has determined that the proposed rate increase is not just and reasonable.

Have you contemplated how your Capital Management Plan might approach that type of issue?

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

(BRIEF PAUSE)

MS. CARA LOW: The Capital Management Plan, itself, first assumes that AAP ratemaking is approved so we're pricing to a net income of zero. So if the -- we didn't have that approved and, for example, if there was a minus 5 percent decrease in rates, it will drive down your RSR. We would then have to look over to the Extension transfers to cover that. And then if that doesn't cover it, we would have to look at a capital build.

DR. BYRON WILLIAMS: Let's say that MPI assumes -- and I just want to -- I'm only focussing on your Capital Management Plan, and if it has contemplated this scenario.

Let's say that it assumes that you need a capital build to get to target but the PUB is -- is telling you it won't give you that total amount of the build to get to target because, based on the evidence it's finding, that you're making imprudent expenditures? How does the Capital Management Plan account for that, if at all?

MS. CARA LOW: Well, any expected costs, including expenses, are built into the AAP ratemaking. Sorry. Did that maybe not answer the question? Did you want to repeat the question?

DR. BYRON WILLIAMS: This -- this might be a question, perhaps, of Mr. Scarfone, and I will discuss off -- in closing argument or otherwise.

MR. STEVE SCARFONE: No and I understand the premise of your questions.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Thanks. Ms. Low, you did a great job with what I hope was a challenging question, so, I thank you for your efforts.

Just a few more questions and I will be coming to one that you can -- again, if you feel uncomfortable answering, you don't -- you won't hurt

my feelings.
At a high level, Manitoba Public Insurance undertakes an MCT analysis for the Basic -- a separate MCT analysis for the Basic, Extension, and SRE lines of business. Agreed?
MS. CARA LOW: Agreed.
DR. BYRON WILLIAMS: And it does not undertake an MCT analysis for DVA because DVA is not part of the automobile insurance business?
MS. CARA LOW: That would be correct. Yes.
DR. BYRON WILLIAMS: And would it also be correct to suggest that MPI does not undertake a corporate wide MCT analysis, instead, it segregates it into its automobile insurance lines of business.
MS. CARA LOW: It's done by line of business but, then, there's aggregated apps. We do have a corporate one but we really focus on each of the three (3) lines.
DR. BYRON WILLIAMS: Thank you. And, again, we -- we've talked previously about the transfer of funds from excessive reserves; that Extension being one hundred and twenty-five million (125,000,000) to DVA, over the last couple of years.
Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And, based on the existing Capital Management Plan, as it exists today, that is money that otherwise would have gone to Basic, if it had retain -- remained in Ex -- on Extension's books at year end. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And you did view the General Rate Application process last year. You -- you were not on the front bench, but you were -- you were involved -- you were --

MS. CARA LOW: Exactly. No, I was with the back row for most of it.

DR. BYRON WILLIAMS: And which row do you prefer?

DR. CARA LOW: The back row.

DR. BYRON WILLIAMS: Without asking in any way for a legal opinion, you are aware that there were arguments raised in the last GRA in terms of whether the transfer of automobile insurance funds from Extension to DVA was authorized?

MS. CARA LOW: I remember that type of -- line of questioning.

DR. BYRON WILLIAMS: Ms. Law -- Low, excuse me, you can choose to answer this question or

not, as you feel able.
But, moving away from the specifics of the General Rate Application to the mechanics of the M -- MCT, I wonder if you can explain how, if at all, the MCT formula accounts for reg -- legal risks such as lawsuits?
MS. CARA LOW: Sorry? Could you repeat that?
DR. BYRON WILLIAMS: Leaving aside the specifics of -- of this Application, does the MCT account for legal risk in any way?
MS. CARA LOW: Well, there's operational risk.
DR. BYRON WILLIAMS: And that would be considered -- legal risk would be contemplated as part of it?
MS. CARA LOW: Yes.
DR. BYRON WILLIAMS: Thank you very much. Madam Chair, those are our questions. Thank you.
MR. STEVE SCARFONE: Madam Chair, just before -- it's a little unorthodox, but I know Mr. Williams said he had some questions for Mr. Bunston that he was going to defer until tomorrow.
I'm told Mr. Bunston isn't available

tomorrow afternoon for the undertaking panel. He would be available today to appear on the Teams screen if -- if those questions could be put to him today.

DR. BYRON WILLIAMS: I would have to disappear and -- and prepare them, but I --

MR. STEVE SCARFONE: Yes.

DR. BYRON WILLIAMS: I'm just trying to think -- and there's no -- no one else who could speak to the investment --

MR. STEVE SCARFONE: Well, Ms. Low might be able to -- to field some of those questions, so depending on --

MS. KATHLEEN MCCANDLESS: Mr. Scarfone, is Mr. Bunston available in the morning tomorrow?

MR. STEVE SCARFONE: No, he's presenting to the committee -- the risk committee tomorrow -- tomorrow morning and then he's on a flight at noon. So, anyways, we're trying to figure out the best approach --

DR. BYRON WILLIAMS: Yes.

MR. STEVE SCARFONE: -- to have him available to answer questions, not only from yourself, but there may be others that have some questions of Mr. Bunston as a result of some of the responses to the undertakings.

DR. BYRON WILLIAMS: Why don't we --

THE PANEL CHAIRPERSON: Mr. Williams, would it be acceptable if we were to complete the questioning and re-direct of this panel and then you can go and prepare and come back with Mr. Bunston.

Does that work?

DR. BYRON WILLIAMS: We can -- we can do that. We -- we actually have a meeting scheduled with our witnesses. We're just running into some scheduling things, but we'll do our best and I'll consult with Mr. Scarfone after My Friend -- after this panel is closed and I'll -- I'll -- I'm sure we can come up with something.

THE PANEL CHAIRPERSON: Okay, thank you. Thank you both. Ms. Wittman...?

CROSS-EXAMINATION BY MS. KAREN WITTMAN:

MS. KAREN WITTMAN: Good morning. I think I've met most of the panel members before but if I haven't, I'm Karen Wittman and I am representing the Taxi Coalition.

And, Madam Chair, just as a quick housekeeping matter before I begin my questions, there were three (3) exhibits the last time we did cross-examination that were not marked. So, I'd like to do that right now, if I may?

THE PANEL CHAIRPERSON: Certainly.

MS. KAREN WITTMAN: So, the first one would be the Vehicles for Hire 2018 interim application which we would like to mark as Taxi Coalition Exhibit 5.

Then there's the PUB Order 11/'18, which we would like to mark as Taxi Coalition Exhibit number 6. And then there's the Vehicle for Hire update slide presentation and we want the cover slide and slide 7 only. And that we would like to mark as Taxi Coalition number 7.

--- EXHIBIT NO. TC-5: MPI 2018 Interim vehicle for hire application

--- EXHIBIT NO. TC-6: PUB Order 11/'18 January 15, 2018

--- EXHIBIT NO. TC-7: MPI Vehicle for hire update slide presentation October 14, 2021 - slides 1 and 7.

CONTINUED BY MS. KAREN WITTMAN:

MS. KAREN WITTMAN: Thank you. All right. So, I'm not going to direct my question to any panel member; whoever feels most appropriate can step up and answer, that's fine with me.

So, the first question I have for you is, as part of the Information Requests, MPI was asked what the difference was in dollar values between MCT of 100 percent and MCT of 120 percent. And in response to that question MPI prepared a -- a table.

And, Ms. Schubert, if you could pull that up for me, please. That would be Taxi Coalition - MPI 1-10(d). If we scroll down to the response...

(BRIEF PAUSE)

MS. KAREN WITTMAN: ...we have figure 1. And as I understand it, this table is going to -- it shows us the difference between those two (2) numbers in dollar values -- or sorry, those two (2) percentages in dollar values, correct?

MS. CHERITY OSTAPOWICH: Correct.

MS. KAREN WITTMAN: And that's at line 3?

MS. CHERITY OSTAPOWICH: Correct.

MS. KAREN WITTMAN: And if I'm reading this correctly, it ranges between -- just over 74 million and almost 84 million?

MS. CHERITY OSTAPOWICH: Correct.

MS. KAREN WITTMAN: Okay. And so if I'm understanding it correctly, this is the amount of money that MPI otherwise would have rebated to customers either through a capital release or a rebate if MCT was to stay at 100 percent, but now will not be rebating to customers.

Is that right?

MS. CHERITY OSTAPOWICH: Correct.

MS. KAREN WITTMAN: Now, as I understand it, part of the reason that MPI is moving to 120 percent MCT threshold is to -- sorry, did you want to answer something?

MR. MARK GIESBRECHT: Yes. Just to add to that last response, and it was discussed also yesterday in our -- our cross as well, the -- the 120 percent would be the -- the threshold, but, you know, rebating back to a hundred (100) would then have no difference in the actual amount rebated back to Manitobans.

So timing could change, but the -- the one twenty (120) represents a threshold, and it's rebated back to 100 percent. So whether or not you were at a hundred and twenty (120), hundred and thirty (130), hundred and forty (140), it -- it's always rebating back to 100 percent. And so the amount would not change.

MS. KAREN WITTMAN: Okay. Thank you for that.

And so the next thing I wanted to talk to you about is -- is one (1) of the reasons that MPI has put forward for why they want to move to 120 percent MCT threshold.

It's my understanding that they're doing this, in part, because MPI wants to ensure that cheques that are remitted to customers or rebates that are remitted to customers are in denominations of a hundred dollars ($100) or more. Is that correct?

MR. MARK GIESBRECHT: That's one (1) consideration. We would not want to undertake a process where we had a very small rebate and it wouldn't justify the expenditure, the cost, the time, you know, the approval process. So it has to be of a substantial enough to -- to warrant release of that capital is one consideration.

MS. KAREN WITTMAN: Right, and -- and that minimum cutoff that MPI has -- has looked at is a hundred dollars ($100) or more.

MR. MARK GIESBRECHT: That's what we proposed as what we feel is, on an individual basis, a -- a reasonable, meaningful amount for -- for customers.

MS. KAREN WITTMAN: Okay. And this is MPI's perspective on the issue in terms of the economic and operational cost of remitting those cheques, correct?

MR. MARK GIESBRECHT: That's part of that consideration, yes.

MS. KAREN WITTMAN: Yes. Okay. But you would agree with me that -- or I don't know if you'd agree with me -- this is not based on customers telling MPI that they don't want a cheque for less than a hundred dollars ($100), it's MPI's policy decision that they want to make sure that cheques are at least a hundred dollars ($100) or more.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: Yeah. So that's primarily based on our judgmental assessment of -- of what that amount would be, also considering, you know, what would be the costs. If were to issue, say, a twenty dollar ($20) cheque, what would be the cost that would have to then be borne by ratepayers to substantiate that rebate.

MS. KAREN WITTMAN: Right. Okay. But you -- would you agree with me that there are some ratepayers who would prefer to receive that money today even if it's less than a hundred dollars ($100), say, if it's ninety dollars ($90), eighty dollars ($80), or even seventy dollars ($70) than wait until it exceeds a hundred dollars ($100)?

MR. MARK GIESBRECHT: I would be making an assumption. That could be possible, of course.

MS. KAREN WITTMAN: Okay. And I understand that another reason or part of the reason that MPI is seeking to move the -- the MCT threshold -- sorry. Let me back up.

(BRIEF PAUSE)

MS. KAREN WITTMAN: Just going back to that last point about the cost of -- of issuing cheques, the economic cost, the operational cost, I think at one (1) point MPI was asked during the Information Request by the CAC about the specific cost to the rebates.

And I -- I think MPI's response was that it costs about a dollar forty-three ($1.43) per customer per cheque, or about nine hundred thousand dollars ($900,000) overall. Is that -- is that right? Have I got that right?

MR. MARK GIESBRECHT: Subject to check, that sounds quite -- quite reasonable, yes.

MS. KAREN WITTMAN: Okay. And you'd agree with me that there are less costly methods of rebating money to -- to customers? For example, you could use electronic fund transfers or other methods aside from writing a cheque and mailing it?

MR. MARK GIESBRECHT: Yes, there would be other methods available, and the -- the most costly piece typically the postage component.

MS. KAREN WITTMAN: Right.

MR. MARK GIESBRECHT: And we are exploring options that we expect would be made available as we embark further down our Project Nova and -- and have further capabilities in that regard.

MS. KAREN WITTMAN: Okay. And so MPI has not yet looked into that at this point?

MR. MARK GIESBRECHT: We've looked into it. However, it's -- it's not feasible under our current systems.

MS. KAREN WITTMAN: All right. But -- and you would agree with me that the onus for identifying or pursuing less cost -- costly methods of issuing rebates to customers rests with MPI, correct?

MR. MARK GIESBRECHT: I would agree with that, yes.

MS. KAREN WITTMAN: And at last year's GRA, when I read the transcripts, it appeared that counsel for CMMG had asked whether MPI had canvassed customers on whether they would prefer rebates or credits on their account or some other alternative method for being reimbursed for excess premiums.

Do you recall that line of questioning? I think it was actually questions posed to you, Mr. Giesbrecht.

MR. MARK GIESBRECHT: I don't recall specifically, but I -- I would -- that makes sense that that would be a -- a topic of discussion.

MS. KAREN WITTMAN: All right. If you like, I have the -- the specific point reference, if you want me to pull it up. But basically, your answer was that MPI does a number of surveys, and you would look at doing this survey in the future.

Has MPI done that survey? Have they

canvassed customers on what their preference would be?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: Not to my knowledge, no.

MS. KAREN WITTMAN: I also understand that one (1) of the reasons that MPI is moving to this new CMP methodology is to eliminate customer confusion regarding capital release rate adjustments.

Have I understood that correctly, that there's confusion when customers see a capital release on their bill?

MR. MARK GIESBRECHT: Yes, that was one (1) -- one (1) aspect of it, yes. As far as what the customer pays, there's various components of that. There's the prospective rates required to cover the costs of claims and expenses. Then there's the -- in the current system, the credit, so that shows as a reduction of the bill.

And so if a customer were to examine it very closely, they could see those components. But I think that, you know, the average customer might look at the total bill, not necessarily all the distinct components that make it up, and that could lead to confusion.

MS. KAREN WITTMAN: It could lead to confusion, but you haven't actually received complaints that there is confusion on that, have you?

MR. MARK GIESBRECHT: Not that I'm aware of, no.

MS. KAREN WITTMAN: All right. And one (1) of the things that I noticed on my invoice, for example, is that MPI takes great pains to explain the DSR discount, for example, correct?

MR. MARK GIESBRECHT: That's correct.

MS. KAREN WITTMAN: Right. So if MPI wanted, it could explain the capital release rebate to customers on its bill and eliminate any confusion that way, correct?

MR. MARK GIESBRECHT: As much as possible, yes, yeah. You know, there's -- there's commentary, there's -- there's columns that distinctly show the credit on the billing. So the -- the components are there for people who take the time to read and understand.

MS. KAREN WITTMAN: So, under the current system, as I understand it, whenever MCT is above 100 percent, a rebate is triggered.

MR. MARK GIESBRECHT: Under the

current system?

MS. KAREN WITTMAN: Yes, the -- the current CMP plan.

MR. MARK GIESBRECHT: Under the current CMP, there is no -- no rebate.

MS. KAREN WITTMAN: Sorry, capital release. A capital release is triggered.

MR. MARK GIESBRECHT: Yes. If -- if there is -- after all the -- the forecasts, all the planned transfers, if there is an amount of capital that doesn't equal 100 percent, then there would be a capital build that would be required.

MS. KAREN WITTMAN: Right. Sorry. No, I'm -- I'm saying if -- if we hit 100 percent MCT right now under the current plan, that triggers a capital release. Is that right?

MR. MARK GIESBRECHT: Yes, in the same manner -- you know, your -- it's always moving towards 100 percent on either a -- a three (3) year release or a five (5) year build.

MS. KAREN WITTMAN: Right. So what you're saying is -- is the converse applies as well: If we're under 100 percent, that -- that triggers a build.

MR. MARK GIESBRECHT: Correct.

MS. KAREN WITTMAN: Okay. Under the new proposed CMP though the rebate would only issue on two (2) conditions, 1) that MCT is at a 120 percent. Is that correct?

MR. MARK GIESBRECHT: Yes, based on audited actual year-end results.

MS. KAREN WITTMAN: Right. So, that's the first condition.

And then the second condition is that it's forecasted to remain above a hundred percent throughout the rating period after the proposed rebate?

MR. MARK GIESBRECHT: Yes, exactly. So -- and a good example of why that is the case is, when we close the books in -- in March of a given year, we will then have -- usually the -- the closing the books and the audit will take place, typically we'll -- we'll finalize in June.

And so, we would have three (3) months of actual results where there could be adverse developments, such as inflation and requirement to transfer or increase the reserves as a result.

And so, if that were to take place, and now, even though the year-end was above 120 percent, you may have a scenario where you fall below. And we would not want a rebate if we were now -- because of amounts that happened after year-end that were known or -- or expected to happen in the very short term that could impact that -- that outcome.

MS. KAREN WITTMAN: Sure. I'm with you on that. One of the things that isn't clear to me, and -- and perhaps you could clarify this now, is would -- if MPI is above a hundred percent, would you rebate down to say, for example, 103 percent?

MR. MARK GIESBRECHT: The intention is to rebate right to 100 percent.

MS. KAREN WITTMAN: So, it would go down to a hundred percent. Okay. Good.

And the rebates that are paid out either under the old system or the proposed new system, that's done as a -- calculated as a percentage per customer, correct?

MR. MARK GIESBRECHT: Yes, based on their -- their earned premium over the -- the period of which it's been applied to.

MS. KAREN WITTMAN: Okay. So, it doesn't adjust for a number of different factors like DSR discount or something, it's a straight percentage?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: It would be applied after the DSR, so, essentially, on actual dollars paid by customers.

MS. KAREN WITTMAN: Okay. And does it follow then that the higher -- higher -- the higher the premium you pay, the greater the discount you would receive?

MR. MARK GIESBRECHT: The greater the rebate you would receive.

MS. KAREN WITTMAN: Sorry. Yeah.

MR. MARK GIESBRECHT: Yes.

MS. KAREN WITTMAN: The greater the rebate you would receive. Okay.

Now, one (1) of the things that I think you expressed yesterday, or -- or Ms. Low expressed yesterday, and Mr. Williams was asking about today was the intergenerational issue that some of -- of this rebate is causing, and particularly, the fact -- I think the comment was yesterday about the fact that, you know, ratepayers who haven't paid in yet who are new would get to take advantage of the excess capital that's built up over time. That -- that was -- that's already been discussed.

But I -- I want to ask a -- like, a related question to that, which is: Would you agree with me that by moving the threshold from a hundred percent to 120 percent, you're causing a delay in rebates to customers who would otherwise be entitled to a return of that excess capital today?

MR. MARK GIESBRECHT: Well, there's a couple components to that. It -- it depends on the scenario and -- and the -- the speed at which you accumulate capital.

So, a good example is during a pandemic, obviously, as an extreme example, where there were less cars on the road, far less frequency of accidents occurring. And so, in that -- in that case, the -- the current capital release would be much slower, to release over three (3) years, as compared to issuing a rebate almost immediately.

So, in that case a rebate will allow you to react faster to the -- the current conditions.

If you had a period of relative stability in which you had -- you were between a hundred and 120 percent threshold, well, then you're kind of operating within that range and there's really no need to release, whether it be a release or a rebate, so it really depends on the circumstances.

However, I would say that, you know, based on our -- our mandate of, you know, maintaining stability as well as, you know, returning excess capital when appropriate, I think it meets a nice balance in the sense that, when there is extreme amounts of capital that accumulate quickly, whether that be based on, you know, pandemic, maybe had, you know, a number of years of really strong investment returns, what have you, it can get those dollars into Manitobans' hands much faster, but it really depends on the -- the circumstances.

MS. KAREN WITTMAN: Well, so where I'm sort of going -- I appreciate the balance, and thank you for pointing that out. But where I'm sort of going with this is, let's say today we were over a hundred percent and somebody under the current system might be entitled to a share of that excess capital.

But as we move that threshold to 120 percent, and let's say, for example, we don't get there for two (2) years, so there's no rebate that might be triggered for at least two (2) years, and in that period, that same driver that's driving today that would get a return of some -- of some excess capital leaves the province.

Has MPI looked at how they're going to get that rebate to that person or the fairness of not giving that excess capital to that person?

(BRIEF PAUSE)

MR. MARK GIESBRECHT: Yeah, so the issue raised is quite complex in the fact that there are a number of factors that go into the timing and who is contributing to that surplus. And -- and the reality is I don't think that you can ever get a perfect representation or a perfect match of the customers that built into that based on, as you described, as customers discontinued driving, leave the province, that kind of thing.

But it -- it definitely -- I think in a -- in an ideal state, you would have -- you'd operating within that target range of capital, and there would be neither a build or -- or a release or a rebate necessary. And so, in that steady state, you know, you'd have that ultimate stability and not require either.

So, it's -- it is difficult to -- to manage that intergenerational equity, but I think this plan really achieves, you know, kind of that -- the middle ground there.

MS. KAREN WITTMAN: Right. But you would agree to (sic) me that there's -- there are some people that this is going to create a bit of an unfairness to?

MR. MARK GIESBRECHT: If -- if people choose to leave the province, then they would not be entitled to -- to that rebate. And so, in that aspect, if we consider that unfair, then, yeah, there'll -- there'll be some examples of that.

MS. KAREN WITTMAN: Okay. Another example. If somebody doesn't leave the province but let's say, for example, during this -- my hypothetical scenario where we have to wait two (2) years before we reach the 120 percent trigger or 120 percent MCT, let's say somebody is on the DSR scale and getting a discount, and then during that two (2) year period they move up the DSR scale.

So, am I correct in understanding that, as they move up that DSR scale, they're going to get a greater discount?

MR. MARK GIESBRECHT: That's how the scale works, yes.

MS. KAREN WITTMAN: Okay. So, it follows then that the premium they pay today will be more -- all things being considered equal, will be more than the premium they pay two (2) years from now?

MR. MARK GIESBRECHT: It'll be less as

they move up the scale.

MS. KAREN WITTMAN: Sorry, yes, less as they move up the scale.

But then the rebate that they would receive two (2) years from now would be less than the rebate they would receive today, correct?

MR. MARK GIESBRECHT: It -- it would be impacted, yes, by their DSR.

MS. KAREN WITTMAN: Okay.

MR. MARK GIESBRECHT: So, if -- if they paid more dollars in years past and less dollars in the more recent years, which is the -- the basis for that -- that rebate, then they would have less share.

MS. KAREN WITTMAN: Okay. So, I think you're agreeing with me then that that would be another example of an unfairness as a result of moving this threshold from 100 percent to 120?

MR. MARK GIESBRECHT: It would be a input or a difference. I don't know how material it'd be. Maybe I'll let Ms. Low add some comments to that.

MS. CARA LOW: In the end, if we -- if we exceed 120 and so there's a rebate, we have to figure out a way of allocating it back to the ratepayers. So, we feel this is more fair than the current method because it is backwards looking rather than forward looking.

But we know, as we talked about at the DSR Panel, higher DSR levels, they are overpriced because they don't have the larger discounts that they really are owed. To get it perfect, you're never going to get it perfect.

So, we know that DSR levels are higher, are probably providing more of the excess capital but you're -- you're never going to get it perfect. You need an allocation method, so if we have $80 million to rebate back, how is that going to be rebated back?

MR. MARK GIESBRECHT: And one (1) more point additionally. Within the current CMP, there is an element of that, as well, as we build excess capital. And if it builds faster, then there is the requirement then to release that. It's also released on that same basis, and so there is the issue that we face under the release and in a rebate scenario.

MS. KAREN WITTMAN: Okay. Now, I understanding that MNP conducted an audit on MPI's MCT calculations, correct?

MR. MARK GIESBRECHT: Yes, that is correct.

MS. KAREN WITTMAN: And the results of

that audit are contained at MPI Exhibit 43. Correct? Ms. Schubert, could you pull that up.

And Mr. Giesbrecht, or anybody on the panel, have you had an opportunity to review this audit?

MR. MARK GIESBRECHT: Yes.

MS. KAREN WITTMAN: Okay. And as I'm reading it, pages 6 to 8, MNP made four (4) key observations and recommendations for change.

You're familiar with those?

MR. MARK GIESBRECHT: Yes.

MS. KAREN WITTMAN: Okay. And has MPI adopted the changes recommended by MNP?

MR. MARK GIESBRECHT: Yes, we have.

MS. KAREN WITTMAN: Okay. And in addition to the changes that were recommended, MNP also identified a number of calculation errors that MPI had made in the MCT calculation. Correct?

MR. MARK GIESBRECHT: Yes. Management had identified some areas of -- of concern on a deeper dive. And so that's why we requested MNP is to do a deep dive into those calculations.

MS. KAREN WITTMAN: Okay. And in one of its Information Requests, the Taxi Coalition had asked MPI to identify the total impact of the calculation errors. And MPI provided a responsive table and that's at TC-MPI-CI-2-1, which I think is Exhibit 45 now.

And I just want to make sure I understand this table correctly. As I'm looking at it, if we look at point number 2, is -- is this saying that MNP had said that after making the correction to use the net earned premiums, there was a 12.8 percent increase in Basic's MCT score.

MR. MARK GIESBRECHT: Yes, that's correct. Okay.

MS. CARA LOW: Just to clarify that, it was a move from using the net unearned premium to using premium liabilities.

MS. KAREN WITTMAN: Okay. But was the result of -- of that change that last year's MCT score was understated?

MS. CARA LOW: Yes.

MS. KAREN WITTMAN: Okay. And then, the same point at point 6, as I'm reading that the change in calculations results in a 1.2 percent increase in Basic MCT. Is that right?

MR. MARK GIESBRECHT: Yes, that's correct.

MS. KAREN WITTMAN: And then, for

point 5, it appears that there was also an error, but the error wasn't substantial enough to be significant.

MR. MARK GIESBRECHT: Right.

MS. KAREN WITTMAN: Okay. Overall then, based on these calculations, errors, and MPI -- MNP's audit, would you agree that the MCT calculations were off last year?

MR. MARK GIESBRECHT: They were off and -- and were identified in this audit. And additionally, another control we have in place is now to have a full external audit that was completed for the first time this -- this most recent fiscal year and that will be an ongoing requirement going forward.

MS. KAREN WITTMAN: Okay. But the result then is that MPI likely rebated less money over the course of the pandemic than it otherwise would. Is that right?

MR. MARK GIESBRECHT: Yes, that's true.

MS. KAREN WITTMAN: Does MPI know how many years the MCT calculation was understated? Did that apply the year before as well, do you know?

MR. MARK GIESBRECHT: Yeah, we believe this is a historical error that -- yes.

MS. KAREN WITTMAN: And for this --

yes?

MR. MARK GIESBRECHT: Just one more -- one more point to -- to add. The MCT did fall below 100 percent to end this last fiscal year. And so, you know, when you mentioned that there would be an amount that we did not -- we otherwise would have rebated. The amount did fall below 100 percent, so that would have offset some of that difference that you mentioned.

MS. KAREN WITTMAN: Okay. And -- and for this year's calculation, you've adopted MNP's methodology?

MR. MARK GIESBRECHT: We've adopted their recommendations, yes.

MS. KAREN WITTMAN: Okay. And I think you may have answered this, but just to be clear, on a go-forward basis, MPI has now changed the way it does its calculations so that we have some assurance this isn't going to happen again?

MR. MARK GIESBRECHT: That is right, yes. We've adopted all these recommendations and we also have engaged our external auditor -- currently, PricewaterhouseCoopers -- to do a -- a full external audit of the annual results.

(BRIEF PAUSE)

MS. KAREN WITTMAN: All right. Thank you very much. Those are my questions.

THE PANEL CHAIRPERSON: Thank you, Ms. Wittman. Ms. Sokal...?

MS. JENNIFER SOKAL: Good morning. We have no questions.

THE PANEL CHAIRPERSON: Thank you. Mr. -- oh, sorry. Mr. Gabor...?

BOARD CHAIR GABOR: Ms. Low, I'm trying to figure out timing. And it's between audited actual year and forecasted year and I'm wondering if we could use some examples.

So when we go back to the pandemic, and we look at the rebate. The rebate was requested before there were audited statements. Would have been in this -- I'm just going by memory -- April of 2020.

MR. MARK GIESBRECHT: The first rebate application was in May 2020, I believe.

BOARD CHAIR GABOR: May 2020. Okay. That's on forecasted numbers?

MR. MARK GIESBRECHT: The -- if I recall, the -- the first two (2) rebates were -- were more based on actuals. The -- the final rebate, the most recent one, was forecasted to the end of that -- that fiscal year.

BOARD CHAIR GABOR: But -- but they weren't audited actuals?

MR. MARK GIESBRECHT: No, no. They were not audited because they were either mid-year or forecasted end of year. So none -- none of those were audited at those points in time.

BOARD CHAIR GABOR: And then, the third rebate would have been on forecasted?

MR. MARK GIESBRECHT: Yes. You know, as part of the proceedings of the GRA and --

BOARD CHAIR GABOR: So that would --

MR. MARK GIESBRECHT: -- that was forecasted to the end of March of that fiscal year.

BOARD CHAIR GABOR: Yeah. So that was November of 2020, the third one. Okay.

And the cheques would have gone out, I believe, in January of --

MR. MARK GIESBRECHT: Yeah, January or February. Yeah.

BOARD CHAIR GABOR: -- 2021. So if --

MR. MARK GIESBRECHT: Sorry, that's of -- of this most recent year. In -- last -- last year's rate application.

BOARD CHAIR GABOR: Right.

MR. MARK GIESBRECHT: And the cheques went out in this calendar year.

BOARD CHAIR GABOR: In this calendar year, okay.

So if we were looking at the audited actuals, instead of going out in January, February, they would be going out, what, the following September?

MR. MARK GIESBRECHT: I think that's reasonable. Our audit typically will conclude, you know, call it the end of June, when those results are final. And after that point in time, we could then proceed with, you know, the calculations and to apply for the issuance of a rebate.

BOARD CHAIR GABOR: Now, do you need your board to approve the audited financial statements first?

MR. MARK GIESBRECHT: Yes. Yeah.

BOARD CHAIR GABOR: So that would occur, I believe, the end August?

MR. MARK GIESBRECHT: No, that would be in -- in June.

BOARD CHAIR GABOR: Oh, that's in June?

MR. MARK GIESBRECHT: Now, there -- there is the presentation or -- or the application to the government to have them approved by government. That's a -- a different approval process.

BOARD CHAIR GABOR: Okay. So you only need the approval of the board then?

MR. MARK GIESBRECHT: Yeah. The actual audited statements are approved by the board, and then they are submitted to the Province of Manitoba.

BOARD CHAIR GABOR: Okay. So this period of -- that Ms. Low was talking about, which is -- if we're at one-twenty (120). We're concerned about are we going to be about a hundred (100) is, essentially, then strictly between the end of -- year end and the end of June when the statements -- you have audited financial statements and they're approved by the board.

MR. MARK GIESBRECHT: Yeah. There would be a period of time where we would have actual activity take place that we would factor into that -- that forecast. There may also be short-term, you know, examples of -- where, you know -- inflation is just the most topical example.

For example, we -- we know, in this

current year, we've been looking at the valuation and the impact of inflation and it might not have been impacted or reflected in the financials in Q1, but was expected to happen in Q2. And those kind of things would be factored if they were, essentially, known to be taking place in the very near term.

BOARD CHAIR GABOR: Yeah. And Mr. Giesbrecht, at one point -- and I'm trying to find it in my notes, so I apologize. Just a second.

(BRIEF PAUSE)

BOARD CHAIR GABOR: Mr. Giesbrecht, at one point, you indicated that the problem when you're -- when you're looking at inflation is, you were at a period earlier on, and everybody was suggesting inflation and it didn't happen and the Corporation ended up losing money as a result. Is that correct?

MR. MARK GIESBRECHT: I think that refers to the assumption of yields and interest rates. So, not necessarily inflation, but I -- I know that there were past years where we had a assumption in our pricing of rising interest rates, relative to where --

BOARD CHAIR GABOR: Right.

MR. MARK GIESBRECHT: --- they were at

that point in time. And if that didn't materialize, then that led to a deficiency in the premiums.

BOARD CHAIR GABOR: Okay, thank you for correcting me.

Is the reverse not true? Where you think that you pick a naive rate frozen at a level and interest rates continue to go up, you would end up making more money.

MR. MARK GIESBRECHT: Yes. It go -- it can go both directions, definitely.

BOARD CHAIR GABOR: Yeah, okay. Thank you. Can we go to MPI-58, Kristen. And can we go to the -- there's a table there. No, that's not -- I'm looking at it for a dollar -- just keep going, please. Nope, keep going. I didn't write down the table number. No, keep going. No. No, yeah, keep going please. That's not it. Keep going. I think this is it. Yeah, that's not it.

Let -- let me just put the question to you. There -- there was a table here that showed a transfer and I think it was $118 million from Extension to -- to Basic. There was projection of that.

You know what, forget it. It -- it's -- I guess the question is, the projection -- it's a projection to show that there will be that much money in Extension.

Sorry, it was for the 2025/'26 time frame. But, in fact, that's fine if you don't transfer that money out to DVA. So, I mean there's a chance that you could use it, require it for DVA at that time frame, because you're now in a two -- two (2) year hold is over by '25/'26 isn't that the case?

MR. MARK GIESBRECHT: So, that -- there's a possibility. What I would say is that, beyond the two (2) year hold and that direction from the government, with the transfers we have made in the last two (2) years, we do have enough to carry DVA until approximately '25/'26 -- 2025/'26, and so it is our -- our hope and our intention that we would have a solution from government that DVA could be made whole, prior to that.

But, again, that is subject to the review ongoing with government and on the assumption that we -- we will receive the funds that are required to run that line of business.

BOARD CHAIR GABOR: Right. But any projection of transfer from Extension to Basic is subject to the Board deciding to use the monies for some other line of business.

MR. MARK GIESBRECHT: Yes, as in any other forecast, there is subject to variability or -- or change, but that is our best estimate forecast, right now. That -- that they're -- as long as, and contingent on a solution of the DVA, there are -- there are no other uses or intentions of the utilization of those funds.

And, historically, in MPI, really Extension has either funded and been transferred to Basic or DVA. That's really the -- the two (2) options or alternatives. There -- there has been no other plans of other uses.

BOARD CHAIR GABOR: Is there anything that prohibits the Board from using it for something outside of MPI?

MR. MARK GIESBRECHT: I would say the -- the mandate of the Board would -- would -- you know, would probably be the direction there.

So, it -- that -- you know, the -- the -- purpose of, obviously, MPI is for auto insurance and administration of the -- of the DVA and so I -- I would expect that there would not be any ability to transfer it outside of those purposes.

BOARD CHAIR GABOR: In terms of the cost of rebate, I believe that when we had the first rebate, we were told, similar to what you said, that it was probably, approximately $930,000 for the -- for the process.

Does the cost change, depending on the amount of -- of the cheques?

MR. MARK GIESBRECHT: Not really. It would be based on, primarily the amount of cheques that are going out, right? And so it's a function of -- of that.

They're -- it would be very similar, whether it would be two (2) hundred million or a hundred million, the cost would be roughly the same.

BOARD CHAIR GABOR: Yes, okay. Those are my questions. Thank you.

THE PANEL CHAIRPERSON: Thank you. Ms. Nemec ...?

BOARD MEMBER NEMEC: Okay. Thank you. I want to just followup what -- with what Mr. Gabor said, just a little more detail.

So, for the time line for the actual audit, as you mentioned, will be approved by the Board in June and I think, Mr. Giesbrecht, earlier you said that would give you July and August and such, if there's any actual catastrophic events or something that you would maybe estimate to occur in the next year, that would then be the only reason why you would, perhaps, not have a refund at that point.

Is that correct?

MR. MARK GIESBRECHT: Yeah. Generally speaking, right. If -- if -- if there were events that were known on the horizon to potentially impact and we were forecasting that to be the case, to fall -- to -- to drop, then that would be considered in that application process.

BOARD MEMBER NEMEC: And so that would come to the GRA that year still? Similarly as this year you had original numbers come in July and then you up -- those updated numbers came in October 12th, that would be sort of the same timing and process as we currently have?

MR. MARK GIESBRECHT: That was still into -- work through so, on -- on the assumption that legislation passes and -- and becomes in -- in place. Those are some details that we have to work through exactly -- is it -- is it concurrent -- is it a joint, those -- those things I think we have to still work -- but I would expect it would be, you know, in a similar time line.

BOARD MEMBER NEMEC: And it -- it does seem that here -- when you come to this GRA, you have updated your information and you've either built it into the rate already for the -- right now you've updated your information to October 12th, for the upcoming rate. So I'm just not seeing a differ -- difference and maybe I'm not seeing it right.

MR. MARK GIESBRECHT: How -- how do you mean exactly?

BOARD MEMBER NEMEC: Well, your updated information and you've projected for the 2024 GRA for any actual information that has come up till, I'm not sure if you used August 31st, so, I'm assuming that once you have the audited financial statements, if you would have had the audited financial statements in June, you would have updated it to the end of August. And I -- I don't quite see the difference.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: The initial application is based on, what we know at that point in time, which would be including the -- the year end results. The audit may not be finally complete, but we -- we, you know, we know those results caused we've worked through that process.

And so, there's information that comes

to light after, with market conditions and other factors, you know, but the -- in the current state, our initial application, you know, we do factor in the year end results that -- that are the -- the basis for the first round of forecasts.

BOARD MEMBER NEMEC: And then you update them before you've -- we finally -- we get an update for the interest rates. And -- and this year we had, I think, inflation adjustments, so, I'm just trying to understand the difference that we might see under the new situation than the previous situation.

MR. MARK GIESBRECHT: Yeah, I think that -- I'll start and I'll let also Ms. Low add some comments.

I think that the -- that the difference would be, when we forecast going forward, we forecast for breakeven rate setting. Right? So, the forecast going forward is always on the assumption that we are, essentially, maintaining what is required to -- to cover those costs.

And, so, I would expect that the scenario where there would be a -- a quick drop in capital would only be based on market conditions in that short term period.

So, I would assume there would be less

likelihood of that occurring, as opposed to what -- what is happening for the requirements of -- of rate setting going forward.

MS. CARA LOW: Maybe I can clarify. If you were over 120 percent and we were here today, we would be forecasting where we expect to be March 31st of 2023, and that's what, you know, the current CMP would be doing.

Under this proposed, we would be basing it on the March 31st, 2022 actual results, so, that's what the difference is.

BOARD MEMBER NEMEC: I'll think about that. Thank you. I'm going to ask another question about -- and, maybe just an example, Ms. Low, is -- is -- I'm just trying to find an example of situations where the MCT would be over 120 percent, other -- and -- and you would expect a catastrophic event.

Other than inflation in that period, I'm just wondering what else -- what -- what other situation might happen?

MS. CARA LOW: For expected? I can't think of any, other than IFR 17 after we do our modelling with IFR 17 or the shifts in our investment mixes that could have impacts. So, those would be known events. For catastrophic, if it's known, it should be priced in.

BOARD MEMBER NEMEC: A couple questions about the capital build.

Is the capital build always over five (5) years? If you had to incur -- decide on a capital build, would that always be reflected and is it reflected in the client's invoice over five (5) years and when is the last time a capital build occurred?

MR. MARK GIESBRECHT: After we put in place the current CMP, we did have a faster accumulation of capital than we had prior expected and, so, I don't believe we've had a build in -- in a number of years, certainly prior to anyone's tenure on this Panel. So there hasn't been a build.

So, the -- the -- the build would be over five (5) years but it's reassessed every year on application. So, then, it could be, depending on other inputs or factors, it could also change, but it's -- it's always based on what is known at that point in time and, then, to be phased in over five (5) years.

BOARD MEMBER NEMEC: And would that have been treated the same way as a release in the past, on the invoice, either as a debit or -- you know, that would have been a credit, this would be a debit?

MR. MARK GIESBRECHT: Yeah. I expect it would look the same. It would be either a credit or call it a surcharge type of build.

BOARD MEMBER NEMEC: Okay. And is that confusing when you have a debit on the build?

MR. MARK GIESBRECHT: Well, it would be an additional line item that, instead of right now reflected as a credit, you know, a -- a -- a minus number, it would be a positive figure that would add to the build and -- and it -- it may be a bit confusing, I would imagine, for customers.

BOARD MEMBER NEMEC: Okay, thank you. And just, I think, one last -- we talked a little bit about the allocation method of how the refund is calculated to the client.

What period -- are you -- are you looking at their premium from their billing period or a fiscal year? How do you calculate the -- the actual refund?

MR. MARK GIESBRECHT: Respect that would be the -- the -- the last rating year.

BOARD MEMBER NEMEC: The last rating year. So that -- so, for myself, as a ratepayer, would -- I go from November 1 to October 31. So, would that be my ra -- my year or it would be your rating year and, so, it's like a...

MS. CARA LOW: It would be our rating year and everyone would land sometime in that rating year.

BOARD MEMBER NEMEC: Right. I understand what you're saying. Okay.

So -- and it's been mentioned that it doesn't incorporate the DSR. So, it's after the deduction of the DSR. Is that a corporate policy?

How -- how do you -- is that part of the CMP that it gets to that detail in the allocation or is that just an allocation methodology you've used and become comfortable with or -- and can -- and I guess where I'm going is -- is there -- are you considering that there's a better allocation method than you're currently have?

MS. CARA LOW: After DSR is how we handled the last rebate 'cause it's a collected premium from the insured.

BOARD MEMBER NEMEC: And -- and the reason I ask is because, with the original .9 percent rate -- proposed rate decrease, it went to different DSR ratings to try to accommodate some of the -- I'm not sure what the right word is there -- inconsistency in -- in what should be paid for that driver safety level.

So, I just wondered if this is another methodology of doing that.

MS. CARA LOW: Right because if you are at a higher DSR level, you should be getting a higher discount. We know that. So, those are the ratepayers who are, perhaps, building up this capital but, in the end, they are going to be based on what they actually paid in the past -- the most recent rating years, how we would allocate that back.

BOARD MEMBER NEMEC: And I guess my question -- is that policy or is that just a way that -- or is that consistent in the industry?

MS. CARA LOW: Rebates are not consistent in the industry. Like, this is a very unique situation because of who we are.

BOARD MEMBER NEMEC: Okay. Thank you. Those are my questions.

THE PANEL CHAIRPERSON: Mr. Bass...? Ms. Boulter...?

BOARD MEMBER BOULTER: Hi. I'm seeking a little clarity on the rebate processes. It sounds quite daunting, when you say, oh, it's nine hundred thousand (900,000), that's what it costs MPI to issue all the cheques and -- but, then, there was also the mention that it's a dollar forty-three ($1.43) per cheque.

And, so, is that your cost per person rebate or is that a cost -- because that's pretty cheap, actually, if you're building in everything else. So, I need a little clarity on what that nine hundred thousand (900,000) covers.

MR. MARK GIESBRECHT: That's primarily the -- the additional cheque stock, that special cheque run for that volume of cheques, the printing costs, and the postage. So, it's primarily the physical side of that.

There would also be the effort of the teams but this is the actual incremental cost, really to produce and mail those cheques.

BOARD MEMBER BOULTER: Okay, 'cause that's what I was thinking. At a dollar forty-three ($1.43) you guys is doing well because there's all the IT costs, there's the processing, problem resolution when people phone in -- like, there's a lot of extra costs in that. So, I think at nine hundred thousand (900,000) it's probably slightly underestimated as to what it cost the operation to do that and a dollar forty-three ($1.43) -- your envelopes, your stamps, everything, your pur -- your extra material for that. So, that was just -- I just wanted a little clarity.

So, it's just the base costs on -- on the -- the cheque, itself, and the stamp?

MR. MARK GIESBRECHT: Yes. So, that'd be the incremental cost. There would be also opportunity cost of our -- our staff time and effort that would be taken away to devote to that endeavour.

BOARD MEMBER BOULTER: Yep. Okay. Well, that clarifies what I was sort of thinking it had to be.

THE PANEL CHAIRPERSON: Thank you. Question for you, Mr. Giesbrecht. With regard to the audited financial statements being the actual audit -- the basis for the rate.

Does it also require the timing built in to have your annual report tabled and approved by government before that can be used as the figure that's the basis for the rebate application?

MR. MARK GIESBRECHT: Yeah. See, that's the biggest nuance that we have to understand how that will work because the basis, as you -- as you suggested, would be based on those results being publicly available. So, I -- I guess that's a take-away we have to understand, how will that work and has it impact the -- the timing?

THE PANEL CHAIRPERSON: And, generally, when do you receive that government approval post tabling?

MR. MARK GIESBRECHT: August, September, I believe, typically, you know. So I think it -- it could fit in fairly nicely with the -- the typical GRA scheduling, in terms of when an Order may come down. They -- they could -- the timing could coincide as far -- in -- as that regard.

And, then, also, given that it's based on audited actual numbers, it really is -- it's a calculation. So, it's quite simple and it would not take a -- a lot of time, in our estimation, to actually go through the process to, you know, go through the application and -- and approval process.

THE PANEL CHAIRPERSON: Okay, thank you. And a question for you, Ms. Low.

Can you quantify, on a dollar basis, what a catastrophic event might look like?

MS. CARA LOW: Well, the most recent example where we had to increase claim liabilities 'cause of the PIPP indexation to Manitoba CPI, that cost us sixty-four plus sixty-nine million, so, a hundred and thirty-four million dollars ($134,000,000) and that's just assuming inflation is high for three (3) years. If it's sustained, we'll be moving more money over.

THE PANEL CHAIRPERSON: So, would it be fair to say, then, that an increase in Project Nova of the magnitude that we've seen, from last year to this, would also fall within that category?

MS. CARA LOW: The -- for when we do the rate-making, we get the expenses from the Finance Team and, so, the expected expenses are already in the rate-making. Unexpected expenses would come out of the RSR, yes.

THE PANEL CHAIRPERSON: Thank you for that.

MR. MARK GIESBRECHT: I would just like to clarify, as well, when we're looking at the Project Nova costs, that's on a -- a -- obviously, a -- a complete corporate basis and, based on the updated methodology, looking at the, you know, where -- where the systems are, where you have the different effort to deploy and implement, the percentage of the Basic is much lower than it is on other pieces of our operation. Typically, we look at all the support areas and how they're allocated, you know, more of that 70 percent kind of range.

However, based on the -- the story points and features that we talked about with the NOVA panel, the actual costs are not as high on a percentage basis to Basic.

And so, if you had $100 million increase in the cost of the program, not having Basic hit with $100 million, it -- it's more between 20 and 25 percent. So it is mitigated on that basis, that it's -- it's not borne only by Basic.

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

RE-DIRECT EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Thank you, Madam Chair. Just a -- a couple questions again. I think it's important, because questions from -- well, right around the room about the new methodology for rebating monies to customers.

So, I just want a -- a clarification from the panel. So firstly, we know that the rebate won't occur until the threshold of 100 percent MCT is met?

MS. CARA LOW: True.

MR. STEVE SCARFONE: Okay. Secondly, a rebate application won't be made to this Board unless MCT is not projected to reduce the RSR to below 100?

MS. CARA LOW: Correct.

MR. STEVE SCARFONE: So, the Corporation has said that it's changed its methodology and will base its rebates on actual numbers?

MS. CARA LOW: Correct.

MR. STEVE SCARFONE: But there still is an element of objection to the rebate?

MS. CARA LOW: Yes, because we have to look at the forecasted years.

MR. STEVE SCARFONE: Okay. So -- and that's what I want to -- maybe Mr. Giesbrecht, because -- indicated to the Board that it would be based -- those projections would be based on very near term activity?

MR. MARK GIESBRECHT: Yes, those are my words.

MR. STEVE SCARFONE: Okay. And so, an example you gave was (INDISCERNIBLE)?

MR. MARK GIESBRECHT: Correct.

MR. STEVE SCARFONE: Okay. Can you -- is there some other examples or specifidy -- specific examples that you would be able to provide of other adverse events that might cause the Corporation some concern during that projection of whether the RSR will be reduced to below 100 percent?

MR. MARK GIESBRECHT: Yeah, I -- I think it would -- it would likely have to be some extreme circumstances. You know, there could be a very hard recession. There could be potential credit risk -- or credit -- you know, worthiness issues within our portfolio that could drive something to that level of significance.

So, you know, really, if we look at our balance sheet we have investments and liabilities for our long-term claims. They're our two (2) base components. So, that's where you have that -- potential risk for changes in those two (2) aspects of things.

Right, so if you had a -- a huge market collapse in our portfolio right over a course of a quarter, that would be a -- an example.

MR. STEVE SCARFONE: So, would -- is it fair to say this, Ms. Low, that any of the adverse scenarios that are detailed in the financial condition test report might serve as one of those adverse scenarios for the purposes of forecasting whether the RSR will fall below 100 percent MCT?

MS. CARA LOW: Yes, that's the whole

purpose of the FCT.

MR. STEVE SCARFONE: Okay. So, all of those -- so, for example, your combined scenario --

MS. CARA LOW: Yes.

MR. STEVE SCARFONE: -- any one of those?

MS. CARA LOW: Yes.

MR. STEVE SCARFONE: Counsel for the Taxi Coalition, Mr. Giesbrecht, was brought to your attention a report, an audited report where the findings were that the MCT had been understated?

MR. MARK GIESBRECHT: Yes, that was the MNP audit, yes.

MR. STEVE SCARFONE: Yes. And that as a result of that, the rebates that were performed may have been less than what they might otherwise have been.

MR. MARK GIESBRECHT: That is true.

MR. STEVE SCARFONE: And in response to that you -- you mentioned, just briefly, that because the MCT level fell below 95 percent, it would have offset that -- that result.

Do you remember that?

MR. MARK GIESBRECHT: Yes.

MR. STEVE SCARFONE: Can you explain

that more fully what you mean by that?

MR. MARK GIESBRECHT: Well, you know, had we had the -- the MCT under the methodology that was examined with MNP, we had the corrected amount, we would have rebated a larger amount because the MCT was higher.

And that would have then, you know -- I guess what I'm saying is that, cumulatively by the end of this last fiscal year, the idea that you're always at 100 percent or higher.

And so because we fell below 100 percent, that means the last rebate that we issued was more than it should have been had we known all that information at the time that we had the issuance of that last rebate.

So, that last 5 percent would have offset partially the amount underpaid previously?

MR. STEVE SCARFONE: So you gave away more money than you should have?

MR. MARK GIESBRECHT: In the last rebate specifically. Yes.

MR. STEVE SCARFONE: Okay. And -- and on that, Mr. Gabor, perhaps I can just answer your question directly about the use of Extension monies outside of the Corporation.

So, I immediately looked to our Act. Fourteen would suggest that the government can't take our money. And then the other one is 16 that says any monies that we receive have to be kept within the Corporation and used only for the purposes of the Act.

BOARD CHAIR GABOR: I appreciate that. The government may not take your money but, in fact, the government is using your money by -- by the very nature of DVA so.

MR. STEVE SCARFONE: Yes, and we canvassed those -- those sections --

BOARD CHAIR GABOR: Yeah. Yeah.

MR. MARK GIESBRECHT: -- and those provisions last year, yes.

BOARD CHAIR GABOR: Can I ask a question based on Mr. Scarfone's question? Because Mr. Scarfone raised an interesting point.

So June 30th, you got your 120, you're going through approval. How far forward are you looking at your level of comfort that you won't be below 100? I mean, are you looking -- so the -- so, I -- My Learned Friend Ms. Hamilton said, well, you've got to -- you know -- you've got to get approval, it's got to go to the House.

You know, then there was the comment,

well, it would be good timing for coming to the Board for rebate applications the same time as the GRA. But is that -- is that the time frame you're looking at for a level of comfort you're not going to dro -- drop below a 100 percent or is it even later?

If -- if we have uncertainties in the market or something like that, is MPI going to say, you know what, we'll wait until March 30th. We're -- we're just -- I mean, what is the decision point?

Is the decision point, you know, in September so that it'll be part of the GRA or is it basically -- it's up in the air. We're concerned about world events, or -- or whatever, we're just holding off.

MR. MARK GIESBRECHT: I'll try to answer that question and -- and also allow colleagues to jump in as -- as necessary. But I would say the -- the first part is -- based on what we -- we know transpires, after year end and then during that process. So, those would be known events.

And when I say 'near term', what I mean is things that we have a very high level of confidence. So, for -- for example, if we knew we were changing the portfolio composition of any of the portfolios that effect Basic.

If we knew that was coming, we would contemplate that into that -- that forecast, because we -- we know that that change is taking place and it'll impact MCT.

But, you know, we're not going to look at, well, there's a possibility of, you know, a 1:10 year event, or a bad winter or any of those things, because those are all unknowns. And again, we -- we price for our best estimates.

So that's why I say it's really near term in the sense of, things that have happened after year end and then during that -- during that process or things that we know that we are in the process of implementing things that may have impact on capital levels.

BOARD CHAIR GABOR: Thank you.

THE PANEL CHAIRPERSON: Thank you. We will take the morning break now. And perhaps when we come back we can have a discussion with regard to when Mr. Bunston might be recalled.

Mr. Williams...?

MR. BYRON WILLIAMS: Yes, thank you. I've been doing my homework fairly quickly so I could probably -- you know, if we have -- if we're back at 10 to 11:00, I could be ready to go then if that works for the witness.

THE PANEL CHAIRPERSON: Mr. Scarfone...?

MR. STEVE SCARFONE: Yes, I've confirmed with Mr. Bunston that he's available to appear on Teams.

THE PANEL CHAIRPERSON: Okay. Thank you very much. We'll come back then at 10 to 11:00, or is eleven o'clock preferable? I think we're pretty well ahead of schedule.

DR. BYRON WILLIAMS: I'll take an extra ten (10) minutes, thank you.

THE PANEL CHAIRPERSON: Okay. Eleven o'clock, please.

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

--- Upon resuming at 11:01 a.m.

MR. STEVE SCARFONE: Madam Chair, we're just going to catch up on some exhibits before Mr. Williams' questions.

THE PANEL CHAIRPERSON: Thank you, Mr. Scarfone.

MR. STEVE SCARFONE: So -- and I apologize for the delay. We were waiting on a response to Undertaking number 10 which has now been circulated, as I understand it, so that will be our next exhibit.

Exhibit number 86, a response to Undertaking number 10, with Appendices 0 to 17. I don't know why that says zero. Probably 1 to 17.

--- EXHIBIT NO. MPI-86: Response to Undertaking 10, Appendices 1 to 17

MR. STEVE SCARFONE: Exhibit number 87, response to Undertaking number 18.

--- EXHIBIT NO. MPI-87: Response to Undertaking 18

MR. STEVE SCARFONE: Exhibit number 88, 2022 Motorcycle Rates Worksheet with driver licence premiums.

--- EXHIBIT NO. MPI-88: 2022 Motorcycle Rates Worksheet with Driver Licence Premiums

MR. STEVE SCARFONE: Exhibit number 89 is the response to Undertaking number 5.

--- EXHIBIT NO. MPI-89: Response to Undertaking 5

MR. STEVE SCARFONE: Exhibit number 90 is the response to Undertaking number 21.

--- EXHIBIT NO. MPI-90: Response to Undertaking 21

MR. STEVE SCARFONE: Exhibit number 91 is the response to Undertaking number 16.

--- EXHIBIT NO. MPI-91: Response to Undertaking 16

MR. STEVE SCARFONE: Exhibit number 92 is the Capital Management Plan and five (5) year forecast presentation from yesterday.

--- EXHIBIT NO. MPI-92: Capital Management Plan and Five (5) Year Forecast Presentation from November 1, 2022

MR. STEVE SCARFONE: Exhibit number 93 is the response to Undertaking number 17.

--- EXHIBIT NO. MPI-93: Response to Undertaking 17

MR. STEVE SCARFONE: Exhibit number 94 is the response to Undertaking number 25.

--- EXHIBIT NO. MPI-94: Response to Undertaking 25

MR. STEVE SCARFONE: Exhibit number 95 is the response to Undertaking number 27 and Appendix 1.

--- EXHIBIT NO. MPI-95: Response to Undertaking 27 and Appendix 1

MR. STEVE SCARFONE: Exhibit number 96 is response to Undertaking number 15.

--- EXHIBIT NO. MPI-96: Response to Undertaking 15

MR. STEVE SCARFONE: Exhibit number 97 is response to Undertaking number 9.

--- EXHIBIT NO. MPI-97: Response to Undertaking 9

MR. STEVE SCARFONE: Exhibit number 98 is response to Undertaking 40.

--- EXHIBIT NO. MPI-98: Response to Undertaking 40

MR. STEVE SCARFONE: And that brings us up to date.

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

DR. BYRON WILLIAMS: Yes, thank you. And is Mr. Bunston --

MR. STEVE SCARFONE: He should be. Kristen, did you -- are you able to put him on the screen? Thank you.

GLENN BUNSTON, Resumed

RE-CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Morning, Mr. Bunston. I -- I hope I didn't interrupt your packing.

MR. GLENN BUNSTON (by TEAMS): Good morning. No, you didn't.

DR. BYRON WILLIAMS: And I'll have a few questions, probably twenty (20) minutes or less for you and Ms. Schubert -- or Ms. Low, excuse me.

But I am going to ask Ms. Schubert to pull up MPI Exhibit 73, slide 3 -- or page 3.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And I'll divide my questions on -- on this slide to Ms. Low and Mr. Bunston.

But, Mr. Bunston, on -- on the right-hand side of this page, you'll see information that looks a lot like it was taken from the -- the Mercer Asset/Liability Matching Study, agreed?

MR. GLENN BUNSTON (by TEAMS): Agreed. Those are the asset mixes for portfolios that Mercer identified on Efficient Frontier number 4, which is the one including levered bonds and equities.

DR. BYRON WILLIAMS: Exactly. And again, without trying to revisit our conversation on the investment panel, Mercer's was trying to evaluate both risk and return at a high level, agreed?

MR. GLENN BUNSTON (by TEAMS): Yes. Risk and return were examined by Mercer in the ALM Study.

DR. BYRON WILLIAMS: And the risk metric used in the Mercer study and as it reported on its portfolio optimizations was surplus volatility, where surplus volatility is measured as the risk that the portfolio return falls short of the growth and liabilities in a given year. Agreed?

MR. GLENN BUNSTON (by TEAMS): It was that, as well as value at risk, yes.

DR. BYRON WILLIAMS: Yes, fair enough. And value at risk would have appeared on the 'Y' axis in -- in terms of Mercer's evaluation, agreed?

MR. GLENN BUNSTON (by TEAMS): Well, in the Efficient -- in the Efficient Frontier, the -- the risk that was surplus -- sorry, surplus volatility, as you mentioned earlier.

DR. BYRON WILLIAMS: Okay, thank you. Mr. Bunston, you're much more familiar with normal dis -- distributions and bell curves than I am, but you'd agree that a bell curve is a graph depicting the -- depicting a normal distribution?

MR. GLENN BUNSTON (by TEAMS): Yes.

DR. BYRON WILLIAMS: And if we try to visualize a bell curve, the highest point on that curve, or the top of the bell, represents the most probable event in a series of data, agreed?

MR. GLENN BUNSTON (by TEAMS): Yes. It represents the mean of the data.

DR. BYRON WILLIAMS: Exactly. And again, as we try to visualize that bell, all other possible occurrences are -- are symmetrically distributed around that high point or mean, creating a downward slope curve on each side of the peak, agreed?

MR. GLENN BUNSTON (by TEAMS): Yes. A normal distribution would be evenly distributed around the mean.

DR. BYRON WILLIAMS: And if we think of the -- the width of a bell -- bell curve, it would be described in -- by its standard deviation, agreed?

MR. GLENN BUNSTON (by TEAMS): Agreed.

DR. BYRON WILLIAMS: So when we think of Mercer and its evaluation of surplus volatility, it was really focussed on two-thirds of the -- of the middle range of that bell curve, agreed, sir? One (1) standard deviation away from the mean.

MR. GLENN BUNSTON (by TEAMS): One (1) standard deviation would describe the two-thirds of the bell curve, yes.

DR. BYRON WILLIAMS: And staying with you just for a few more minutes, Mr. Bunston, and just to refresh our memories, when we look again to the right side of page 3 of MPI Exhibit 73, current A represents the existing Manitoba Public Insurance portfolio at the time of the Mercer Study, agreed?

MR. GLENN BUNSTON (by TEAMS): Yes. Those are the target asset allocations of the current portfolio, Basic claims portfolio.

DR. BYRON WILLIAMS: And it was all bonds, be it provincial, corporate, or MUSH bonds, correct?

MR. GLENN BUNSTON (by TEAMS): Correct.

DR. BYRON WILLIAMS: Going over to Lower Risk C, it's comprised of some -- some fixed income assets, as well as 4 percent equities and about -- sorry, 4 percent equities and about 15 percent alternatives, agreed?

MR. GLENN BUNSTON (by TEAMS): Yes, that's right.

DR. BYRON WILLIAMS: And so despite having riskier assets such as public equities and alternatives, the -- the risk of the C portfolio was lower than the risk of the current portfolio as measured by Mercer's; agreed? C portfolio was found by Mercer's to have a lower risk than the current MPI portfolio, correct?

MR. GLENN BUNSTON (by TEAMS): That's correct, yes.

DR. BYRON WILLIAMS: And with about the same return, agreed?

MR. GLENN BUNSTON (by TEAMS):

Approximately the same return, yes.

DR. BYRON WILLIAMS: Yes. And the 'D' midpoint again had a lower risk than the current portfolio and a higher return, correct?

MR. GLENN BUNSTON (by TEAMS): That's correct.

DR. BYRON WILLIAMS: And the 'B' had a higher return and about the same risk as the current portfolio.

MR. GLENN BUNSTON (by TEAMS): No -- 'B' had higher return, same risk, yes, that's right.

DR. BYRON WILLIAMS: And when Mercer's undertook their assessment of surplus volatility, obviously, they took into account the benefits of portfolio diversification; agreed?

MR. GLENN BUNSTON (by TEAMS): Agreed.

DR. BYRON WILLIAMS: And that's why a portfolio like 'C' with a combination of bonds and riskier assets has lower risk as measured in surplus volatility as compared to a portfolio of all bonds like the current MPI portfolio, correct?

MR. GLENN BUNSTON (by TEAMS): Yes. It would be due to the fact that the additional asset classes have a correlation with the existing asset classes of less than 1.

DR. BYRON WILLIAMS: And similarly, that's why 'B', with about 30 percent in equities and alternatives, has about the same level of risk as measured in surplus volatility as the current MPI portfolio, agreed?

MR. GLENN BUNSTON (by TEAMS): Agreed.

DR. BYRON WILLIAMS: And, Mr. Bunston, you'll recall the purpose of this undertaking was posed by -- by the reality that the 'C' portfolio, as examined by Mercers, had a relatively lower risk than 'A' portfolio, but when it came to the minimum capital requirement, the minimum capital required was actually higher.

Do you recall that, sir?

MR. GLENN BUNSTON (by TEAMS): Yes, I recall that. And I see that on the -- on the appendix -- or exhibit.

DR. BYRON WILLIAMS: Yeah. And if we're -- again, before we get to Ms. Low, for the current portfolio, the minimal -- minimum capital required was 16.8 million?

MR. GLENN BUNSTON (by TEAMS): Yes, that's for the investment related risks only.

DR. BYRON WILLIAMS: Yeah. And that is all -- all bonds, agreed?

MR. GLENN BUNSTON (by TEAMS): Correct.

DR. BYRON WILLIAMS: And, again, for the lower risk 'C' portfolio, the MCT required focussing exclusively on -- on the assets was 65.4?

MR. GLENN BUNSTON (by TEAMS): The minimum capital required was 65.4 million, yes.

DR. BYRON WILLIAMS: And, Ms. Low, I think we'll get into total risk factors a bit more on the next slide, but at a high level, if we look to the left side of -- of this page, being page 3 of MPI Exhibit 3, these were the inputs into the total risk calculation for the purpose of the MCT that flow from the -- from the MCT guidelines?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: Okay. And we won't get to the -- to the diversification for a second. But just in terms of the risk factors for the purposes of -- of this calculation, when we look at provincial bonds, total risk was zero?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And then, if we look at something like large capital global equity, it would be 40 percent?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: Now, I'm going to ask Ms. Schubert to turn to page 4...

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And at a high level, Ms. Low, on the left-hand side, we have certain -- different types of asset classes, agreed?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: Whether it's provincial bonds or infrastructure, et cetera --

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: -- agreed?

MS. CARA LOW: Yeah.

DR. BYRON WILLIAMS: As we -- and then we see whether -- the different types of investment portfolios, correct?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And then as we go to the right-hand side of this page, we're looking at various market risks that are assigned by virtue of the MCT guidelines, agreed?

MS. CARA LOW: Right. These are the OSFI guidelines, yeah, and the risk charges applied.

DR. BYRON WILLIAMS: So, interest rate

risk, equity risk, counter-party default risk are some elements of the -- the type of risks, agreed?

MS. CARA LOW: Correct, yes.

DR. BYRON WILLIAMS: And so, the risk metric used for establishing the MCT capital requirements is based on the OSFI guidelines, correct?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: And the MCT capital requirements focus on reserves on the balance sheet, agreed?

MS. CARA LOW: The requirements? Yes. Yeah.

DR. BYRON WILLIAMS: In essence, actual capital is measured using accounting standards?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And going back to that visualization of the bell curve, the MCT calculation is really looking at the worst outcomes on the left tail of the curve?

MS. CARA LOW: Correct, yes.

DR. BYRON WILLIAMS: The 1 percent kind of --

MS. CARA LOW: The 99th percentile, yeah.

DR. BYRON WILLIAMS: And as I believe

Mr. Bunston was hinting at earlier, in terms of the OSFI guidelines for MCT, in addition to market risk, they take into account insurance risk, credit risk, and operational risk, agreed?

MS. CARA LOW: Agreed, and then the diversification credit.

DR. BYRON WILLIAMS: Yeah. We're going to come to the diversification credit in just a sec.

And it applies these different risk factors to different types of risk, i.e., we see the 30 percent for equities?

MS. CARA LOW: Yes, because they're riskier than bonds.

DR. BYRON WILLIAMS: And then we come to a -- it also includes -- and I think this is pursuant to section 8(1) of your guidelines, but you don't have to know that.

It includes a diversification credit to account for the correlation between portfolios and liabilities?

MS. CARA LOW: A correlation. The whole idea that not every thing will go wrong at the same time.

DR. BYRON WILLIAMS: And the -- the

correlation factor is equivalent to point 5 -- or to 50 percent. Is that fair?

MS. CARA LOW: I believe that's true.

DR. BYRON WILLIAMS: Subject to check?

MS. CARA LOW: Subject to check, yeah.

DR. BYRON WILLIAMS: Again, if we look at the risk factors in terms of OSFI in terms of the market risk for provincial bonds going across the board, there's no factor. Like, there's nothing. There -- it's zeros across the board?

MS. CARA LOW: Correct, yeah.

DR. BYRON WILLIAMS: Again, if we go to something like Canadian equity, equity risk is 30 percent?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: If we inserted Government of Canada bonds in here, which -- which is not on the table, again, it would be zero percent risk factors across the board?

MS. CARA LOW: Correct. It's considered risk free.

DR. BYRON WILLIAMS: And so, just to help with the -- understand the issue, and this may go to Mr. Bunston, or it may go to you, whoever, you're familiar with -- with 'T' bills, treasury bills?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And you'll agree that they're the most marketable money market securities?

MS. CARA LOW: I'll leave that to Glenn.

MR. GLENN BUNSTON (by TEAMS): Yes, they're highly liquid given their short-term nature and the fact that they're issued by the Federal Government.

DR. BYRON WILLIAMS: And governments issue them to borrow money for a short period of time, Mr. Bunston, with maturities ranging from one (1) month to one (1) year. Agreed?

MR. GLENN BUNSTON (by TEAMS): Maturities ranging from one (1) month to twelve (12) months, yes.

DR. BYRON WILLIAMS: And if we inserted 'T' bills into this table, it would be zeros across the board in terms of risk as well. Would it, Mr. Bunston?

MR. GLENN BUNSTON (by TEAMS): Yes, that's right.

DR. BYRON WILLIAMS: No equity risk, no foreign exchange risk, no real estate risk.

Agreed?

MR. GLENN BUNSTON (by TEAMS): You cut out for part of that, but, yes, no risk for treasury bills.

DR. BYRON WILLIAMS: Mr. Bunston, would that be the same if one put in 100 percent 'T' bills?

MR. GLENN BUNSTON (by TEAMS): If they put in how much for 'T' bills?

DR. BYRON WILLIAMS: A hundred percent 'T' bills into your portfolio.

MR. GLENN BUNSTON (by TEAMS): Yes, the risk wouldn't change based on the weight.

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

THE PANEL CHAIRPERSON: Thank you. Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: I -- I do. I have a couple of questions actually.

RE-CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Mr. Bunston, just one (1) question for clarification.

The date of the valuation of the MUSH bonds, we understand that your previous evidence was that the date was August 31. Mr. Giesbrecht had stated he thought it was as of September.

Can you clarify?

MR. GLENN BUNSTON (by TEAMS): Yes. At August 31st, the MUSH bonds had a -- had an unrealized loss of $8.5 million. And I can tell you that, at September 30th, they had an unrealized loss of $11 million.

MS. KATHLEEN MCCANDLESS: Thank you. And then, Kristen, could we please go to MPI Exhibit number 75.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: This was the response to undertaking number 7 for MPI to provide the calculation that details the determination of the $80 million approximate adjustment.

And we can see the response at Appendix 1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: If we could go nineteen (19) pages down this exhibit, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. I think it was up here at the fair value adjustment.

So this exhibit provided the fair -- the value adjustment on March 31, 2020 and March 31, 2021. Is that right?

MR. GLENN BUNSTON (by TEAMS): I believe so.

MS. KATHLEEN MCCANDLESS: And based on this analysis, the fair market value adjustment increased by $10.3 million fair value change?

MR. GLENN BUNSTON (by TEAMS): Yes, this slide says that the fair value change was -- it looks like --

MS. KATHLEEN MCCANDLESS: 10.3 --

MR. GLENN BUNSTON (by TEAMS): -- it looks like ten thousand dollars ($10,000), but --

MS. KATHLEEN MCCANDLESS: Ten thousand.

MR. GLENN BUNSTON (by TEAMS): Yes, I believe the units are single dollars.

MS. KATHLEEN MCCANDLESS: Should it not be 10.3 million?

MR. GLENN BUNSTON (by TEAMS): It

could be, but --

MS. KATHLEEN MCCANDLESS: If we go one page down.

MR. GLENN BUNSTON (by TEAMS): It's difficult to tell because the number above it is in single dollars.

MS. KATHLEEN MCCANDLESS: So we see the fair value adjustment. Can you see this on the screen here?

MR. GLENN BUNSTON (by TEAMS): I do see it.

MS. KATHLEEN MCCANDLESS: Okay, 70.1 million.

MR. GLENN BUNSTON (by TEAMS): Yes.

MS. KATHLEEN MCCANDLESS: And go back up. That fair value adjustment is 80.4 million. So is it not an adjustment of 10.3 million, instead of ten thousand (10,000)?

MR. GLENN BUNSTON (by TEAMS): Yes, the difference between the fair value adjustment, I believe, was at March 31st of 2021 and 2022 was -- yes, approximately 10 million.

MS. KATHLEEN MCCANDLESS: Thank you. And then, the change to the fair market value is attributed to the increase in interest rates?

MR. GLENN BUNSTON (by TEAMS): Yes.

MS. KATHLEEN MCCANDLESS: And you had previously mentioned the $8.5 million loss as of August 31, 2022.

MR. GLENN BUNSTON (by TEAMS): Correct.

MS. KATHLEEN MCCANDLESS: Rather than the $80.4 million gain that was indicated as of March 31, 2021 -- '22, pardon me.

Would -- would each of the values or the -- the issues that we've discussed now be valued above their fair market value?

MR. GLENN BUNSTON (by TEAMS): Not necessarily. It depends when the bond was issued and what the interest rate was on the date it was issued.

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

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

MS. CHARLOTTE MEEK: I don't have any questions. Thank you.

THE PANEL CHAIRPERSON: Ms. Wittman...?

MS. KAREN WITTMAN: No questions. Thank you.

THE PANEL CHAIRPERSON: Ms. Sokal...?

MS. JENNIFER SOKAL: No questions. Thank you.

THE PANEL CHAIRPERSON: Mr. Scarfone...?

MR. STEVE SCARFONE: No questions on re-direct on those questions.

THE PANEL CHAIRPERSON: Sorry. Thank you very much. Thank you, Mr. Bunston. Thank you, Ms. Low.

And we're adjourned, I believe, now until tomorrow morning. So we'll be back at nine o'clock.

(PANEL STANDS DOWN)

MS. KATHLEEN MCCANDLESS: Yes. And I -- just to update the Panel, we will have some offline discussion this afternoon in terms of the availability of the Oliver Wyman witness later on in the day. It would be preferable to do cross-examination on answers to undertakings before moving in to the CAC evidence.

But depending on Mr. Sahasrabuddhe's availability, we may have to schedule the Oliver Wyman evidence in the morning.

THE PANEL CHAIRPERSON: Okay, thank you very much for that.

MS. KATHLEEN MCCANDLESS: Thank you.

--- Upon adjourning at 11:25 a.m.

Certified Correct,

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Wendy Woodworth, Ms.