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 - Board Member

Susan Boulter - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

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Pages 618 to 836

Day 3

APPEARANCES

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

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

THE PANEL CHAIRPERSON: Good morning, Mr. Guerra. Would you please introduce your panel and then we'll have them sworn in.

MR. ANTHONY GUERRA: Thank you, Madam Chair. Before we do that, we do have a couple of housekeeping issues, so I'll turn it over to my friend Ms. McCandless to read in an undertaking that we agreed to last night.

THE PANEL CHAIRPERSON: Thank you.

MS. KATHLEEN MCCANDLESS: Thank you. Good morning. So as a result of the staffing update that we received in yesterday's hearing, MPI and PUB advisors conferred offline and have agreed to an undertaking to be provided, as I understand early next week.

And that would be to -- for MPI to provide an update to Figure EXP-1, Figure EXP-2, Figure EXP-5, Figure EXP-9, Figure EXP-38, Expense -- Expenses Appendix 2, Expenses Appendix 5, Expenses Appendix 6 and 6A; to provide detail of the full-time equivalent budget for 2023/'24 in the same level of detail as Appendix 1 and an updated Appendix 2.

For MPI to provide an update to Figure

EXP-11, adding a column reflecting the revised full-time equivalent budget for 2023/'24; to provide a table reflecting the staff budget figure EXP-11 from 2020, 2021, 2022, and 2023 GRA and the October update for the comparative years 2019/'20 through 2025/'26.

For MPI to provide an updated table in the same format as MPI Exhibit number 55, slide 14 for total corporate -- adding columns for 2021 actual, 2021/'22 actual, a column providing the change in 2022/'23 from 2021/'22.

Also for MPI to provide a similar schedule as the requested revised table based on MPI Exhibit number 55, slide 14, for total corporate staffing levels.

MPI to provide a general description of the annual staff budgeting process and a description of the process followed to support the October update, including any analysis prepared and presented to the board of directors and the associated minutes approving the updated full-time equivalent budget; and an update to MPI Exhibit number 38, if necessary, or confirm that the schedule has not changed with the October update. If it has changed, please provide an update with a narrative description of the changes. And that's the undertaking.

--- UNDERTAKING NO. 15: MPI to provide an update to Figure EXP-1, Figure EXP-2, Figure EXP-5, Figure EXP-9, Figure EXP-38, Expenses Appendix 2, Expenses Appendix 5, Expenses Appendix 6 and 6A; to provide detail of the full-time equivalent budget for 2023/'24 in the same level of detail as Appendix 1 and an updated Appendix 2; to provide an update to Figure EXP-11, adding a column reflecting the revised full-time equivalent budget for 2023/'24; to provide a table reflecting the staff budget figure EXP-11 from 2020, 2021, 2022, and 2023 GRA and the October update for the comparative years 2019/'20 through 2025/'26;

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update with a narrative
description of the
changes.

MR. ANTHONY GUERRA: Sorry, I didn't get all that. If you can just repeat that, please. No, that -- that's very good. Thank you very much. And the time line I think is -- is correct. It's supposed to be sometime mid next week.

THE PANEL CHAIRPERSON: Thank you very much.

MS. KATHLEEN MCCANDLESS: And, Madam Chair, I just want to read in a few exhibits to the record. They were documents that I referred to in my cross-examination of the Expenses and IFRS Panel yesterday.

So PUB-17 will be Part 5 Expenses, EXP-5, from the 2022 GRA.

--- EXHIBIT NO. PUB-17: Part 5 Expenses, EXP-5 from the 2022 GRA

MS. KATHLEEN MCCANDLESS: PUB-18 will be Part 5 Expenses, Appendix 12 from the 2022 GRA.

--- EXHIBIT NO. PUB-18: Part 5 Expenses, Appendix 12 from the 2022 GRA

MS. KATHLEEN MCCANDLESS: PUB-19 is from Part 5 Expenses, EXP-10 from the 2022 GRA.

--- EXHIBIT NO. PUB-19: Part 5 Expenses, EXP-10 from the 2022 GRA

MS. KATHLEEN MCCANDLESS: PUB-20 is MPI Exhibit number 18 from the 2022 GRA.

--- EXHIBIT NO. PUB-20: MPI Exhibit 18 from the 2022 GRA

MS. KATHLEEN MCCANDLESS: PUB-21 is

CAC/MPI-1-69 from the 2022 GRA.

--- EXHIBIT NO. PUB-21: CAC/MPI 1-69 from the 2022 GRA

MS. KATHLEEN MCCANDLESS: Thank you.

THE PANEL CHAIRPERSON: Thank you, Ms. McCandless.

Mr. Guerra...?

MR. ANTHONY GUERRA: Thank you, and I Just have four (4) exhibits of my own to read into the record. So MPI number 56 is the Benchmarking Presentation from yesterday.

--- EXHIBIT NO. MPI-56: MPI Benchmarking Presentation from October 19, 2022

MR. ANTHONY GUERRA: MPI Exhibit number 57 is PUB Pre-Ask number 2 with Appendix 1.

--- EXHIBIT NO. MPI-57: PUB Pre-Ask 2 with Appendix 1

MR. ANTHONY GUERRA: MPI Exhibit

number 58 is PUB Pre-Ask number 1 with Appendices 1 and 2.

--- EXHIBIT NO. MPI-58: PUB Pre-Ask 1 with Appendices 1 and 2

MR. ANTHONY GUERRA: And Appendix -- or, sorry, and MPI Exhibit number 59 is the Ratemaking Claims Forecasting Presentation.

--- EXHIBIT NO. MPI-59: Ratemaking Claims Forecasting Presentation

THE PANEL CHAIRPERSON: Thank you.

MR. ANTHONY GUERRA: Okay. I think we're ready to have the witnesses sworn or affirmed, please.

MPI ACCEPTED ACTUARIAL PRACTICE/RATEMAKING PANEL

CHERITY OSTAPOWICH, Sworn
CARA LOW, Affirmed
KHURRAM MASUD, Affirmed

EXAMINATION-IN-CHIEF BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: And for the benefit of the Panel, I can advise that in the front row this morning, Mr. Khurram Masud, who is our director of pricing; Ms. Cara Low, who you met yesterday who is our vice-president, chief actuary, and chief risk officer; and Cherity Ostapowich, who is our director of valuation and capital management.

And behind me, I can advise there are three (3) members of our back panel, Tyler Clearwater, an actuarial analyst II, Ngoc Ly, an actuarial analyst II, Christie Way, director of injury claims management.

And appearing in our back row but virtually this -- this morning is Christine Zhou, director business insights and analytics, and Glen Bunston, our director of ALM and investment management.

Just before we begin, just -- again, just a reminder for our -- our panel witnesses. If you can please state your name before providing your evidence just for the benefit of our court reporter.

So, good morning, everyone. And before we begin, I just want to confirm that before us you have a presentation titled, 'Ratemaking under accepted actuarial practice in claims forecasting.'

Is this presentation to be part of your direct evidence that you will give this morning?

MS. CARA LOW: Yes.

MR. ANTHONY GUERRA: Okay. I will turn it to -- over to yourselves to introduce yourselves and give some background for your -- your experience, your education, where the panel may not be aware of -- of that particular part of your evidence, and then to get into the presentation itself.

If you -- if you want to start, Cherity. You can introduce yourself and give some background.

MS. CHERITY OSTAPOWICH: Hi. Sorry. My name's Cherity Ostapowich. I'm the director of valuation and capital management. I've been with MPI since January of 2022, so going on ten (10) months.

Prior to that, I was with the Wawanesa Mutual Insurance company where I worked in both the actuarial pricing and corporate actuarial department for about eleven (11) years.

MS. CARA LOW: Cara Low, VP, chief actuary, chief risk officer. I started at MPI last September, so just over a year ago. I did start my career at Wawanesa Insurance back in 1992. I spent sixteen (16) years at Wawanesa over two (2) different stints. I left and went back.

I was the first in-house actuary at SGI. I was there from 2003 to 2011, so I built the actuarial team from scratch at SGI. I did spend some time at two (2) smaller insurance companies.

MR. KHURRAM MASUD: Good morning. My name is Khurran Masud. I joined MPI in August. Prior to that, I was working for a consulting in Toronto. I have in total in excess of twenty (20) years worth of experience in insurance and actuarial.

I'm a fully qualified actuarial from (INDISCERNIBLE). I'm also an associate from Institute and Faculty of Actuaries UK and an associate from Canadian Institute of Actuaries.

MS. CARA LOW: So, this is Cara. And so, I'm going to get started with our presentation. If you can go to the next slide. So, we were -- we're here to talk about ratemaking and claims forecasting, but you can see there's three (3) agenda items.

I was hoping to take a few minutes to talk about the evolution of the actuarial function.

I sat in this hearing room last year, back row, for the Ratemaking Panel. And the first thing I noticed was that there was many times that undertakings were requested and the team couldn't handle the work because the entire actuarial team was either front row or back row and there was no one back in the office to actually do the work.

The second thing I noticed was the front row really struggled to answer simple actuarial questions. So, that's when I knew that I needed to mature, grow, and evolve the actuarial function at MPI.

So, a little bit about myself. I already mentioned most of this. I am responsible for the strategic leadership of the Company, both the -- the actuarial investment and risk division, or what we call the AIR division. I bring over thirty (30) years of experience. I have worked with public auto before, and SGI.

I do hold a bachelor of science degree in actuarial math from the University of Manitoba. I am a qualified actuary, both -- or through the Casualty Actuarial Society, the Canadian Institute of Actuaries, as well as American Academy of Actuaries.

In addition to that, I do hold a CFA charter, a fellow of the Insurance Institute of Canada, and a certified risk manager.

I do believe I have a deep understanding of P&C insurance in Canada because I have spent thirty (30) years working in the field. Next slide.

So, to really understand why the actuarial function at MPI needs to evolve, you really have to understand the history of it. Luke Johnston, which you guys all recognize from the last -- for many years at the PUB, he was with MPI for over eighteen (18) years, with many of those years as the Chief Actuary.

He was the only credentialed actuary in his last few years with the Company. Luke worked with a very small actuarial team. Although the team was small, they were extremely hard working and very dedicated. I have a lot of respect for what Luke did with very limited resources.

Within the past year, two (2) of those team members left, along with Luke. So with those three (3) departures, a lot of the institutional knowledge also left the Corporation.

And this is where we were at the end of 2021. There was a large gaping hole in a very, very core function.

So I really have spent the last year rebuilding the actuarial team. But building back better and stronger because we need to address key person risk to succession planning.

So we now have four (4) credentialed actuaries as of today. Between the four (4) of us, we have over eighty (80) years of combined actuarial experience, over at least a dozen insurance companies or consulting firms.

This is how MPI is going to be moving to industry best practice; by bringing in industry knowledge and building the team.

We also have implemented an actuarial development program to ensure that the actuarial staff are progressing through their journey to become credentialed actuaries. This is industry best practice within the field.

We are starting to also have regular actuarial interns from the University of Manitoba, as well as other post-secondary institutions. And this is how we're going to build a future pipeline for actuarial talent. Next slide.

So who are these four (4) actuaries? Well, we have Christine Zhou. She is our new Director of Business Insights and Analytics. She just joined us a few weeks ago. So we gave her a pass. She's not here on front row. She is back row.

Her most recent experience was with

ICBC, so she has had other public auto insurance experience. You will see her next year front row as her focus will be on claims forecasting.

Beside me is Khurram Masud. He joined in August. We did twist his arm. He is here with us today. He is the Director of Pricing. Khurram comes with extensive international experience and his most recent position was with a consulting firm in Toronto.

Cherity Ostapowich joined MPI in January of this year. Her -- Cherity and I worked very closely together at Wawanesa. And very happy to have her here as well.

So why do we need three (3) different actuarial functions? If we can flip to the next slide. We're going to focus on each of the areas.

So business insights and analytics is a new team that Christine is heading up. So it just was started last month. The primary focus of this team will be mainly claim forecasting and insights.

This will mean that you will see more sophisticated trend analysis and (INDISCERNIBLE) measures over the next couple of GRAs.

In addition, Christine's team will be spending time on ensuring that the executive team and the Board of Directors have better insight into what's going on in the business, so we can move to a data-driven entity -- data-driven decision making entity.

As we move on to the pricing slide, Khurram is new to MPI, but this function, obviously, is not new.

Khurram will continue to focus on the rate adequacy of all three (3) lines of business. So this is the Basic line of business, the Extension line of business, and the Special Risk Extension line of business. As well as enhancing the risk classification, especially the implementation of generalized linear modelling.

Khurram works very closely with the customer value proposition team on such projects as the Driver Safety Rating, fleet rating, and Vehicle for Hire.

Many of these projects have been very slow on being implemented because the actuarial team did not have the resources to support the products team.

And then on to valuation and capital management. Cherity is leading this team. This function has always existed. It's a core function of any insurance company. But we're adding additional senior leadership role. This will provide actuarial oversight in order to mature and expand the function.

This team works with the external appointed actuary to ensure the accuracy of the financial statements in regards to the unpaid claims liability.

It also prepares and stress tests the five (5) year financial forecast through the financial condition test. And this team also manages the Capital Management Plan, so the Rate Stabilization Reserve, and our re-insurance program.

So, what benefits can we see from the expanded actuarial function? More sophistication in pricing, including generalized linear modeling; review of serious loss loadings, credibility standards -- a lot of the issues have been raised in this hearing over the last few years, that the Actuarial Team did not have the talent or the resources to review.

We will bring quicker and more in-depth insight into the operational results to the management team and to the Board of Directors, so we can be more reactive.

More capacity to provide more detailed information, including during the PUB Hearings. Successful IFRS 17 implementation, as you heard yesterday. It's not just -- and -- financial reporting for the accountants, but there's also actuarial components.

Increased oversight of pricing risk, reserving risk, inflation risk, catastrophe risk and re-insurance risks. Those are risks that all insurance companies base and you need your actuaries to be monitoring and mitigating those risks.

And support to assure the successful release of NOVA, will -- especially release 3 as we need to ensure the pricing is accurately coded and picked up in the system.

So, in summary, building a strong actuarial team is important to ensure the financial integrity and rate stability for Manitobans.

I'm going to turn it now over to our Director of Pricing.

MR. ANTHONY GUERRA: Sorry, before we -- we do that, I just have one (1) quick question for you, Ms. Low, and thank you very much for getting through the details that you -- you were able to get through.

You did testify earlier, though, about your experience with SGI and rebuilding the actuarial team at SGI.

Can you provide us with some more

details about what it is that you -- you found when you were at -- at SGI, the need to revamp their actuarial staff and then what the benefit of doing that was?

MS. CARA LOW: I was the fist in-house actuary, so I was not revamping. I was building from scratch. So, when I was hired I was a team of one (1). It was right after they had purchased Coachman Insurance, an insurance company of P.E.I. So, they had subsidiaries, so they weren't just dealing with the Province of Saskatchewan.

So, yeah, they -- we were working with external actuaries. I was working very, very closely with their external appointed actuary. We were bringing talent into Regina 'cause it's important to bring -- build local talent, but you can't always hire experience local talent. So, you bring in experienced talent and then you build it locally.

MR. ANTHONY GUERRA: And what benefits did SGI reap from the work that you did to build the actuarial department there?

MS. CARA LOW: The vast majority of the actuarial analysts I hired are now in senior management positions at SGI.

MR. ANTHONY GUERRA: And -- and how

many actuaries does SGI work with or have in its -- in its complement?

MS. CARA LOW: Currently, I don't know. I -- when I left, we were about a team of sixteen (16) perhaps.

MR. ANTHONY GUERRA: Thank you.

MR. KHURRAM MASUD: Good morning and thank you very much for providing us the opportunity to do -- speak today.

My name is Khurram Masud and I'm the Director of Pricing here. I'm one of the fully qualified actuaries that Cara referred to in her slides earlier.

In the next few slides I'll be talking about the ratemaking for the Basic product for the GRA application 2023.

We continue to use the same methodology as used before for several years. This methodology has been proven and tested to generate stable rates over time. The -- the methodology conforms to the actuarial -- actuarial accepted practice.

The rates are generated on a zero profit margin basis, that is, they do not contain any explicit provision for profits or surplus.

Currently we are employing the minimum

bias procedure, with the intention to move to GLM very soon, which is a more modern and a sophisticated way of ratemaking. The plan is to file a transition plan for private passengers in 2025 GRA, with the other major classes to follow in the subsequent years.

For this year's rate application, we have enhanced the DSR scale to 17 grids, compared to the previous 16 grids.

One (1) aspect that we changed in the current rate application, is that instead of using the duration for the unpaid claims reserve, we are now using the duration of the premium liabilities.

The reason for this change is that unpaid claims reserve have a significant buildup of paid benefits for the past several years, and therefore, they have a disproportionately large complement of PIPP benefits compared to any particular rating year.

Benefits is -- some of it is more long term in nature, that's why this tends to overstate the liabilities that you would expect from any particular policy year.

On this slide, we draw a comparison of the composition of the claims liabilities to the projected loss costs for the 2023/2024 policy year.

On the left chart, you will see the composition of the claims outgo from different benefits for the forthcoming policy year. You can see that PIPP constitutes only 25 percent of the total claims outgo, whereas most of the claims outgo emanates from physical damage.

Compare this to the chart on the right, which shows the breakdown of the unpaid claims provision. This is highly skewed towards PIPP benefit. A large component of that comes from PIPP.

To understand this skew, consider the example of a policy year, where most of the claims are under physical damage and TPL, as you could see on the left pie chart. These claims are paid off relatively quickly, in a few years, but a smaller proportion of the claims are for PIPP benefits, some of which are for a much longer duration. These stay in the unpaid claims -- claims provision for a much longer period.

Now imagine what happens the next policy year, where we have some more physical damage and TPL claims, which are, again, paid off much quicklier (sic) and the PIPP benefits that come on board and then they stay in the claims provision for a much longer period of time.

Year on year, there is a

disproportionate accumulation of PIPP benefits in the unpaid claims provision and, therefore, the unpaid claims provision as a result will have a much longer duration than you would expect from any particular policy year.

Moreover, the Canadian Institute of Actuary Standard of Practice requires us to use the investment return that is representative of the cash flows to be invested from the future revenue generated from the premiums indicated. So, we're talking about the future revenue that comes from the pricing of -- of -- of the business that is yet to be written.

The overall impact of these changes was a positive point .2 percent. Had we used the duration of the unpaid claims liabilities, the indicated rate would have been negative .3 percent. Based on the premium liabilities, the indicated rate is negative .1 percent. So, there's a change or difference of positive .2 percent.

In this light, we enlist some of the major assumptions that is used in the current rate application. We understand that a large number of Manitobans would continue to work from home, despite the lock-down and the restrictions being lifted. We have, therefore, assumed a 5 percent reduction in the claims frequency on account of this.

On the severity front, we are experiencing -- we are witnessing larger than regular inflation. At the same time, we have also observed an emerging trend of growing severity due to supply chain issues. For example, difficulty in getting the parts or a delay in -- in -- in repair works.

In addition for PIPP benefits, we have used a high indexation during this year's rate application, compared to the previous years. Historically, we have been using a 2 percent indexation on PIPP benefit. For this year, on account of the larger inflation, we have used 7.6 percent for 2023, 3.7 percent for 2024, 2.5 percent for 2025, and, then, it levels off to 2 percent from 2026 years onwards.

At the same time, the investment year is higher for this year. We have used an investment yield of 4.05 percent, net of investment expenses. This is using the gradation of (INDISCERNIBLE). Next slide, please.

We had originally filed a provisional rate indication of negative .9 percent; that is a 9.9 percent decrease from last year's. We have since then updated our assumptions, which has resulted in updated rate indication of negative .1 percent. The original .9 percent was updated for claims forecast as at July, resulting a .9 percent increase, which is indicated by the arrow on the left of the bar. It takes it up to .1 percent. So, the negative .9 percent goes up by .9 -- .9 percent and it becomes .1 percent. The small difference is due to the effect of rounding.

We updated the assumption for inflation or the indexation on the PIPP benefit; that results in an increase of .5 percent, taking a .1 percent to .6 percent.

We updated the assumption for the money yield or the interest rate. This has a positive impact. So, this brings the rate down by 1.3 percent, indicated by the orange arrow to the left of the bar and that brings the rate indication to negative .7 percent. Subsequently, we updated the assumption for expenses. Now, this takes the rate up by 1.4 percent, taking the rate indication to positive .7 percent.

Finally, we updated the definition for the internal loss adjustment expenses, which brings the rate down by .8 percent to the negative .1 percent, which we are recommending now.

On this slide we see the makeup of the .1 percent reduction in the rate indication. At a high level, this comes from a required change of .6 percent positive with a concurrent reduction in natural upgrade of negative .7 percent, leading to a .1 percent reduction in the rate as we indicated above.

Natural upgrade is basically a change in the premium for all factors other than the rate change. This includes factors such as mix of the vehicle population, vehicles being one (1) year older than before; change in the insurance classes, or insurance users. Basically, all other factors that are not to do with the rate change.

The required change of .6 percent is made up of several components. The money year brings it down by 4.1 percent. All other factors are pushing it up, including the claim cost by 1.6 percent; the operating expense by 1.6 percent; increase in commission due to a higher commission rate by .7 percent; decreasing driver premium by .2 percent; and all other expenses by .6 percent.

On this slide we see the average rate change from the last year. This is basically a weighted average rate and this is based off the vehicle population as of November 1st, 2021. So, this is based on a static population.

For private passenger we see there's a minor increase of .4 percent; for commercial the increase is 4.8 percent; for public the increase is 2.2 percent; for motorcycle there's an increase of 3 percent.

This increases largely driven by the increase in PIPP costs. For motorcycle, PIPP constitutes are a major component of the claims outgoing of nearly 93 percent.

PIPP benefit has experienced an increase due to the high inflation. This is one of the major drivers of the increase in the motorcycle rates.

Trailers and off-road that are small (INDISCERNIBLE) book of business. In total, this leads to a .5 percent increase on an aggregate business based on the population as of November 1st, 2021.

You can see that this is heavily tilted toward the private major class, which by -- by far constitutes the largest segment of the book. There is a -- I just -- yeah.

There is a concurrent decrease of .6 percent due to the DSR scale movement, leading to a .1 percent negative rate indication change. Next slide, please.

This slide reiterates the message from the earlier table of a .5 percent increase in the rates, which is offset by a negative .6 percent decrease in the DSR scale leading to a negative .1 percent rate change, as indicated above.

This is all I have for -- for the rate making first slide, and I will now gladly pass it over to my colleague Cherity, who will talk about claims forecasting. Thank you.

MS. CHERITY OSTAPOWICH: Cherity Ostapowich. Good morning. We will now turn our attention to claims forecasting. So, for the claims forecasting section we'll touch briefly on the composition of the claims incurred, the comparison of the claims incurred to the current GRA verses last years GRA.

We'll touch on the working-from-home assumption, inflation assumptions, an update to the repair trade agreement, and the changes included in the October rate update.

So, the five (5) that we're looking at right now, so this is the composition. So the pie chart on this slide shows the net claims incurred for fiscal year '23/'24.

This is different from what Khurram had shown earlier in his slides as this shows the composition on a fiscal-year basis, not a policy-year basis. So this is the composition that makes up the net claims incurred on the income statement which would be PF-1.

So a large portion of the net claims incurred is physical damage, which is comprised of collision and comprehensive coverages. The second largest category is PIPP, which comprises 25 percent of the incurred claim costs. And then third-party liability, this includes bodily injury and property damage claims, and this makes up 6 percent.

And the 'Other' category makes up the remaining 5 percent. The 'Other' category includes internal loss adjustment expenses and the interest rate impact. Next slide, please.

The comparison of the net claims incurred between the 2022 GRA and the 2023 GRA is shown in the table on this slide. This -- the left-hand side of the table shows fiscal years, and then the columns show the net claims incurred for the 2023 GRA and the 2022 GRA, respectively, and then the last column is the difference between the two (2) GRA columns.

The largest difference comes from the '21/'22 fiscal year where the claims incurred estimate decreased by 150 million. This was largely due to interest rate impacts, and the estimate also came down to better than expected experience for physical damage and third-party liability claims.

For the other forecast years, the decreases are mostly attributable to lower expected frequency of PIPP claims, and this is mostly due to the work-from-home adjustment and interest rate impacts.

On the next slide, we're going to take a closer look at the '23/'24 year. The waterfall chart on this slide shows how we get from the 2022 GRA net claims incurred estimate to the 2023 GRA net claims incurred estimate for the 2023/'24 fiscal year.

The amounts shown in the waterfall are cumulative. So, for example, the first blue bar on the left is the starting amount, so you'll see that's 956 million. The second blue bar, about 7.3 million, brings the total to 963.4 million. The last bar, the green one on the far right, this is the ending amount. So if you add up all the bars, you'll end up with 932.5 million.

So let's walk through each of these

changes. Just a sec.

(BRIEF PAUSE)

MS. CHERITY OSTAPOWICH: Okay. Apologies. All right. So we can see that collision is increasing the net claims incurred by 7.3 million. So even though frequency of these claims is lower, the severity of the collision claims is up. The higher severity is due to rising costs to repair or replace vehicles. Higher inflation and supply chain issues are contributing factors.

The next bar is saying that the net claims incurred are coming down by 18.1 million for PIPP claims. Even though the indexation has increased, the estimate for PIPP claims is more than offsetting the -- that increase due to lower frequency of these claims. This lower frequency is due to the work-from-home adjustment.

Interest rate impacts are further reducing the net claims incurred estimate by 7 million, and then property damage is adding 6.4 million. In the 2022 GRA, the CERP impact -- so that the Compulsory and Extension Revision Project -- so that impact to property damage was included with collision.

In this GRA, that impact was moved to property damage as it applies to third-party deductible transfer. And since the deductible was increased, the severity has increased.

I want to point out that since this impact was included in collision last year, it was taken in -- into account in the 2022 GRA rate indication. They essentially switched buckets. They went from collision to property damage.

Comprehensive net incurred claim estimate is reducing the cumulative estimate by 3.1 million. This is driven by the hail forecast which brought down the estimate due to favourable experience in the '21/'22 year.

The 'Other' category consists of internal loss adjustment expenses and deferred policy acquisition costs which is reducing the net claims incurred by 9.1 million, bringing the total to 932.5 million. This will line up with the 2023 GRA income statement line.

So next we'll go through a few of the assumptions. So the working-from-home assumption. So as a result of the pandemic, many organizations changed their policies regarding remote work. The frequency of automobile accidents was substantially lower during the pandemic.

And when restrictions were lifted, it was assumed that people may decide to continue to work from home or attend school remotely. This means that the historical frequent -- frequency patterns may change.

In order to gauge the potential change to frequency after the pandemic, MPI conducted a survey which asked Manitobans about their commute prior to the pandemic, during the pandemic, and their expectations after the pandemic.

The chart on the right of this slide, which can also be found as Attachment A as part of the claims incurred chapter, this shows the percentage of survey respondents -- so that's the left axis -- and whether they worked from home or attended class from home before, during, and after the pandemic.

Pre-pandemic indicates that 5 percent of respondents were working from home, while during the pandemic about 35 percent were working from home.

The last category, far right, the percentage of respondents who expect to continue to work from home after the pandemic. This says that about half of the respondents who worked from home during the pandemic expect to continue to do so after the pandemic.

So we had 5 percent in the pre-pandemic; during the pandemic it was 33 to 41 percent; and then after the pandemic about 21 percent, and the last category is 13 percent.

So collision frequency -- so actual collision frequency in '21/'22 was about 10 percent lower than the collision frequency prior to the pandemic.

So based on survey results, about half of the respondents say they will continue to work from home after the pandemic, so MPI assumed that the frequency will not return to pre-pandemic levels but will be about half of what was seen during the pandemic, so, about half of that 10 percent.

For insurance years '22, '23, and on, five (5) -- a 5 percent frequency adjustment was applied to collision, property damage, weekly indemnity, ABO index claim frequency as these claims showed a change in claim frequencies during the pandemic. Next slide, please.

So inflation. Most of PIPP coverages, they are indexed to Manitoba inflation, and prior to 2021, inflation was stable, around 2 percent.

Earlier this year, Manitoba inflation began to rise to record levels. So at year end, the inflation assumption was revised from 2 percent to the amounts shown in the 2023 GRA column.

The future estimates of inflation are based on the average of several banks' forecasts, so at year end this resulted in about a $64 million increase to claim liabilities. So that's as at March 31st, 2022.

MPI also revised its forecasted inflation in the 2023 GRA using the same inflation factors from year end. The inflation was then updated for the rate update.

The inflation was updated using the inflation as of July -- so that means the average of year-over-year inflation for each month from January to July -- and then the banks' forecast for the remaining forecast years.

These assumptions can be found in the last column on the chart on this slide. In the rate update, the inflation assumption results in a $14 million increase to PIPP claim costs per year. Next slide, please.

There was also an update to the Repair Trade Agreement, so the LVAA. So initially, MPI had estimated a $7 million impact through forecast years in the 2022 GRA. However, upon implementation, as costs were finalized, the amounts were higher than the 7 million estimate.

The table shows the Repair Trade Agreement forecasted impacts as presented in the 2023 GRA which was filed in July for the collision coverages -- for -- for the collision coverage and the comprehensive coverage.

For the 2023 GRA rate update, a further $4 to $5 million was added. These additions were due to increased labour rates and materials. Next slide, please.

So this slide, it shows the changes made from the 2023 GRA, which we submitted in July, to the rate update submitted in October. This is again for the 2023/'24 fiscal year.

The changes that occurred from the application to the rate update include updating data to be as of July 31st, 2022, interest rates and inflation as of August, and changes to the LVAA.

So the starting point is nine hundred and thirty-two point five (932.5), which you'll notice matches to the ending value of the first waterfall chart I showed on slide 24.

The second bar shows $5.9 million coming from collision. This was mostly due to a change in the Repair Trade Agreement and due to higher costs. PIPP is -- is adding 6.6 million, which is mostly due to higher inflation amounts.

The interest rate impact is reducing the estimate by 5.1 million which is due to changes in the forecast in interest rates. The 'All Other' category is reducing the total by 1.8 million, which is attributable to a decrease in the internal coss adjustment expenses.

This brings the total to 938.1 million, which is the net claims incurred for '22/'23 year in the rate update. Next slide, please. Oh.

So the next two (2) slides are quite detailed, so I'm just going to speak to them high level. So these two (2) slides outline the claims forecasting model and assumptions.

Different actuaries may use different models, which is okay as long as the model is appropriate for the work being done. It is important to understand the data and trends that feed into the model. Equally important is the understanding of the underlying business so meaningful forecasts can be made.

As Cara mentioned earlier, we have a new team: Business Insights and Analytics. This team will be focussed on improving the claims forecasting methodology and deepening our understanding of MPI's business.

This concludes our presentation.

THE PANEL CHAIRPERSON: Thank you.

Mr. Guerra...?

MR. ANTHONY GUERRA: Thank you. I don't have any questions further at this point, so just if we can please just be prepared for cross-examination. Thank you.

THE PANEL CHAIRPERSON: Thank you.

Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you.

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Good morning. I am Board counsel, and I'll have some questions for you today. I'm not going to direct my questions to a particular member of the panel, so whomever feels it's most appropriate to answer the question, please proceed.

I'm going to start with the October update and the changes in drivers of the update. So first, with respect to the change in the AAP rate indication, Kristen, could we please go to Exhibit MPI number 58. Thank you. And scroll down to response 2(b). Thank you.

So this table provides an explanation of changes from the filing to the update.

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And they are due to the following: so the claims forecast per unit?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And so, there's an increase -- an impact of .9 percent?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And that's based on the increase in the light vehicle accreditation agreement, correct?

MS. CARA LOW: Correct.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Inflation at item C, 4.2, 2.4, and 2.3, and 2.0 percent for 2023 versus 7.6 percent, 3.7 percent, 2.5, and 2.0 percent for 2023 and thereafter?

MS. CARA LOW: Correct. That's for

the indexation of the PIPP benefits in the future.

MS. KATHLEEN MCCANDLESS: What did inflation affect and how much was the impact on each of those -- those factors?

MS. CARA LOW: Sorry, could you repeat that question?

MS. KATHLEEN MCCANDLESS: What did inflation affect and how much was the impact on each of those things that were affected.

MS. CARA LOW: These inflation factors are being applied to the indexation of PIPP benefits. So, PIPP benefits are a regulated product. And they do go up every year, April 1st, based on Manitoba CPI from the previous calendar year.

MS. KATHLEEN MCCANDLESS: Did inflation have an impact on claims?

MS. CARA LOW: That is built into the claim severity trends.

MS. KATHLEEN MCCANDLESS: Did it have an impact on particular coverage?

MS. CARA LOW: The index benefit. So, that would be your weekly indemnity and your accident benefit 'other' indexed, yeah.

MS. KATHLEEN MCCANDLESS: And can the Corporation provide details on all of the changes in the forecasted claims cost by coverage and year?

MS. CARA LOW: Sorry, could you repeat that?

MS. KATHLEEN MCCANDLESS: Can you provide details on all of the changes in forecasted claims cost by coverage and year?

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

(BRIEF PAUSE)

MS. CARA LOW: Sorry. The items that we have listed here are the only things that change between the provisional filing and the updated filing of October 12th. There is no additional detail.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And did inflation have an impact on expenses?

MS. CARA LOW: Yes, it did.

MS. KATHLEEN MCCANDLESS: And can you explain what the impact was?

MS. CARA LOW: No. That would have been done by the finance team, and that was discussed yesterday, so the actuary operating expenses. It did impact salaries, yes.

MS. KATHLEEN MCCANDLESS: Thank you. With respect to the change in the discount rate, there was a movement of sixty-two (62) basis points based on a two (2) year duration or eighty-one (81) basis points based on a ten (10) year duration for an impact of --

MS. CARA LOW: Subject to check. One (1) minute.

(BRIEF PAUSE)

MS. CARA LOW: Sorry, could you repeat the question?

MS. KATHLEEN MCCANDLESS: With respect to the change in the discount rate, there was a movement of sixty-two (62) basis points based on a two (2) year duration or eighty-one (81) basis points based on a ten (10) year duration for an impact of -- a downward impact of 1.3 percent?

MS. CARA LOW: Sorry, we're getting a different number. We're getting eighty-four (84) basis points.

MS. KATHLEEN MCCANDLESS: The impact that we see here is negative 1.3 percent?

MS. CARA LOW: That is correct, yes.
MS. KATHLEEN MCCANDLESS: Now, just to take you back to my question about the impact of inflation on coverages, does the Corporation have detail on the dollar amount of the increase for each of weekly indemnity and accident benefits other indexed for each fiscal year?
MS. CARA LOW: Yes, we have that.
MS. KATHLEEN MCCANDLESS: Could that be provided by way of undertaking, please?

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Yes. If we can just confirm for the record what the undertaking is. Thank you.
MS. KATHLEEN MCCANDLESS: Yes. That's for the Corporation to provide the dollar amount of the increase for each of weekly indemnity and accident benefits other indexed for each fiscal year.
MR. ANTHONY GUERRA: Thank you, Counsel. Yes, we will.

--- UNDERTAKING NO. 16: For the Corporation to provide the dollar amount

of the increase for each
of weekly indemnity and
accident benefits other
indexed for each fiscal
year.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Now, back to the interest rate. Instead of using the marketable bond yield of 4.24 percent as requested, consistent with the current methodology for the new money yield, it has been reduced by expenses of seven (7) basis points to 4.17 percent, correct?

MS. CARA LOW: Sorry, could you repeat that?

MS. KATHLEEN MCCANDLESS: The Corporation has changed its methodology in terms of the new money yield, correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And the result of that change is, rather than a marketable bond yield of 4.24 percent, the Corporation is using 4.17 percent, correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: Can the

Corporation provide the rate indication using the marketable bond yield as requested, the 4.24 percent?

MS. CARA LOW: That was provided in the pre-ask, and it was a negative 0.3 instead of the 0.1 percent.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: With respect to the increase in expenses at item E, that's an increase of 194.54 to 206.11?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: Or an increase of 1.4 percent due to additional headcounts?

MS. CARA LOW: Correct. Additional head counts and, also, salary increases, as we talked about yesterday.

MS. KATHLEEN MCCANDLESS: Thank you. Our information is that the Corporation did not provide the rate indication with 4.24 percent, it was just provided with 4.17 percent?

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

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Kristen, perhaps in the meantime, could you pull up MPI Exhibit number 58, page 5.

(BRIEF PAUSE)

MS. CARA LOW: So, in the pre-ask 1, we used 4.17 percent. That was at a ten (10) duration. But we also removed seven (7) basis points for investment expenses.

MS. KATHLEEN MCCANDLESS: Kristen, could we just see the page number on this. Okay.

So it should actually be labelled 5 of 56. I think there are a couple of... Continue to here. Thank you.

So here, we see the new money yield that was used in the rate update at line 3, 4.17 percent.

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And -- and so, it is accurate that the Corporation did not provide the update with 4.24 percent. Correct?

MS. CARA LOW: That would be correct. Because we did remove the investment expenses. So 4.25 would be gross of investment expenses, but we do pay our investment managers. So we don't realize the full yield.

MS. KATHLEEN MCCANDLESS: Can the Corporation provide the rate indication using 4.24 percent as the new money yield?

MR. ANTHONY GUERRA: Yes, counsel. We can undertake to do that.

So just to confirm the undertaking on the record, please.

MS. KATHLEEN MCCANDLESS: The Corporation to provide the rate indication using the marketable bond yield of 4.24 percent.

MR. ANTHONY GUERRA: Thank you, counsel. Yes, we will.

--- UNDERTAKING NO. 17: Corporation to provide rate indication using the marketable bond yield of 4.24 percent.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Then if we could just go back to the previous exhibit, please, Kristen. Thank you.

Just finally, the ILAE adjustment at

item F. There was a reduction from 19 percent to 18 percent. Correct?

MR. KHURRAM MASUD: That's correct.

MS. KATHLEEN MCCANDLESS: And that had an impact of .8 percent, correct?

MR. KHURRAM MASUD: That is correct.

MS. KATHLEEN MCCANDLESS: Now, if we could go to PUB-MPI-1-33, Appendix 1. And this is with respect to the new money yield.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: It'll be Appendix 1-2, please. Thank you.

So looking to line 9, the original naive new money yield was 3.43 percent in the filing?

MR. KHURRAM MASUD: That is correct.

MS. KATHLEEN MCCANDLESS: And, Kristen, could we please go to MPI Exhibit number 50, figure INV-13.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: I believe it's page 53 of 55. Thank you.

And so, this is the INV-13 based on the October rate update -- or October update?

(BRIEF PAUSE)

MS. CARA LOW: Could we defer this line of questioning to Monday for the Investment Panel? Because we do get this information from our Director of Investments.

MS. KATHLEEN MCCANDLESS: I -- I simply just wanted the panel to confirm that line 9 for 2023/'24 shows 4.24 percent for the marketable bond yield.

MS. CARA LOW: That would be correct, yes.

MS. KATHLEEN MCCANDLESS: And I don't think I need to take you there, but in the filing, in RM Appendix 8, the Corporation advised that there were no significant changes in methodology or assumption changes from the 2022 GRA to this GRA.

Would that be fair? Would you like to see the reference for that?

MS. CARA LOW: Yes, please.

MS. KATHLEEN MCCANDLESS: So that's RM Appendix 8.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So Ms. Low, you would accept that as the Corporation's evidence on summary --

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: -- of methodology and assumption changes?

MS. CARA LOW: Yes, I would.

MS. KATHLEEN MCCANDLESS: Thank you. Now, if we could go to MPI Exhibit number 4. This is from -- this is investments, page -- I think it's page 9 of 86.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. Just scroll up a little bit. With respect to interest rate forecasting here.

So the Corporation states that:

"The Board of Directors and management of MPI continue to believe that a naive interest rate forecast is the best estimate of future interest rates.

Forecast for each category of fixed income assets uses the yield on the Government of Canada ten (10) year bond as the base, to which a spread is added in order to arrive at the absolute yield for the fixed income asset.

The naive forecast holds the Government of Canada ten (10) year bond yield as of March 31, 2022, constant for the entire five (5) year forecast.

The actual yield on the Government of Canada ten (10) year bond on March 31, 2022, was 2.41 percent. This rate forms the basis for all interest rate forecasts in this application.

All fixed income asset types are also assumed to maintain a constant spread above the yield of the Government of Canada ten (10) year bond."

And, Ms. Low, you would accept that as the Corporation's evidence?

MS. CARA LOW: Yes, I would.

MS. KATHLEEN MCCANDLESS: Does MPI have one (1) investment portfolio for all Basic claims?

MS. CARA LOW: Yes, it does.

MS. KATHLEEN MCCANDLESS: The duration of the investments supporting all of the Basic claims is about nine (9) years, correct?

MS. CARA LOW: Just over nine (9) years, yeah. Between nine (9) and ten (10).

MS. KATHLEEN MCCANDLESS: And there is no segregation of assets by coverage?

MS. CARA LOW: No, there is not.

MS. KATHLEEN MCCANDLESS: So cash flow generated by insurance operations would flow into Basic claims investment portfolio?

MS. CARA LOW: Yes, it would.

MS. KATHLEEN MCCANDLESS: And this morning, I provided your counsel with a copy of the standards of practice of the Canadian Institute of Actuaries and, in particular, Section 2620. Could we please pull that up, Kristen? Thank you.

And I'm looking at sections 2620.15 through .16 with respect to the time value of money.

So Kristen, it's a few pages down.

Here. Perfect. Thank you.
So with respect to the time value of money, the standards state:
"The investment return rate for calculating the present value of cash flows would reflect the expected investment income to be earned on assets that might be acquired with the net cash flows, resulting from the revenue at the indicated rate."
MS. CARA LOW: Correct.
MS. KATHLEEN MCCANDLESS: At .16:
"Among the various possible sets of such assets, the actuary would consider risk-free assets of appropriate duration, fixed income assets of appropriate duration, and assets which are expected to be acquired."
MS. CARA LOW: Correct.
MS. KATHLEEN MCCANDLESS: Would you agree that the Corporation invests new cash flow in provincial and corporate bonds within the Basic claims investment portfolio?

MS. CARA LOW: Could you repeat that, please?

MS. KATHLEEN MCCANDLESS: The Corporation invests new cash flow in provincial and corporate bonds --

MS. CARA LOW: Yes, it does. Yeah.

MS. KATHLEEN MCCANDLESS: -- in the Basic claims investment portfolio.

MS. CARA LOW: Yes. And we keep also an operating cash.

MS. KATHLEEN MCCANDLESS: And the Basic claims investment portfolio is invested in bonds with an average duration of about nine (9) years?

MS. CARA LOW: Yeah, between nine (9) and ten (10).

MS. KATHLEEN MCCANDLESS: Thank you. Now, I'm going to ask some questions about changes in expenses. And I appreciate we did hear from the expenses panel yesterday. These do relate to rate making as well, so.

If we could go to MPI Exhibit 50, PF-6.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you.

Now, this is a statement of operations that compares what was in the original filing with what's been filed in the October update. Yes?

MS. CARA LOW: Yes, that is true.

MS. KATHLEEN MCCANDLESS: And starting at line 22, we can see that the 2023/'24 forecast for operating expenses has increased by $11.5 million. Yes?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And then, Kristen, could you please go to MPI exhibit number 58, page 13. I'm looking for another pro forma. I think it will be PF-5. Yes, please. Go back up. Pardon me, PF-7. Thank you.

And so, here, if we could just scroll to the top again, please. So, this is with respect to the 2024/'25 forecast, comparing what was in the original filing with what's now been updated. Correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And at line 22 for 2024/'25 forecast, operating expenses have increased by 11.8 million from what was filed. Yes?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And most of

the increase would be related to compensation expenses?

MS. CARA LOW: I -- I assume so. I believe so.

MS. KATHLEEN MCCANDLESS: And then if we could jump back to pro forma 6 from MPI number 50, at line 25 we see that regulatory and appeal expenses have increased from 4.5 million, or 4.48 million, to 4.8 million. Correct?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: The increase in expenses has resulted in an impact on rates of about a 1.4 percent increase?

MS. CARA LOW: Yes, that is true.

MS. KATHLEEN MCCANDLESS: Thank you. Now Kristen, could we please go back to the actuarial standards. And this time, I'm looking at 26.10, so on the previous page, thank you.

And at the very bottom. And this relates to NOVA expenses. So at 2620.10, the standards state, for provision for expense costs:

"The actuary would determine the provision for expense costs that is appropriate for the period during which the rates are expected to be in effect."

MS. CARA LOW: That is true, yes.

MS. KATHLEEN MCCANDLESS: And if we scroll down to point 11, in selecting a provision for expense costs, the actuary would consider, among other things, that one time expense costs may need to be amortized, and that's the last bullet there. Yes?

MS. CARA LOW: Yes, that is also true.

MS. KATHLEEN MCCANDLESS: Did you consider whether the NOVA system development costs that benefit future years of policyholders, that are currently being expensed, should instead be amortized for the purposes of ratemaking?

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

(BRIEF PAUSE)

MS. CARA LOW: Sorry. No, we did not consider the amortization of the NOVA cost.

MS. KATHLEEN MCCANDLESS: Bearing in mind what the standards of practice provide, is that something that the Corporation may consider going forward?

MS. CARA LOW: It's -- it's definitely something we could look at in the future. I mean, it's to prevent rate shock, so when you have large one time costs, the rates don't go up in order to cover that -- those costs and then go down after the costs are -- haven't been incurred and are finished.

MS. KATHLEEN MCCANDLESS: Would the Corporation consider it prudent to consider amortizing large -- these one time large expense costs?

MS. CARA LOW: It would be something we would need to consider.

MS. KATHLEEN MCCANDLESS: Now, with respect to the change in claims incurred, first with respect to net claims incurred, and we're going to go back to MPI Exhibit number 50, pro forma 5. Thank you.

At line 14 we see net claims incurred and the difference between the filing and the rate update shows a decrease of $31.1 million in net claims incurred.

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And now, if we could go to MPI Exhibit 58, pro forma 5, please. Thank you.

Now, this exhibit shows an increase in net claims incurred of 3 -- $38.3 million at line 14. Yes?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: Okay. And so that's clearly a significant change between what was filed in the initial rate update and what's been filed in the, I'll call it corrections, to some of this in MPI Exhibit number 58.

MS. CHERITY OSTAPOWICH: It was an update, not a correction.

MS. KATHLEEN MCCANDLESS: Okay. Accepting that, this is the same pro forma, the first one in MPI Exhibit number 50 was for the same time period and it was the rate update.

So this -- but this is now the current information that the Corporation has on net claims incurred. Correct?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: And so, there is, then what was filed in MPI Exhibit number 50, was a decrease of $31 million in net claims incurred, and now we see an increase of $38.3 million.

So, can the Corporation explain the reason for that significant swing?

MS. CHERITY OSTAPOWICH: Yeah, just a minute.

(BRIEF PAUSE)

MS. CHERITY OSTAPOWICH: That was due to inflation update.

MS. KATHLEEN MCCANDLESS: Kristen, could we go to the next page of pro forma 5. And so, this -- this page then provides an explanation for the changes that we saw on the previous page, correct?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: And with respect to net claims incurred, we see at line 8 that there was a decrease of $48.9 million due to lower than forecasted collision claims.

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: What is the basis for this decrease?

MS. CHERITY OSTAPOWICH: The -- it's due to frequency.

MS. KATHLEEN MCCANDLESS: So a decrease in claims frequency from what was -- what was forecasted in the filing?

(BRIEF PAUSE)

MS. CHERITY OSTAPOWICH: So, it's due

to actual lower frequency. So, we based -- when we did the update, we based it on July 2022, versus the original, would have been based on March 31st, 2022, data.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. We also see at line 9 an increase in PIPP and liability claims, correct?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: What is the basis for these changes?

MS. CHERITY OSTAPOWICH: It's inflation.

MS. KATHLEEN MCCANDLESS: And does the Corporation have documentation validating this?

MS. CHERITY OSTAPOWICH: Yes, it does.

MS. KATHLEEN MCCANDLESS: Can that be provided?

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Yes, Counsel, we can undertake to provide that. So, just for the record, if you can clarify the nature of the undertaking.

MS. KATHLEEN MCCANDLESS: To provide documentation validating the $78.2 million increase in forecasted PIPP and liability claims.

MR. ANTHONY GUERRA: Yes. Thank you, Counsel. We will get the undertaking.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 18: MPI to provide documentation validating the $78.2 million increase in forecasted PIPP and liability claims.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: There's also a $3 million decrease in property damages claims?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: What is the basis for this decrease?

MS. CHERITY OSTAPOWICH: That'll be due to the July update.

MS. KATHLEEN MCCANDLESS: When you say "July update"?

MS. CHERITY OSTAPOWICH: Using actual data as of July 31st rather than March.

MS. KATHLEEN MCCANDLESS: And can you provide the back-up documentation validating this change, as well?

MS. CHERITY OSTAPOWICH: Yes.

MR. ANTHONY GUERRA: So, just confirm, Counsel, for the record, what the undertaking is, and I'll -- I'll agree to it.

MS. KATHLEEN MCCANDLESS: And perhaps I'll just jump ahead, Mr. Guerra, because I'm going to be asking for the same information with respect to all of the variances and net claims incurred. I'm assuming that they'll need to be answered by way of undertaking.

So, if the Corporation could provide documentation, in addition to the undertaking already given, validating the decrease of $48.9 million in lower than forecast collision claims; decrease of .75 million in lower than forecasted non-proportional ILAE; the $8.2 million increase in forecasted ILAE; and the $4.6 million increase in forecasted comprehensive claims.

MR. ANTHONY GUERRA: One (1) moment, Counsel.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Yes, Counsel, we'll get the undertaking. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 19: MPI to provide documentation validating the decrease of $48.9 million in lower than forecast collision claims; decrease of .75 million in lower than forecasted non-proportional ILAE; the $8.2 million increase in forecasted ILAE; and the $4.6 million increase in forecasted comprehensive claims.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: And so I appreciate we'll get detail when that undertaking is provided, but maybe just generally at this point, the decrease in lower than -- in forecasted non-proportional ILAE, can you explain the basis for that decrease?

MS. CHERITY OSTAPOWICH: So, you're talking about the eight point two eight (8.28) -- or eight two three eight (8238) or...?

MS. KATHLEEN MCCANDLESS: The point seven five (.75). The decrease.

(BRIEF PAUSE)

MS. CHERITY OSTAPOWICH: So, we don't have that information.

MS. KATHLEEN MCCANDLESS: But when the undertaking is provided, presumably that information would be included?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. Can you advise as to the reason for the increase in forecasted ILAE?

MS. CHERITY OSTAPOWICH: Yeah. The increase to forecasted IL -- ILAE, you're talking about line 12, eight two three eight (8238), that is mostly going to be due to the increase from inflation on PIPP claims 'cause it tends to be quite long tail.

MS. KATHLEEN MCCANDLESS: And the

increase in forecasted comprehensive claims, generally, what's the reason for that?

MS. CHERITY OSTAPOWICH: So, that'll be due to the July update.

MS. KATHLEEN MCCANDLESS: Subject to check, would you accept that if we add up the decrease of 48.9 million with the increase of 78.2 million, the decrease of 3.3 million and .75 million, and add back to the 8.2 million and 4.6 million, we would get to an overall increase of $38.3 million?

MS. CHERITY OSTAPOWICH: Subject to check.

MS. KATHLEEN MCCANDLESS: And that would match the new version of Pro Forma 5, page 9, so on the same exhibit at line 14. Just scrolling up to the previous page. We see that $38.3 million there on the right-hand side of the table, yes?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. So, just going back to what we saw in pro forma 5 in MPI Exhibit number 50, which was the October update filed on the 12th. And that pro forma 5...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So, this is the Exhibit 58; Kristen, could we go to 50 and maybe put it side by side.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Perfect. Thanks.

So, on the right-hand side of the page we see MPI Exhibit number 50. And that's dated October 12th, correct?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: On the left-hand side we see October 20, 2022. And that is the same pro forma just filed eight (8) days later, correct?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: And we see that on fifty (50), net claims incurred as of October 12th were estimated -- or there was a difference from the filing of a reduction of $31 million, yes?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: Okay. And then that was changed to $38.3 million this week, correct?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. And then if we scroll to the explanation of the variances...

Thank you. So, I just took you through the variances on the October 20th MPI Exhibit number 58, right? Correct?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: And we see that the variances in MPI Exhibit number 50, as filed, are the same with respect to net claims incurred, correct?

MS. CHERITY OSTAPOWICH: Yes.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And -- and so, you had mentioned this -- that MPI Exhibit number 58 was not a correction, it was an update. But it seems to me that it actually was a correction.

Would that be fair?

MS. CHERITY OSTAPOWICH: Yes, that was a correction.

MS. KATHLEEN MCCANDLESS: Thank you. Can you describe the controls procedures that are followed to make sure -- make certain that the claimed incurred numbers in the financial statements are correct, as we have an unreconciled difference of nearly $70 million here.

(BRIEF PAUSE)

MS. CARA LOW: Usually we do have a peer review and it was missed between -- on October 12th. Usually our investment team would look at the interest rate impact. And so we did -- there was an oversight and the July numbers didn't get updated to the August figures.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. Now, if we go to Pro Forma 6 -- and Kristen, you can put aside Exhibit 50 for now.

Thank you. And so this is Pro Forma 6 from Exhibit number 58, which was filed earlier this week. Line 14. And so this is statement of operations comparing what was filed with the rate update, correct?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: Line 14 shows an increase in net claims incurred of $10.7 million?

MS. CHERITY OSTAPOWICH: Correct.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And then if we could go to Pro Forma 1 from the filing, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So, for 2024/'25 in the filing, we see forecasted net claims incurred at line 16 of $970.7 million?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: And then if we compare that to Exhibit 58...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Kristen, can we go to Exhibit 58, please. And I think we'll need to go down to Pro Forma 7. Thank you.

So, there we see at net claims incurred, based on the rate update, the forecast for 2024/'25 is $987.4 million, yes?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: So, subject to check, that would be an increase of roughly $16.6 million?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And then if we could go to page 12 of this exhibit, so PF-6. Scrolling down, please.

Looking at the explanation of significant variances, MPI appears to have changed the following. At net claims incurred line 5, we see lower forecasted ILAE, a reduction of 1.799 million?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: Lower than forecasted comprehensive claims by .29 million?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: Lower than forecasted property damage claims of .068 million?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: An increase in forecasted PIPP and liability claims of 6.6 million?

MS. CHERITY OSTAPOWICH: Correct.
MS. KATHLEEN MCCANDLESS: Increase forecasted collision claims of 5.9 million?
MS. CHERITY OSTAPOWICH: Correct.
MS. KATHLEEN MCCANDLESS: And given the $48 million decrease for 2022/'23, why is collision increasing?

(BRIEF PAUSE)

MS. CHERITY OSTAPOWICH: Can you repeat the question, please.
MS. KATHLEEN MCCANDLESS: Given the $48 million decrease for 2022/'23, why is collision increasing?
MS. CHERITY OSTAPOWICH: This is due to the LVAA.
MS. KATHLEEN MCCANDLESS: Thank you. Line 12 is increase forecasted non-proportional LAE of .38 million?
MS. CHERITY OSTAPOWICH: Yes.
MS. KATHLEEN MCCANDLESS: And for each of those changes, can the Corporation provide the calculations underlying the projected claims for each and every coverage for which the change is over $1

million in either direction?

(BRIEF PAUSE)

MS. CHERITY OSTAPOWICH: Yes, we can provide that.

MR. ANTHONY GUERRA: So, Counsel, if you just clarify --

MS. KATHLEEN MCCANDLESS: Sure.

MR. ANTHONY GUERRA: -- the undertaking, I'll -- I'll answer it.

MS. KATHLEEN MCCANDLESS: Yes. So, with respect to each of the changes set out at PF-6, under net claims incurred, explanation of variances, for the Corporation to provide the calculations underlying the projected claims for each and every coverage for which the change is over $1 million in either direction.

MR. ANTHONY GUERRA: Yes, counsel will undertake to provide that information. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 20: MPI to provide, with respect to each of the changes set out at PF-6 under net claims incurred, explanation of variances, the calculations underlying the projected claims for each and every coverage for which the change is over $1 million in either direction.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now going ahead to the comparative for Pro Forma 7, please. And the explanation of the variances on the next page. Thank you.

And so, these are the variances from the 2024 forecast -- 2024/'25 forecast, based on the filing and then compared with the rate update, correct?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: And here under net claims incurred, at line 10 we see $1.3 million lower than forecasted ILAE?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: Lower than forecasted comprehensive claims of .05 million?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: A small amount of lower than forecasted property damage claims of .008 million?

MS. CHERITY OSTAPOWICH: Yeah.

MS. KATHLEEN MCCANDLESS: We're used to speaking in millions. I should probably switch to thousands for these numbers, but...

Increased forecast PIPP and liability claims of 9.87 million?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: Increase in forecasted collision claims of 5.06 million?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: And again, given the $48 million decrease for 2022/'23, why is collision increasing?

(BRIEF PAUSE)

MS. CHERITY OSTAPOWICH: That's due to LVAA.

MS. KATHLEEN MCCANDLESS: Thank you. There's an increase in forecasted non-proportional LAE of 3.1 million at line 8?

MS. CHERITY OSTAPOWICH: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: For each of these changes, we would assume that you're response to the 2023/'24 year would also provide details on the calculations for each of these changes which are over $1 million in either direction?

MS. CHERITY OSTAPOWICH: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. Madam Chair, I have a fair amount of cross-examination left, so there's no real natural break at this point. Perhaps you'd like the morning break.

THE PANEL CHAIRPERSON: Thanks, Ms. McCandless.

Yes, let's break now and we'll come, please, at a quarter to 11:00. Thank you.

--- Upon recessing at 10:35 a.m.

--- Upon resuming at 10:49 a.m.

THE PANEL CHAIRPERSON: Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you. Just before I resume my cross-examination, I did want to enter the excerpt from the Actuarial Stand -- Standards of Practice to which I referred this morning as the next PUB exhibit. So that will be Exhibit number 22. Thank you.

--- EXHIBIT NO. PUB-22: Excerpt from the Actuarial Standards of Practice

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: And just one (1) follow-up to my question a little bit earlier about ex -- amortizing the NOVA expenses.

Are you able to state what the impact would be on the rate indication of NOVA expenses were amortized and allocated to years in which the benefits of the new system would be realized?

MS. CARA LOW: We haven't done that analysis.

MS. KATHLEEN MCCANDLESS: Directionally, are you able to speak to that?

MS. CARA LOW: No.

MS. KATHLEEN MCCANDLESS: Now getting back to the pro formas from Exhibit number 58, and this is pro forma 6, please. Thank you.

If we move to line 18 of pro forma 6,

so the 2023/'24 forecast, we see a decrease of $5.38 million for claims expense, correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And it has a reference number beside it of four (4), just in brackets there?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And we also -- we see an increase of two point three zero eight (2.308) for road safety and loss prevention?

MS. CARA LOW: Yes, that is true.

MS. KATHLEEN MCCANDLESS: So if we go to the -- the next page, so page 12, could you identify which numbers we add up to get to the decrease of $5.388 million for claims expense?

(BRIEF PAUSE)

MS. CARA LOW: Can you give us a minute, please?

MS. KATHLEEN MCCANDLESS: Yes.

(BRIEF PAUSE)

MS. CARA LOW: The reference number 4

doesn't appear to have the claims adjusting expenses in there.

MS. KATHLEEN MCCANDLESS: Okay. So just to understand your answer then, the -- we don't have the detail of which numbers would add up to get to that decrease of $5.38 million for claims expenses?

MS. CARA LOW: No. That analysis is not on the page that you have up.

MS. KATHLEEN MCCANDLESS: Has that analysis been -- well, presumably it's been done to get to that number.

MS. CARA LOW: We would have that number, yes, so just not -- it's a reference to number 4, and it's not in number 4.

MS. KATHLEEN MCCANDLESS: Can the Corporation please just provide that information?

MR. ANTHONY GUERRA: Yes, Kathleen. We can undertake to provide that information if you can just clarify for the record, please.

MS. KATHLEEN MCCANDLESS: Yes. The -- the calculation -- or explain the calculation of the decrease of $5.388 million in claims expenses.

MR. ANTHONY GUERRA: Yes, counsel. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 21: MPI to explain calculation of decrease of $5.388 million in claims expenses and to provide explanation for the increase of $2.308 million in road safety, loss prevention reconciled against lines 26 and 27 at page 2 of pro forma 6 in MPI-58. And to provide the explanation for the increase of $2.308 million in road safety, loss prevention reconciled against lines 26 and 27 at page 2 of pro forma 6 in MPI Exhibit number 58.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: And with respect to the -- the increase of $2.308 million for road safety and loss prevention that we saw on the previous page, if -- if we add up lines 26 and 27, so higher than expected loss prevention, road safety expense, and higher than expected driver education program expenses, we don't get to that $2.308 million.

Can you explain?

MS. CARA LOW: No, I cannot. You want to just give us a minute, please?

(BRIEF PAUSE)

MS. CARA LOW: Sorry. The expense panel was yesterday, so we're trying to get some answers from the back row. They're online.

MS. KATHLEEN MCCANDLESS: Perhaps we can just do it a more efficient way then. Maybe just to add to that previous undertaking, to provide the explanation for the increase of $2.308 million in road safety, loss prevention reconciled against lines 26 and 27 at page 2 of pro forma 6 in MPI Exhibit number 58.

MR. ANTHONY GUERRA: Yes, counsel. It makes sense to amalgamate that into one (1) undertaking. Thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: And then if we could go forward to pro forma 7, please, I believe we have the same question with respect to those expenses for the 2024/'25 year with respect to claims expense and road safety and loss prevention.

So could we also have an undertaking to provide the explanation for the claims expense and road safety, loss prevention expenses in pro forma 7 reconciled against item number 4 at page 2 of pro forma 7?

MR. ANTHONY GUERRA: Yes, counsel.

MS. KATHLEEN MCCANDLESS: Thank you.

--- UNDERTAKING NO. 22: MPI to provide explanation for claims expense and road safety, loss prevention expenses in pro forma 7 reconciled against item number 4 at page 2 of pro forma 7.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Now I'm going to go to Figure RM-20 of this same exhibit, and this is the impact on distribution of rate changes. RM-20.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. And so what this figure shows is how the rate change is distributed against all classifications of vehicles, essentially, correct?

MR. KHURRAM MASUD: That is correct.

MS. KATHLEEN MCCANDLESS: Thank you. And on the -- the first column on the left, we have 'all vehicles combined', correct?

MR. KHURRAM MASUD: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: If we ignore the impact -- oh, I think we might be in the ratemaking exhibit, Kristen. I think we should be at Exhibit number 50 -- 58, pardon me, RM-20. It's the same schedule, but it's just the updated version. Thank you. Perfect.

So if we start with 'all vehicles combined', again the first column here on the left, and ignore the impact of the removal of the capital management provision on the premium impact felt by customers for the time being, on the left side there's a row referred to as total decreasing, and we see that it's 40.84 percent.

So in other words, we can see that 40.84 percent of all vehicles have a rate decrease indicated, correct?

(BRIEF PAUSE)

MR. KHURRAM MASUD: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: Could we zoom in maybe a little bit, please, Kristen, for now, just on that first column? Perfect. Thank you.

And so then no change, we see that 12.89 percent would have no change, correct?

MR. KHURRAM MASUD: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: And that would mainly relate to off-road vehicles and trailers? Would you accept that subject to check? Or we can run through the table, if you'd like.

MR. KHURRAM MASUD: Just one (1) second.

(BRIEF PAUSE)

MR. KHURRAM MASUD: Can we please

scroll to the right of the screen.

MS. KATHLEEN MCCANDLESS: Probably on the second page. There's trailers. And if we go a little bit farther. No, to the -- to the right.

Off-road vehicles we see 100 percent no change, correct?

MR. KHURRAM MASUD: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Thank you. Kristen, can we go back up to page 1 of RM-20. Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And then scroll down to the bottom there. Thank you. So, then there's a line for total increasing under 'all vehicles', and that's 46.27 percent would see a rate increase, correct?

MR. KHURRAM MASUD: Correct. That's correct.

MS. KATHLEEN MCCANDLESS: Does this reflect expected movement in the driver safety rater -- Driver Safety Rating scale?

(BRIEF PAUSE)

MR. KHURRAM MASUD: Yes, but it as a point in time, it's not prospective.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So, our understanding was that this figure would not reflect expected movement in the Driver Safety Rating scale. That's not accurate?

MR. KHURRAM MASUD: It does not capture the expected moments.

MS. KATHLEEN MCCANDLESS: Thank you. Now, if we move to the second column. And maybe we'll have to zoom out a little bit to be able to see the headings here.

So private passenger vehicles, or the second column here. And the corresponding numbers for that class we see total decrease of 49.09 percent, the percentage of total seeing a decrease?

MR. KHURRAM MASUD: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: .35 percent would see no change?

MR. KHURRAM MASUD: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: And 50.56 at the bottom would see an increase, correct?

MR. KHURRAM MASUD: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: And then moving over to commercial vehicles, the next column, total decreasing would be 6.03 percent?

MR. KHURRAM MASUD: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: .43 percent would see no change?

MR. KHURRAM MASUD: Correct.

MS. KATHLEEN MCCANDLESS: And 93.54 percent would see an increase, correct?

MR. KHURRAM MASUD: Correct.

MS. KATHLEEN MCCANDLESS: And then to the next column, public vehicles on the far right, total decreasing would be 27.93 percent?

MR. KHURRAM MASUD: Correct.

MS. KATHLEEN MCCANDLESS: .02 percent would see no change?

MR. KHURRAM MASUD: That is correct.

MS. KATHLEEN MCCANDLESS: And 72.05

percent would see an increase, correct?

MR. KHURRAM MASUD: That's correct.

MS. KATHLEEN MCCANDLESS: Thank you. Then the next page shows motorcycles, trailers, and off-road vehicles. And so, the same questions with respect to those classes.

We see a total decreasing for motorcycles would be 31.19 percent?

MR. KHURRAM MASUD: That is correct.

MS. KATHLEEN MCCANDLESS: .36 percent of vehicles would see no change?

MR. KHURRAM MASUD: Correct.

MS. KATHLEEN MCCANDLESS: And 68.45 percent would see an increase, correct?

MR. KHURRAM MASUD: Correct.

MS. KATHLEEN MCCANDLESS: Trailers would -- 33.28 percent would see a decrease?

MR. KHURRAM MASUD: Correct.

MS. KATHLEEN MCCANDLESS: 33.72 percent would see no change?

MR. KHURRAM MASUD: Correct.

MS. KATHLEEN MCCANDLESS: And 33 percent would see an increase, correct?

MR. KHURRAM MASUD: Correct.

MS. KATHLEEN MCCANDLESS: And then we

already saw that there's no changes to off-road vehicles, right?

MR. KHURRAM MASUD: Right.

MS. KATHLEEN MCCANDLESS: Now, if we take into consideration the 57. -- or $57,857,000 capital release provision that was included in the 2022/'23 rates -- and, first of all, subject to check, would you confirm that's the correct amount for the capital release?

MR. KHURRAM MASUD: Subject to check.

MS. KATHLEEN MCCANDLESS: So, that amount relative to the $1.43 billion of motor vehicle written premium in 2022/'23 -- and if you'd like, I can take you to a reference, or you can accept that, subject to check, but that capital release would translate to about 5.54 percent, correct?

MR. KHURRAM MASUD: Subject to check.

MS. KATHLEEN MCCANDLESS: So, in other words, removal of the capital release provision would add 5.54 percent of premium back to the motor vehicle written premiums, correct?

(BRIEF PAUSE)

MS. CARA LOW: The capital release is

not a premium, it's releasing our capital. It does look like an applied discount, but it is not premium.

MS. KATHLEEN MCCANDLESS: Effectively though, what would happen is that the -- the ratepayer would be paying more to the tune of 5.54?

MS. CARA LOW: Bottom line, it does look like there's an increase.

MS. KATHLEEN MCCANDLESS: Okay.

MS. CARA LOW: But it was always put in there as a temporary measure in order to reduce our capital that was built up during COVID.

MS. KATHLEEN MCCANDLESS: Understood. And I understand the Corporation's position on that. Just trying to understand how that plays out in what ratepayers will ultimately have to pay in terms premiums.

So, if we combine the -- the .043 percent -- sorry, .43 percent AAP rate decrease based on the nine (9) year bond duration yield and adjusted for seven (7) basis points to 4.24 percent, if we combine that with an impact of an increase of 5.54 percent given removal of the capital release provision, that would translate to an overall effective -- or rate change of 5.11 percent increase, correct?

MR. KHURRAM MASUD: I'm not sure I followed that calculation.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Just to simplify it then, if we took the -- the .43 -- a .43 AAP rate decrease and combined it with the impact of an increase of 5.54 percent resulting from removal of the capital release provision, that translates to an increase of point -- or 5.11 percent, correct, just that math?

(BRIEF PAUSE)

MS. CARA LOW: We're still struggling to follow the math. So, you're saying, with the capital release, it was minus 5.54. And now you're talking about the updated rate indication by using a ten (10) year -- nine (9) to ten (10) year duration gross of investment expenses?

MS. KATHLEEN MCCANDLESS: So, that -- the rate decrease of negative -- or the rate decrease of .43 percent is based on the nine (9) year bond duration yield, and then adjusted for the seven (7)

basis points to get to 4.24 percent, okay. So, that -
- that's how you get to the .43 AAP rate decrease.
So, I'm just -- you would accept that that's --
MS. CARA LOW: Yeah.
MS. KATHLEEN MCCANDLESS: -- that's what you would get to?
MS. CARA LOW: Yeah.
MS. KATHLEEN MCCANDLESS: Okay.
MS. CARA LOW: Yeah, correct.
MS. KATHLEEN MCCANDLESS: So, if you combine that with the impact of removing the capital release --
MS. CARA LOW: Oh, I see.
MS. KATHLEEN MCCANDLESS: -- that's a 5.54 percent impact. So, simply, the math -- it would translate into an overall impact or rate change of 5.11 percent?
MS. CARA LOW: I would accept that, but it would be what -- the bottom line of what the ratepayer is seeing, not their change to their rates, but I would accept that math, yes.
MS. KATHLEEN MCCANDLESS: Right. And so, I think that's just a question of how we're characterizing the impact of the removal of the

capital release. But the math, it works out to plus 5.11 percent?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. So, if we again take a look at figure RM-20. And I think we should go to the first page of that again. And there's going to be some math on the fly here, so I apologize in advance, although you're much better equipped to do it than I am.

So, if we see how many overall vehicles have rate decreases of 6 percent or more, that would roughly -- that would likely be roughly comparable to the numbers -- number of vehicles that would see a premium decrease on renewal once the capital release provision has been removed?

MR. KHURRAM MASUD: Yeah. I would think so, yeah.

MS. KATHLEEN MCCANDLESS: Thank you. And so, this is where the math comes in.

So if we look at all vehicles combined, and we were to add up the percentage of vehicles who, according to RM-20, are seeing a premium decrease of 6 percent or greater. So that would be adding 6 to 7 percent up to the very top line there of 20 percent or more.

That would add up to 19.25 percent of all vehicles?

MR. KHURRAM MASUD: With a decrease of more than 6 to 7 percent, yes, that would add up to.

MS. KATHLEEN MCCANDLESS: And assuming that the 13 percent would still see no change, that would mean about 67.75 percent would see a premium increase on renewal. Correct?

MR. KHURRAM MASUD: Yeah, the -- the money that they would pay out would be -- yeah. That's -- that's the right --

MS. KATHLEEN MCCANDLESS: Thank you.

MR. KHURRAM MASUD: -- that's the right number.

MS. KATHLEEN MCCANDLESS: And then, for private passenger, doing the same calculation from 6 -- 6 to 7 percent and up in terms of increases -- or decreases, pardon me, 19.8 percent would see a premium decrease and most of the rest would see an increase.

Is that right? Again, I'm just adding up 6 to 7 percent and above in terms of --

MR. KHURRAM MASUD: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. The same calculation with respect to commercial vehicles would result in 2.9 percent seeing a premium decrease with most of the rest seeing a premium increase?

MR. KHURRAM MASUD: That's correct.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: For public, 3 percent would see a premium decrease and most of the rest would see an increase, correct?

MR. KHURRAM MASUD: Yes.

MS. KATHLEEN MCCANDLESS: On the next page, for motorcycles, 2.7 percent would see a premium decrease and most of the rest would see a premium increase?

MR. KHURRAM MASUD: Yes.

MS. KATHLEEN MCCANDLESS: Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: I'm now going to move into the interest impact on claims incurred. And if we go to figure CI-5 from the filing.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So in the filing, the assumed claims liability discount rate for 2022/'23 was -- for Q4 of 2022/'23 -- was 3.55 percent?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: And then, Kristen, could we please jump to PUB-MPI-2-2, Appendix 2?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: For the same time period -- so on the left-hand column, at 2022/'23 Q4, at line 15, the claims discount rate is shown as 4.19 percent.

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: And that is the claims discount rate for 2022/'23 Q4 based on interest rates as at August 31, 2022?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: This would translate into an increase of sixty-four (64) basis points?

MS. CHERITY OSTAPOWICH: Subject to check.

MS. KATHLEEN MCCANDLESS: Why is the claims discount rate lower than the marketable bond yield?

MS. CARA LOW: Could we defer that question to the Director of Investments at the investment panel? Because those numbers come from him.

MS. KATHLEEN MCCANDLESS: Yes, we can do that.

We also note that MUSH bonds -- and this may be for the investments panel, but I'll -- I'll ask it. We note that MUSH bonds now have yields close to the marketable bond yield.

So does that mean if MUSH bonds were mark to market, they would now go down in value; whereas, in previous General Rate Applications, the expectation was that they would go up?

MS. CARA LOW: It's always going to depend on the point in time.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now, with

respect to the interest rate impact on the investment income -- so that's shown on PF-5 of Exhibit 58.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So interest rate impact on investment income is seen at line 29. Correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And you would accept that the bond portfolio has a duration of about nine (9) years? It can take --

MS. CARA LOW: Yeah. Between nine (9) and ten (10), yes.

MS. KATHLEEN MCCANDLESS: And figure INV-2, from MPI Exhibit number 4.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: INV-2, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you.

So figure INV-2 show asset values for provincial and corporate bonds to be about $1.8 billion. Correct? Do you see that on lines 3 and 4?

MS. CARA LOW: For which year are we looking at? Which column?

MS. KATHLEEN MCCANDLESS: We're looking at 2023/'24.

MS. CARA LOW: Yes, correct.

MS. KATHLEEN MCCANDLESS: And then, at MPI Exhibit 50, page 53. That's an update to figure INV-13. So MPI Exhibit 50, please. Thank you.

Page 53 of 55. Can we just scroll to the bottom of this page here. I think the PDF and the -- okay.

So the marketable bond yield has increased eighty-one (81) basis points from the 2023 GRA to the rate update shown here. Correct? I -- I should be looking at 2022/'23, pardon me.

MS. CARA LOW: Sorry, and what was the question?

MS. KATHLEEN MCCANDLESS: So the marketable bond yield has increased eighty-one (81) basis points from the filing to the rate update as shown here?

MS. CARA LOW: Agreed. Yes.

MS. KATHLEEN MCCANDLESS: If we multiply three (3) numbers together -- so the change in yield times the duration, times market value -- so nine (9) -- nine (9) years duration times 1.8 roughly billion times eighty-one (81) basis points, we get about $131 million? Subject to check?

MS. CARA LOW: Subject to check. Khurram has his calculator open, so.

MS. KATHLEEN MCCANDLESS: So $1.8 billion in -- in market value times nine (9) years in duration times eighty-one (81) basis points change in yield.

(BRIEF PAUSE)

MR. KHURRAM MASUD: Could you repeat that again?

MS. KATHLEEN MCCANDLESS: $131 million, roughly.

MS. CARA LOW: Agreed. Yes.

MS. KATHLEEN MCCANDLESS: Thank you. So then, can you explain why the interest rate impact on the investment income, that we saw at PF-5 of Exhibit 58, line 29 is only 124.4 million?

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

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Madam Chair, could -- through you, just I -- I wonder, just for clarification, are we referring to the 2023/'24 year?

MS. KATHLEEN MCCANDLESS: If we scroll up to the top, then we'll see. Yeah. By '22/'23, pardon me, yes. Yeah.

MR. BYRON WILLIAMS: Thank you. Sorry for that interruption.

MS. KATHLEEN MCCANDLESS: That's fine. I was unclear.

MS. CARA LOW: Subject to check, we believe this is just rounding, because the duration is not exactly nine (9), and the ALM matches a -- a fairly strong match, but it's never going to be a hundred percent match.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: So, then would you accept that large movements in interest rates caused the impact to vary somewhat from the calculations? And -- and so --

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: -- given the matching of assets and liability durations, it's difficult to have a perfect match. That would explain --

MS. CARA LOW: You can have a close match, but not -- never a perfect match.

MS. KATHLEEN MCCANDLESS: So, it would be a -- a matching issue that would explain the impact on claims, liabilities being favourable at about -- of about 131 million and the impact on the investment portfolio, unfavourable, being 124.4 million.

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. With respect to MPI Exhibit number 57, and I think we're looking at appendix 1. Thank you.

So, this schedule shows the rate indication table and the MCT percentage after rebate and Capital Management Plan. Yes?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: So, line 2 shows, with the capital release, that there would be -- the Capital Release Provision would be 4.86 percent. Correct?

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

MS. KATHLEEN MCCANDLESS: And with the Capital Release Provision in the 2023/'24 rating year, the indicated MCT, on the right-hand side would be 112.3 percent. Yes?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And then 111.5 percent in 2024/'25.

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And a 121 percent in '25/'26?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: So, if the Capital Release Provision was 5 percent instead of 4.86 percent, the MCT would still remain above 100 percent, based on the forecast provided. Correct?

MS. CARA LOW: That is correct.

MS. KATHLEEN MCCANDLESS: Thank you. Now moving to ratemaking --

MS. CARA LOW: Can I add one (1) more thing?

MS. KATHLEEN MCCANDLESS: Yes.

MS. CARA LOW: When we do our forecast, there is no increase in there at all for additional rate or any sustained inflation. So, we're always going to be assuming that the trends that we have in our rate app, for the rating year, are going to be sustained going forward.

MS. KATHLEEN MCCANDLESS: Understood. Thank you.

So, in -- in the filing in RM appendix 3 and I -- I don't think, 13, pardon me, I don't think we need to go there, but there are details about a request for proposal for generalized linear modeling with a submission deadline of June 20, 2022?

MS. CARA LOW: Sorry. Could you repeat that please?

MS. KATHLEEN MCCANDLESS: The --

MS. CARA LOW: Oh, yes. Yes. Yes.

MS. KATHLEEN MCCANDLESS: Yes? Okay.

MS. CARA LOW: Yeah.

MS. KATHLEEN MCCANDLESS: And it had an estimated date for finalization of the agreement and commencement of services of August of 2022.

Is that right?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: Okay.

MS. CARA LOW: That is true.

MS. KATHLEEN MCCANDLESS: And was the request for proposal completed on schedule?

MS. CARA LOW: It was slightly

delayed, yes.

MS. KATHLEEN MCCANDLESS: Has a vendor been selected at this point?

MS. CARA LOW: A vendor has now been selected.

MS. KATHLEEN MCCANDLESS: And who is the vendor?

MS. CARA LOW: Willis Towers Watson. Willis Towers Watson.

MS. KATHLEEN MCCANDLESS: Thank you. And is there a project plan for -- for the generalized linear module available at this time?

MR. KHURRAM MASUD: Yes, there is.

MS. KATHLEEN MCCANDLESS: Could that be provided?

MR. KHURRAM MASUD: Yes, that can be provided.

MS. KATHLEEN MCCANDLESS: So, the undertaking would be for MPI to file the project plan for generalized linear module for ratemaking.

MR. ANTHONY GUERRA: Yes. Counsel, with the undertaking.

--- UNDERTAKING NO. 23: MPI to file the project
plan for generalized

linear module for
ratemaking.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. With respect to trending, if we go to RM-4.2.4 from the filing. Thank you.

This sets out the calculation of the overall required rate. Yes?

MR. KHURRAM MASUD: That is correct.

MS. KATHLEEN MCCANDLESS: The claims cost component, at line 15, of 690 is based on the frequency and severity trend assumptions from the claims incurred section of the GRA?

MR. KHURRAM MASUD: Okay. Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Okay. If we scroll further to RM-4.3, there is discussion of the pure premium trends. Yes? They are discussed here. And those trends are used to calculate the indicated major class claims costs. Correct?

MR. KHURRAM MASUD: Yes. That's right.

MS. KATHLEEN MCCANDLESS: Then the major class claims cost are re-balanced to the overall claims cost component of six ninety ten (69010), that we just looked at. Is that right?

MR. KHURRAM MASUD: Yeah.

MS. KATHLEEN MCCANDLESS: As such, then, the pure premium trends could be considered to determine the allocation of the overall claims costs to the major class level. Correct?

MR. KHURRAM MASUD: Yes, that is right.

MS. KATHLEEN MCCANDLESS: Thank you. And if we go to the response to PUB-MPI-2-45. Thank you. And just scrolling down a little bit, keep going please, Kristen.

And so based on MPI's response here, in general the pure premium trends are consistent with the claims trends in the claims incurred section, with the exception of property damage. Is that correct? We can scroll down a little bit more here. I believe there's some explanation.

(BRIEF PAUSE)

MR. KHURRAM MASUD: Can you repeat the question?

MS. KATHLEEN MCCANDLESS: Yes. So, in

general the pure premium trends are consistent with the claims trend in the claims incurred section with the exception of property damage.

Is that fair?

MR. KHURRAM MASUD: Yeah, that is correct.

MS. KATHLEEN MCCANDLESS: Thank you. Now, if we get into some of the selected severity trends and starting with one (1) of the coverages in which severity groups are used to select overall trends.

If we -- and we'll compare them to those calculated in PUB-MPI-2-34. So, first I'd like to go to figure CI-19.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. And so, this shows the index ultimate severity for accident benefits 'other', yes?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: And the overall trend on the grouping is 2 percent?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: At line 21.

And that's mainly based on the large number of smaller claims with an average severity of two (2)s to three thousand (3,000)?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: And they had a severity trend of 2.01 percent, yes, at 19?

MS. CHERITY OSTAPOWICH: Yeah, correct.

MS. KATHLEEN MCCANDLESS: This trend does not include the impact of inflation, which is added on to the indicated trend.

Is that right?

MS. CHERITY OSTAPOWICH: Correct. Correct.

MS. KATHLEEN MCCANDLESS: And then if we go to figure 2 of PUB-MPI-2-34, thank you. And so, this compares to an indicated trend without grouping of negative .57 percent there, at line 20?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: If we look at the average severity in column -- in the fourth column of this exhibit, so column C, it starts at around six thousand dollars ($6,000) and it ends at around six thousand dollars ($6,000) in 2019/'20 at line 17, more or less?

MS. CHERITY OSTAPOWICH: More or less.

MS. KATHLEEN MCCANDLESS: Looking at the average severity values, can you see a 2 percent trend in overall severity occurring or is it possible that a more likely estimate would be around 0 percent?

(BRIEF PAUSE)

MS. CARA LOW: As we're waiting on Cherity, I just want to point out this is the exact reason we created a business insight analytics team, because we understand that some of this trending analysis is very basic and we do want to be able to dig into it.

It's a very summarized exhibit that doesn't tell us a lot about the goodness of fit or the coverages under -- like within the groupings, so.

(BRIEF PAUSE)

MS. CARA LOW: Sorry, it's obviously not an easy answer. There's a lot of different factors going into this calculation and considerations that we haven't been able to deta -- explore in detail.

There are large losses in here. There's a lot of uncertainty in the more immature years, because when people are injured, we don't know the cost of their claim for a long time, because we don't know exactly how they're going to do with their injuries and whether they're going to return to work and whatnot.

So, there is a lot of uncertainty in here and we feel like we've selected the appropriate trend with the knowledge that we have.

MS. KATHLEEN MCCANDLESS: Thank you for that. If we were to assume using a 0 percent trend, what would the -- before inflation, what would the impact be on the rate indication for accident benefits other indexed?

MS. CARA LOW: We don't have the analysis completed.

MS. KATHLEEN MCCANDLESS: Would you accept that given the number of years the trend is effective, the change in severity would be about 10 percent?

(BRIEF PAUSE)

MS. CARA LOW: No, I don't think it

would be that large. You're saying instead of a 2 percent increase, taking a 1 -- 0 percent trend for a very small piece of the claims that we are rating for. It would be -- yeah, it would not be material. There would be an impact.

MS. KATHLEEN MCCANDLESS: Okay. So, you would not accept that the change in severity would be about 10 percent?

MS. CARA LOW: Oh, the change in severity. Sorry, I thought you meant the change in the rate indication.

MS. KATHLEEN MCCANDLESS: No. Pardon me, the change in severity to be about 10 percent?

MS. CARA LOW: So -- oh, okay. Yes, that I would accept then. Sorry, I didn't understand the question.

MS. KATHLEEN MCCANDLESS: I probably didn't phrase it properly.

And -- and so, 10 percent of the rating year 2023/'24 discounted claims cost for accident benefits 'other' indexed would be, and we'd need to go to figure RM'2.

That would be 10 percent of...

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. Here we are. So, it would be 10 percent of the 59.48 million at line 6 in accident benefits 'other' indexed?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: Okay. So, for about 5.95 million then, correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And so, if we took that roughly 6 million and divided it by the total number of insured units, which is shown on the next page, I believe, yes.

So, if we took that and divided it by the one million two hundred and seventy-six thousand four hundred and fifty-three million (1,263,453) units, that would be about four dollars and sixty-six cents ($4.66) per vehicle?

MS. CARA LOW: The calculator is at work. Four dollars ($4), yes.

MS. KATHLEEN MCCANDLESS: So, about .66 percent of the total of six ninety ten (69010), correct?

(BRIEF PAUSE)

MS. CARA LOW: About 6 percent, yeah, .6 percent -- .6 percent.

MS. KATHLEEN MCCANDLESS: And so a reduction of four dollars and sixty-six cents ($4.66) in claims costs per vehicle would translate into how much of a change in the rate indication?

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

(BRIEF PAUSE)

MS. CARA LOW: Sorry. This may take a few minutes. We're updating the spreadsheet.

MS. KATHLEEN MCCANDLESS: Perhaps I'll -- I'll just continue with my questions, and when you have a response, if that's okay. Yeah. Okay.

Now, switching to collision total loss severity at PUB-MPI-2-38, first to the preamble. And so that just recites what was provided in the 2022 GRA in the first two (2) paragraphs here.

So you would agree that, in the 2022 GRA, MPI estimated the collision total loss severity growth rate for 2022/'25 -- '22 to '25 to be 4.25 percent?

MS. CHERITY OSTAPOWICH: Correct.

MS. KATHLEEN MCCANDLESS: And that was

based on 2015 to 2019?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: If we can just scroll down, I believe that should provide some assistance to you.

(BRIEF PAUSE)

MS. CHERITY OSTAPOWICH: Yes, 2015 to 2019.

MS. KATHLEEN MCCANDLESS: Thank you. And in the 2022 October updated, selected trend was -- was 2.26 percent, and that was based on 2016 to 2022? We can go back up.

MS. CHERITY OSTAPOWICH: Yes, that's correct.

MS. KATHLEEN MCCANDLESS: Okay. And keep going to the preamble. Thank you.

And now in this GRA, the selected trend is 6 percent based on the average of the three (3) changes from 2019 -- 2018/'19 to 2021/'22?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: Was there

any change in the selected trend in the rate update?

MS. CHERITY OSTAPOWICH: No. None -- none of the trends changed in the rate update.

MS. KATHLEEN MCCANDLESS: Would MPI agree that the selected trend appears to be very volatile and highly dependent on a small number of data points?

MS. CHERITY OSTAPOWICH: Can you repeat the question? Sorry.

MS. KATHLEEN MCCANDLESS: Would you agree that the selected trend appears to be very volatile and highly dependent on a small number of data points?

MS. CHERITY OSTAPOWICH: No. No.

MS. KATHLEEN MCCANDLESS: Would you agree that the selected trend -- it's a bit of a compound question. Would you agree that it appears to be volatile?

(BRIEF PAUSE)

MS. CHERITY OSTAPOWICH: It can be volatile, yes. There is a lot of uncertainty around it 'cause of supply chain issues and all the things that are going on in inflation.

MS. KATHLEEN MCCANDLESS: You are aware of the evidence provided by Oliver Wyman on behalf of CAC?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: And you're aware that their recommended severity trend was based on 2015/'16 to 2021/'22, yes?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: Using a log linear approach generating an indicated 3.8 percent trend?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: And you're also aware that Oliver Wyman recommended not starting from a single point, correct?

MS. CHERITY OSTAPOWICH: Yes.

MS. KATHLEEN MCCANDLESS: And MPI's collision claims for 2022/'23 just decreased by $48 million, correct?

MS. CHERITY OSTAPOWICH: Subject to check.

MS. KATHLEEN MCCANDLESS: Does MPI have any views on the reasonableness of Oliver Wyman's alternate trend model?

(BRIEF PAUSE)

MS. CARA LOW: Sorry. Yeah, we're well aware of the Oliver Wyman study. There is different ways of doing trend analysis. Where there's disconnect we feel is in understanding the business.

So at MPI, we do talk to our claims team. We know that there's issues with total losses. People are not able to buy new cars, and so therefore they're negotiating to keep their current vehicles. There are supply issues. Prices are skyrocketing.

So if anything, we think the total loss severity claim is understated at this point, and so we are selecting trends for the ratemaking years, so the rating year. And, yes, it is going to be volatile, but we think it's applicable, if not understated, trend needed for the appropriate rating year.

MS. KATHLEEN MCCANDLESS: If average severity for total losses was based on the alternative estimate, so about 10 percent lower than the current estimate, would you agree that this would translate to about twenty-three dollars ($23) lower costs per vehicle? And I can --

MS. CARA LOW: If -- if trends are going down, it's going to make the indication go down.

If trends are going to go up, it's going to make the indication go up. We could do these scenarios. They're very hard to update big spreadsheets on the fly, but if you need us to run some scenarios, we can run some scenarios.

MS. KATHLEEN MCCANDLESS: So, my question would be: How much of a change in the rate indication would a reduction of twenty-three dollars ($23) of collision claims costs be?

MS. CARA LOW: It would take us a little while to do that. But we do have the answer to the previous question now.

MS. KATHLEEN MCCANDLESS: Excellent. Thank you. If you wanted to give the previous answer, that would be helpful.

MR. KHURRAM MASUD: So, if we did reduce the claims cost by four dollars ($4) per vehicle, that results in a decrease of forty-six (46) basis points on the indicated rate. That's .46 percent.

And can you repeat the new question so I can get going?

MS. KATHLEEN MCCANDLESS: How much of a change in the rate indication would a reduction of twenty-three dollars ($23) of collision claims costs be?

MR. KHURRAM MASUD: Oh.

MS. KATHLEEN MCCANDLESS: That may take a while, as well, I'm assuming. So, we'll just -- we can wait to have that answered on the record later on today if that's fine.

MR. KHURRAM MASUD: About the same amount of time, yeah.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Now moving to the alternative rate indication based on claims duration by major class. So, MPI Exhibit 5, figure RM APP 11-1, please, Kristen.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. And I think we're going to page 2. Scroll down a little bit more. Yes. Thank you.

So, figure RM APP 11-1 indicates that the duration of claims liabilities by major class is all between nine (9) and ten (10) years for classes other than trailers, correct, line 5 --

MS. CARA LOW: Yeah.

MS. KATHLEEN MCCANDLESS: -- being trailers?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And so, the impact of using the duration of claims liabilities by major class to select the new money yield is minimal. Is that right?

MS. CARA LOW: That is correct because these are numbers sitting on our balance sheet, so it's a buildup of long-term PIPP claims regardless of what type of vehicle they were in.

MS. KATHLEEN MCCANDLESS: And then at PUB-MPI-1-8, MPI provided the results of an alternate indication using collision claim accounts to spread large losses by vehicle type.

Is that right?

MS. CARA LOW: Correct. Yes.

MS. KATHLEEN MCCANDLESS: And I don't think we actually need to go through that IR response. I would like to jump to PUB-MPI-2-4, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you.

And let's scroll down to the responses. So, MPI was asked here with respect to advantages of using the alternative methodology.

And one (1) advantage was that it allocates serious losses across all segments of the business, yes?

MR. KHURRAM MASUD: That's correct, yeah.

MS. KATHLEEN MCCANDLESS: Phrased another way, it recognizes the potential for a large loss to occur in any segment of the business, correct?

MR. KHURRAM MASUD: It -- it assumes that, yes, it's across the business irrespective of the actual loss experience.

MS. KATHLEEN MCCANDLESS: One (1) of the disadvantages noted by MPI is that MPI sees that some segments may be more prone to serious losses than others, right?

MR. KHURRAM MASUD: That's correct, yeah.

MS. KATHLEEN MCCANDLESS: Does MPI have any thoughts on how the methodology could recognize that some segments may be more prone to serious losses than others?

MR. KHURRAM MASUD: This is something

that is in consideration and we may look to review in
the future GRAs, but for sure it's in our radar.
MS. KATHLEEN MCCANDLESS: Currently,
the methodology is based on the number of collision
claims and vehicle type.
What other criteria would MPI add to
the methodology?
MR. KHURRAM MASUD: There could be --
there could be several judgment and qualitative
aspects to that, as well, so I would perhaps just --
yeah, just give me a second.

(BRIEF PAUSE)

MR. KHURRAM MASUD: Another aspect
could be credibility rating, so if -- in case the
experience is not large enough we attached a smaller
credibility. There are other weighting methods as
well, that we can potentially look into.
MS. KATHLEEN MCCANDLESS: And are you
able at a high level to outline some of those?
MR. KHURRAM MASUD: One (1) that comes
to mind is using severity and frequency using
(INDISCERNIBLE) distribution. It's typically used in
capital modelling. It could potentially be used for

pricing, as well, in case the data is scarce.

MS. KATHLEEN MCCANDLESS: Would a weighting between the existing methodology and the alternative methodology manage the advantages and disadvantages that MPI sees?

MR. KHURRAM MASUD: Not necessarily.

MS. KATHLEEN MCCANDLESS: Would that weighting recognize actual large losses in a given use and territory and also reflect a potential for large losses in all uses in territories?

MR. KHURRAM MASUD: It does combine the two (2) matters, yeah.

MS. KATHLEEN MCCANDLESS: And if we were to look at combining the two (2) methods, would a 50/50 weighting seem to be reasonable?

MR. KHURRAM MASUD: I would not imagine a 50 -- a direct 50/50 would be reasonable, so I think there should be more -- some -- some more numerical analysis before we assess on what should be the right credibility.

MS. KATHLEEN MCCANDLESS: Thank you. With respect to COVID-19 impact, we know that MPI has assumed a 5 percent reduction in claims frequency for collision, weekly indemnity, accident benefits, other indexed, bodily injury, and property damage due to expected permanent changes in driving behaviour for 2022/'23 fiscal years and thereafter, correct?

MR. KHURRAM MASUD: That is right.

MS. KATHLEEN MCCANDLESS: This is about -- this 5 percent is about half the observed reduction in collision claims frequency in 2021/'22, correct?

(BRIEF PAUSE)

MR. KHURRAM MASUD: 2022.

MS. KATHLEEN MCCANDLESS: So, the answer is 'yes'?

MR. KHURRAM MASUD: Yes.

MS. KATHLEEN MCCANDLESS: And if we go to figure CI10, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. So, the magnitude of this reduction is what we see at figure CI-10. And it is -- on the right-hand side under, 'Totals', we see the magnitude is approximately $35 million to 35 -- $39 million for each of '22/'23 to 2024/'25?

MR. KHURRAM MASUD: Yes. That is correct, yeah.

MS. KATHLEEN MCCANDLESS: And based on experience so far in 2022/'23, does MPI have any insights as to the reasonableness of this assumption?

MS. CARA LOW: Yeah. We know the frequency continues to be lower than the 5 percent adjustment, but we were still uncertain terms -- times, I should say. Even coming into work most days there's more traffic.

We do know that ICBC and SGI are seeing very similar decreases in their collision frequency. And they're also being very conservative in dropping the collision frequency.

MS. KATHLEEN MCCANDLESS: So, when you say lower than the 5 percent, what you mean is that the collision claims frequency is actually understated by using the 5 percent, is that fair, in some --

MS. CARA LOW: Overstated. Like, we're assuming collision frequency is 5 percent lower because people working from home. It could actually be even -- it could go lower than that if we were to base it on today's claims.

MS. KATHLEEN MCCANDLESS: Okay.

MS. CARA LOW: But we don't expect

today's claims are necessarily going to be reflective of tomorrow's claims.

MS. KATHLEEN MCCANDLESS: With respect to IFRS 17, risk adjustments, does a higher or lower selected percentile for risk adjustment provide any benefit to the policyholder?

(BRIEF PAUSE)

MS. CARA LOW: IFRS 17, again, it's an accounting presentation. It doesn't impact ratemaking. In the end, we have the same product. We're paying all the same claims. And we need to collect enough premium to pay for the claims in the rating year.

Does it provide Manitobans comfort that we have enough money to pay claims? Yes, it does.

MS. KATHLEEN MCCANDLESS: A lower percentile would reduce the carried liabilities for incurred claims?

MS. CARA LOW: That would be true.

MS. KATHLEEN MCCANDLESS: And that would increase the equity, correct?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And that

would, in turn, increase the likelihood or amount of a rebate?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: What --

MS. CARA LOW: It also increases a probability of not having enough money to pay for past claims.

MS. KATHLEEN MCCANDLESS: Understood. What benefit is given to the policyholder by using the higher percentile, given your testimony that it does not affect the amount of capital that MPI needs to carry to protect against reserve misestimation?

MS. CARA LOW: Sorry, could you repeat that?

MS. KATHLEEN MCCANDLESS: So in your earlier testimony, you stated that a higher percentile does not affect the amount of capital that the Company needs to carry to protect against reserve misestimation. Yes?

MS. CARA LOW: Yeah.

MS. KATHLEEN MCCANDLESS: So with that in mind then, what benefit does the policyholder gain from selecting a higher risk adjustment percentile?

(BRIEF PAUSE)

MS. CARA LOW: The risk adjustment doesn't impact rating, but it does impact capital release, capital build. And the last thing we want to be doing is doing a capital build because we have to go back to the ratepayers and say, We don't have enough money to pay past claims.

Overall, we're booking -- I think we talked about this yesterday -- to a ninetieth (90th) percentile is what was selected for the risk adjustment. When we talk about our capital position, we need it for other risks, like market risk, liquidity risks. We also want to book to a higher percentile in our RSR.

MS. KATHLEEN MCCANDLESS: Does a higher or lower selected percentile for risk adjustment provide any benefit to the Corporation?

And if so, can you explain?

MS. CARA LOW: Higher or lower -- sorry?

MS. KATHLEEN MCCANDLESS: Risk adjustment profile -- or risk adjustment -- percentile for risk adjustment. So the benefit of the higher would be what to the Corporation?

MS. CARA LOW: All we're -- by doing a higher percentile, you're taking out a retained earnings and you're putting into the claims liabilities. Because it's saying that there is known uncertainty in the claims liability. So these are the past claims.

And we want to ensure that we have enough money to pay for past claims. So we're ensuring that there's financial stability and, therefore, rate stability, so we don't have to go with a capital build.

MS. KATHLEEN MCCANDLESS: How does the risk adjustment increase the possibility of a capital build? You had mentioned you wouldn't want to have to go to a capital build.

So can you explain the impact of the risk adjustment percentile on the possibility of a capital build?

MS. CARA LOW: There will be less -- there's more certainty that there's enough money sitting in liabilities, so we won't have to dip into the RSR in order to cover past claims.

MS. KATHLEEN MCCANDLESS: Would a lower percentile for risk adjustment reduce the likelihood that a portfolio is deemed onerous?

(BRIEF PAUSE)

MS. CARA LOW: Sorry, can you repeat the question?

MS. KATHLEEN MCCANDLESS: Would a lower percentile for risk adjustment reduce the likelihood that a portfolio is deemed onerous?

MS. CARA LOW: The onerosity calculation is always going to be on our best expectations. And whether we believe the -- whether we believe there's going to be profitability or not.

MS. KATHLEEN MCCANDLESS: And just -- just to be clear. So what is the benefit of selecting a high percentile, such as 90 percent?

MS. CARA LOW: To ensure there's enough money in our liabilities to pay for past claims. Because there are PIPP benefits that can be paid out for a long time. There's a lot of uncertainty. There's -- we're uncertain how long someone's going to survive. Uncertain what the inflation is going to look like. You never know if someone's going to return to PIPP benefits because of their injuries. There's a lot of uncertainty.

And so, it's saying that there's enough money to pay for claims for Manitobans who have been injured.

MS. KATHLEEN MCCANDLESS: Why is the

selection of a risk adjustment that is equal to the current provision for adverse deviation considered an appropriate choice?

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

(BRIEF PAUSE)

MS. CARA LOW: Currently, there is agreement between the appointed actuary and the in-house actuarial team and the management that our claim's PfAD is sufficient. So the thinking, when I went to the risk committee of the Board, is that we wanted something very similar because they were very comfortable with it.

And when you read the IFR-17 standards, your risk adjustment is based on the risk of the Corporation and the -- what the entity feels like it should be accepting for risk.

MS. KATHLEEN MCCANDLESS: What does the selected confidence level affect other than the amount of retained earnings?

MS. CARA LOW: Available capital, which is your retained earnings. And then, of course, your MCT calculation.

MS. KATHLEEN MCCANDLESS: And I -- I

think I'm just about to wrap up.

So I just wanted to take you back to our discussion about the 5 percent assumption. Because I'm not sure it was clear based on the way I asked the question.

But my understanding is that, based on experience to date, for 2022/'23, that the savings estimated or forecasted by MPI, based on working from home, are actually greater than what was forecasted.

Is that right?

(BRIEF PAUSE)

MS. CARA LOW: So to date, yes. But we haven't had our winter months yet, so it's only -- you know, it would be seasonality. Affected by seasonality.

MS. KATHLEEN MCCANDLESS: But to date, compared to the same months, you're -- you're -- you underestimated as opposed to savings.

(BRIEF PAUSE)

MS. CARA LOW: Can you repeat the question?

MS. KATHLEEN MCCANDLESS: So you had mentioned that we haven't entered into the winter months yet. But my question is: Based on experience to date, for the same time period, is it -- have the savings been underestimated?

MS. CARA LOW: Yes. So we said 5 percent work from home and, so far, it is lower than the 5 percent.

MS. KATHLEEN MCCANDLESS: And I do have one (1) final question. And it's likely for Ms. Low. It just follows on our previous discussion of risk adjustment.

So in the calculation of loss component, the selected risk adjustment is used in the calculation. And higher risk adjustment results in a greater chance of a loss component being needed.

Is that correct?

MS. CARA LOW: So you're talking about the onerous calculation.

MS. KATHLEEN MCCANDLESS: Yes.

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

MS. KATHLEEN MCCANDLESS: Thank you. Those are all my questions for this panel.

THE PANEL CHAIRPERSON: Thank you, Ms.

McCandless.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: We'll take our noon hour break now. Could we, please, come back at 1:15. Thank you.

--- Upon recessing at 12:11 p.m.
--- Upon resuming at 1:15 p.m.

THE PANEL CHAIRPERSON: Good afternoon. Everyone appears to be back. It's not quite 1:15. Mr. Guerra, are you ready to go?

MR. ANTHONY GUERRA: Yes, I believe we are, Madam Chair.

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

DR. BYRON WILLIAMS: Yes, and lest I forget, I'll indicate that, while I'll be doing the bulk of the cross, my colleague, Mr. Klassen, will be batting cleanup. And good afternoon to the Panel.

THE PANEL CHAIRPERSON: Thank you.

CROSS-EXAMINATION BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: And it's a pleasure to meet you, Ms. Ostapowich, and I'm going to work on my pronunciation. We'll talk offline on that, okay? And Mr. Masud, it's nice to meet you as well.

As always, my questions will be kind of aimed at Ms. Low, and then you guys can -- you folks can figure out who -- who to answer.

And, Ms. Schubert, we're not going to go there quite yet, but perhaps you can pull up Figure CI-14 from the General Rate Application.

And, Ms. Low, at a very high level -- we're not going to CI-14 yet. I just did that to distract you just for a second.

But at a high level, when we think of Manitoba Public Insurance developing its forecast of claims incurred, I'll suggest to you that it essentially undertakes a two (2) part process, with the first being the weighting of the historical exter -- historical experience period, and the second being the application of a trend to pro -- to project that historical weighted average into the future.

Would that be fair?

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

(BRIEF PAUSE)

MS. CARA LOW: The weighting doesn't always apply. It depends on which coverage you're talking about. Why I wanted to confirm.

DR. BYRON WILLIAMS: Okay. So at a high level, it's a two (2) -- two (2) part process. First of all, you take a look at the historical period, and then you try to project the trend into the future, agreed?

MS. CARA LOW: That would be correct, yes.

DR. BYRON WILLIAMS: Okay. Thank you. And Manitoba Public Insurance does that separately for frequency and for severity, agreed?

MS. CARA LOW: Correct, yes.

DR. BYRON WILLIAMS: Thank you. And we are going to go in a couple of minutes both to weekly indemnity and to collision, but I do want to just start to make sure we're on the same page definitionally, if that's a word, in terms of definitions, in any event.

And at a really high kind of parenthood level, you would agree that a regression model is a statistical model that estimates the relationship between one (1) dependent variable and one (1) or more independent variables, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And, for example, in the case of Manitoba Public Insurance, the dependent variable could be severity, correct?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: And the independent variable is often time.

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: Okay. And when we undertake that regression analysis, that helps us to determine a trend rate, which is a change from period to period, correct?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: And in terms of the term 'a regression line', that would be -- you'd accept a definition of that as a straight line that describes how a response or dependent variable changes as a consequence of the explanatory or independent variable, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And when we do undertake regression analysis, we're trying to determine the best fit to explain a set of data observations, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: Yeah. And when it comes to the amazing tool kit of actuaries, regression analysis is an important tool for property and casualty insurers.

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And it would be fair to say that linear models are commonly used in the actuarial determination of trend rates.

MS. CARA LOW: Yes.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And going back to that concept of a trend rate for a second, it basically measures the change in a value; for example, severity from period to period, i.e., year 1 to year 2. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And of course, we can estimate a trend rate from a regression model, correct?

MS. CARA LOW: That's true.

DR. BYRON WILLIAMS: And you'd agree as well that there are different types of regression models, agreed?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And at a high level, if we use the term -- or if I use the term 'linear regression', that's an approach that considers change on an amount basis, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And just for example, if we were trying to do a simple interest model and modelling the growth of money over a three (3) year period using an annual ten (10) -- ten dollar ($10) growth factor, that would be a linear regression type of analysis.

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: Yeah. And if we want to contrast that with log linear or exponential, it would be fair to say that a log linear regression model, it models percentage change over time, correct?

MS. CARA LOW: That would be correct.

DR. BYRON WILLIAMS: Again, if we were using a financial example, we -- that would be like compound interest, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: Just to make sure we're clear on this point, linear and log linear relationships differ in the way that the 'Y' values, the dependent varial -- variable, changes when the 'X' values increase by a constant amount, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And again, in a linear relationship, the 'Y' values have equal differences?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: And in an exponential or log linear relationship, the 'Y' values have equal ratios --

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: -- percentages.

MS. CARA LOW: That would be correct.

DR. BYRON WILLIAMS: And we're agreed that simple averages are not a form of regression analysis, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And at a high level -- probably at more than a high level -- you're familiar with the term 'least squares method'?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And so when we're trying to determine fit, you would agree that the least squares method is a commonly used statistical procedure to find the best fit for a set of data points.

MS. CARA LOW: Correct, yes.

DR. BYRON WILLIAMS: Lest I go beyond my empirical limits, you'd also agree, Ms. Low, that there is judgment involved in fitting a regression model, agreed? I can give you some examples if you'd like.

MS. CARA LOW: No. That would be true.

DR. BYRON WILLIAMS: Okay.

MS. CARA LOW: The number of data points to include would be an example.

DR. BYRON WILLIAMS: Yeah. And so you might use that judgment in the number of data points or in the set of specific data points to be included or -- or included --

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: -- excluded --

MS. CARA LOW: Yeah.

DR. BYRON WILLIAMS: -- agreed? And you might use judgment in selecting the relationship between the dependent and the independent variable, whether you approach it from a linear or log linear perspective, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And you might use judgment in the interpretation of statistical results, agreed?

MS. CARA LOW: Very true, yeah.

DR. BYRON WILLIAMS: At this point in time, I'm not going to ask you to define these terms--

MS. CARA LOW: Good.

DR. BYRON WILLIAMS: -- but you are familiar with the meaning of the term 'P value'?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: Okay. And of course, you're familiar with the term R-squared?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And, of course, the -- the much loved -- you're familiar with the much loved adjusted R-squared?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And you would agree that these are statistics that provide information about the goodness of fit of the model?

MS. CARA LOW: I would agree.

DR. BYRON WILLIAMS: And these statistics, being p-value, R-squared, adjusted R-squared, can provide information to support our judgment in -- in looking at regression analysis?

MS. CARA LOW: Exactly. Yes.

DR. BYRON WILLIAMS: And, of course, these statistics, such as p-value, et cetera, can provide information regarding the predictive value of the model, agreed?

MS. CARA LOW: The goodness of fit, not necessarily how predictive it is. No one knows what's going to happen in the future.

DR. BYRON WILLIAMS: So, in terms of p-value, R-squared, adjusted R-squared, it gives insight into the goodness of fit, agreed?

MS. CARA LOW: Yes, agreed.

DR. BYRON WILLIAMS: Okay. Thank you for that clarification. Okay. There's figure C-14, weekly indemnity ultimate losses.

And, Ms. Low, at a high level, this section and this figure presents the development of accident year ultimate losses for weekly indemnity, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And if we go to lines number 1 through 15 on the left-hand side, they capture data for different accident years between 2007/'08 and 2021/'22, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And down below, lines 19 to 23 are the -- are projections into the future for the years '22/'23 through '26/'27, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And when we're thinking of weekly indemnity ultimate losses at a high level to -- to develop the ultimate estimates, you're taking the product of frequency measured here as claims counts times severity, agreed?

MS. CARA LOW: We are taking claim counts times severity. I would suggest a frequency is not the same thing as claim count. Frequency is usually a relative measure relative to the number of vehicles.

DR. BYRON WILLIAMS: Right. And we'll come to that in a minute. But, for example, if we were to take claims counts and divide that by the number of HTA vehicles in a year, that would get us our -- our frequency ratio?

MS. CARA LOW: Correct, because your claim counts could be up, but your frequency --

DR. BYRON WILLIAMS: Exactly.

MS. CARA LOW: -- could be down, yeah.

DR. BYRON WILLIAMS: Yeah. Okay. We'll come to that with a bit more clarity, but thank you for that.

And just to -- to make the point that claims count incurred times severity yields the ultimate estimate, if we went to '18/'19, so that's line 12, and we took that claim count number of one thousand eight hundred and ninety-eight (1,898) and multiplied it by the severity figure of forty-three eight five seven (43,857), that would yield the ultimate estimate of eighty-three two two seven (83,227), agreed?

MS. CARA LOW: I hope so because that's how it should work.

DR. BYRON WILLIAMS: Yeah. If you trust my math and you trust your math, then you'll accept that? That's your work?

MS. CARA LOW: I'll accept that.

DR. BYRON WILLIAMS: Okay. And if we go still staying on that '18/'19 line, being line 12, to the extreme right you'll see the heading, "Variance to forecast." Do you see that, Ms. Low?

MS. CARA LOW: Yes, I do.

DR. BYRON WILLIAMS: And if we go down again to line 12 to the figure of negative -- you see a figure of negative $8.4 million approximately?

MS. CARA LOW: Yes, I do.

DR. BYRON WILLIAMS: Okay. And so, in that particular year, the negative variance or reduction in that last column is the difference between last year's forecast at ninety-one six two two (91,622) minus the ultimate estimate of eighty-three two two seven (83,227), agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And that negative variance or reduction would be due to the net impact in changes either in the claim counts or the severity assumptions, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And when we see those brackets, that's telling us that, in hindsight, at least one (1) of those assumptions was probably too conservative, agreed?

MS. CARA LOW: I would agree. But these are longtail claims. There's a lot of uncertainty. The more mature the block of claims get, the less uncertainty there is.

So, you always build in a little ounce of conservatism because we don't know how the claims are going to play out.

DR. BYRON WILLIAMS: Okay. Thank you for that. If we can turn to the -- just one second.

If we look at claim counts, which is the second column still on figure C1-14, and the time period between accident year 1 and accident year 14 -- 15, excuse me, I'll suggest to you that we see a fair bit of claim count variance.

For example, in '07/'08, we're at two thousand sixty-three (2,063). In 2021, we're at one thousand two hundred and seventy-three (1,273).

You'd accept that?

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: Okay. Now, if we go down to lines 19 to 23, the estimated claim counts for each of those years, being the years 2022 through '23 through 2026 to '27 is constant, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: Okay. It's at a flat one seven seven four (1,774), correct?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: And we'll come back to that in a -- in a few minutes. If we could turn to page 23 of claims incurred, lines 7 to 10. And, again, this is just at a high level so we can make sense of how you arrive at your estimates.

If we're looking at the Corporation's estimate for weekly indemnity for 2023, it got to that

$92.7 million figure by taking the forecasted claims counts and severity, and -- and then, of course, doing that 5 percent reduction for the expected reduction and pandemic -- post-pandemic driving, kind of work from home, or WFH, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And in developing the trend, the Corporation picked the years 2015/'16 through 2019/'20, agreed? We'll -- we'll come to an IR if you'll accept that subject to check.

MS. CARA LOW: Subject to check. He's right there, so, yeah.

DR. BYRON WILLIAMS: I wonder if we can turn to CAC-1-45, the Information Request. And let's go to figure 1 on the -- page 3. Thank you.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: In estimating weekly indemnity ultimate losses for '22/'23 and beyond, first of all, we've agreed that the time period that the Corporation looked at was data from the 2015/'16 to the 2019/'20, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And the

Corporation used a linear trend of claims frequency, correct? It's -- it's up previously in the -- the answer if you want -- want to scroll up, if you'd like to check my work.

MS. CARA LOW: Yeah, no, I agree. Yeah.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And just if we -- if we could just orientate ourselves with figure 1 for a moment from CAC-1-45.

It, again, is -- provides insight into the -- how the calculations for weekly indemnity ultimate losses were determined, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And so, if we look at the accident years 1 through 15, so from '07/'08 to 2021 to '22, of those fifteen (15) years, the Corporation used five (5) -- five (5) years of data points, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: Okay. And for frequency, and we talked about this a little while ago, but what it did -- and if we look at 2015/'16, which is line 9, it took that claims count of one seven eight five (1,785), divided it by the eight four eight six three five (848,635) of highway traffic earned units. And that's how it achieved the two point ten (2.10), two point one zero (2.10) frequency estimate, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And if we take the five (5) years that you used in your data point, being 2015/'16 through 2019/'20, we'll see those in the fourth column in. Two-ten (2.10) for '15/'16; two-ten (2.10) for '16/'17; two-twenty-one (2.21) for '17/'18; two-fifteen (2.15) for '18/'19; and one-point-nine-seven (1.97) for '19/'20. Agreed?

MS. CARA LOW: Agreed.

MR. BYRON WILLIAMS: Now we've got those data points. You then plug it into your linear model to get the estimated trend for weekly indemnity claims frequency. Agreed?

MS. CARA LOW: Agreed.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: And, again, we're using the term 'linear model'. And that means that you are assuming that, in terms of the trend, it would change by a set amount, rather than a percentage. Agreed?

MS. CARA LOW: Agreed.

MR. BYRON WILLIAMS: So this is a linear approach, rather than a log linear or exponential approach. Correct?

MS. CARA LOW: Correct.

MR. BYRON WILLIAMS: And in essence, you're assuming that frequency is decreasing at a constant amount in this -- in your linear model for weekly indemnity?

MS. CARA LOW: One (1) second.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: Ms. Schubert, we'll be going to figure 1 from the evidence.

(BRIEF PAUSE)

MS. CARA LOW: Sorry, could you repeat the question?

MR. BYRON WILLIAMS: Sure. In the model that you developed for MPI weekly indemnity frequency, you assumed that frequency decreased at a -- a rate that is constant in amount?

MS. CARA LOW: Yes.

MR. BYRON WILLIAMS: And, Ms. Low, I'm going to show you -- and up on the screen is figure 1 from the evidence of Oliver -- I should know our witnesses' names -- Oliver Wyman. Maybe we'll strike that from the record so people can't tell.

But this is a document that your team is familiar with, you've reviewed it?

MS. CARA LOW: I have seen it.

MR. BYRON WILLIAMS: And I'm not going to ask you to comment on the ultimate accuracy of it, but just for illustrative purposes, what they're trying to do here is represent what you did in your linear model. Agreed?

MS. CARA LOW: Agreed.

MR. BYRON WILLIAMS: And if we look at the bright red dots, those are the -- the data inputs that we just talked about from CAC-1-45, those frequency assumptions. Agreed?

MS. CARA LOW: Agreed.

MR. BYRON WILLIAMS: So if we go on the 'X' axis and we kind of move up from 2015, we'll see the two-point-one-zero (2.10) figure. Agreed?

MS. CARA LOW: Agreed.

MR. BYRON WILLIAMS: And we move a year over to the right. We again see a two-point-one-zero (2.10) figure. Subject to check?

MS. CARA LOW: No, that's a -- I agree. I'm just looking at the 'X' axis. It's missing year, so -- yeah.

MR. BYRON WILLIAMS: Yeah.

MS. CARA LOW: Yeah.

MR. BYRON WILLIAMS: And if we go up to 2017, that's the two-point-two-one (2.21). Agreed?

MS. CARA LOW: Correct. Yeah.

MR. BYRON WILLIAMS: And then, we get down to our two-point-one-five (2.15) in 2018, correct?

MS. CARA LOW: Correct. Yeah.

MR. BYRON WILLIAMS: And then, we get down to our one-point-nine-seven (1.97) in 2019. Agreed?

MS. CARA LOW: Correct.

MR. BYRON WILLIAMS: Okay. And then, what Oliver Wyman is trying to show with the red, but with the -- the not full circles -- the -- is the MPI fitted linear model. Agreed?

MS. CARA LOW: Agreed.

MR. BYRON WILLIAMS: And what that's showing conceptually is that frequency is decreasing at a rate that is constant in amount.

That's what you did?

MS. CARA LOW: Yes.

MR. BYRON WILLIAMS: Yeah.

MS. CARA LOW: And then, of course, you applied your 5 percent VW -- work-from-home discount. Correct?

MS. CARA LOW: Exactly. Yes.

MR. BYRON WILLIAMS: So conceptually, they've got what you did in terms of your estimate of weekly indemnity. Agreed?

MS. CARA LOW: Agreed.

MR. BYRON WILLIAMS: We can keep that -- we'll come back to that page in just a second. If we could go back, Ms. Schubert, to figure CI-14.

(BRIEF PAUSE)

MR. BYRON WILLIAMS: So go back one more page, please. And at the bottom.

Ms. Low, you'll recall -- again, this is the -- from your application, the weekly indemnity ultimate losses. Agreed?

MS. CARA LOW: Agreed.

MR. BYRON WILLIAMS: And again, lines 19 to 23, we're looking at the Corporation's estimates for the '22/'23 through '26/'27 years. Correct?

MS. CARA LOW: Correct.

MR. BYRON WILLIAMS: And in terms of the claims count incurred, we've already agreed that -- that it is flat for those five (5) years, being the one-point-seven-seven-four (1.774) claims count figure. Agreed?

MS. CARA LOW: Correct.

MR. BYRON WILLIAMS: And so, assuming a growth in highway traffic units, a flat claim counts projection implies a decreasing frequency.

Is that correct?

MS. CARA LOW: That would be correct.

MR. BYRON WILLIAMS: Okay. We're going to just flip back to Oliver Wyman -- that figure. And then, we'll be almost done weekly indemnity.

Perhaps if we can go to the next page, Ms. Schubert. Perfect. Right there.

Ms. Low, you recall us talking about the use of statistics like e-value, R-squared and adjusted R square to test goodness of fit.

You recall that discussion?

MS. CARA LOW: Yes, I do.

MR. BYRON WILLIAMS: And you're aware that, in the Oliver Wyman evidence, they present e-values in the regression analysis?

MS. CARA LOW: Yes.

MR. BYRON WILLIAMS: Okay. And -- and that they also present R-square and adjusted R-square values in the regression output. Agreed?

MS. CARA LOW: Yes. That is true. Yeah.

MR. BYRON WILLIAMS: So in terms of the linear trend for weekly indemnity frequency, did MPI calculate similar regression statistics for the linear MPI model, being P-value, R-squared value, and adjusted R-square value?

MS. CARA LOW: I would have to check. No, we did not.

MR. BYRON WILLIAMS: Thank you. I want to turn now to collision severity and that's part 5 of the General Rate Application, CI-9, page 43.

And at a high level -- and I believe this was your evidence from your PowerPoint this morning -- collision coverage is responsible for the largest percentage of the loss costs of Manitoba

Public Insurance. Agreed?

MS. CARA LOW: Agreed. Yeah.

MR. BYRON WILLIAMS: At well over 50 percent?

MS. CARA LOW: Well over, yeah.

MR. BYRON WILLIAMS: From your 60 percent? Fair enough --

MS. CARA LOW: I'd agree.

MR. BYRON WILLIAMS: Yeah.

MS. CARA LOW: I don't recall the exact number, but...

MR. BYRON WILLIAMS: Yeah. Fair enough. Now if we can turn to figure CI-35, please.

Now, we're leaving the world of weekly indemnity frequency, and we're moving to the world of ultimate collision severity.

And that's what figure CI-35 attempts to portray. Agreed, Ms. Low?

MS. CARA LOW: Agreed.

MR. BYRON WILLIAMS: And at the top, again, we can see those familiar terms: accident year, repair severity, total loss severity, total severity. Agreed?

MS. CARA LOW: Agreed.

MR. BYRON WILLIAMS: And with

collision total severity, I'm -- it would be correct to suggest that Manitoba Public Insurance analyzes collision costs separately in that it looks at repair severity and the -- and also looks at total loss severity. Agreed?

MS. CARA LOW: Agreed. We look at them separately.

DR. BYRON WILLIAMS: Okay. And for each of these perils, being repairs and total loss, Manitoba Public Insurance projects claims incurred is a function of the claims count times the severity model -- times severity. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: Just looking at figure CI-35 for a moment, lines 12 through 14, Manitoba Public Insurance is sharing the results of its calculation of the street average -- for a three (3) year -- for three (3) years, five (5) years and 10 years. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And we've agreed before, this is not a regression analysis, it's just a straight old average.

MS. CARA LOW: It's just a simple average.

DR. BYRON WILLIAMS: Something even Mr. Williams could do.

MS. CARA LOW: That's fantastic (INDISCERNIBLE).

DR. BYRON WILLIAMS: You're not -- you're not -- touche. Touche.

And then line 16 to 18, we're looking at Manitoba Public Insurance is using an exponential regression model to estimate total loss severity. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: Yeah, and it's looking at a five (5) year, seven (7) year, 10 year estimates. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And in -- in doing that exponential trend captured in line 16 to 18, would MPI be using a -- a least square's approach?

MS. CARA LOW: Let me check.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: The test for fit. Excuse me.

(BRIEF PAUSE)

MS. CARA LOW: It is a least squares. We just don't spit out the goodness of fit.

DR. BYRON WILLIAMS: Yeah, fair enough. And thank you for confirming that.

If we can now go to CI section 9.2.2, page 47, lines 11 to 14 please.

In estimating the 2022/'23 severity ultimate, Ms. Low, my understanding is that Manitoba Public Insurance selected the latest severity, reduced it by a hundred and twenty-five (125) bucks to account for the compulsory and Extension revision project. And then applied a 6 percent severity growth factor, which follows a three (3) year line -- year trend.

Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And so if you can -- let's go to figure CI-37 and, Ms. Low, what this is capturing is -- is three (3) lines, the red line being the -- the data points and estimates for total loss.

Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And then the green line, being the data points and estimates for total.

MS. CARA LOW: Agreed. Yeah.

DR. BYRON WILLIAMS: Yeah.

MS. CARA LOW: Yes.

DR. BYRON WILLIAMS: And then the -- I don't have my glasses on, but I'm going to say that's either a blue or a purple line, being the data points and estimates for repair severity. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: Okay. So I want to focus on the 2020 -- on the red line, the total loss and go to the year 2021.

And I'll suggest to you that in terms of -- in terms of the -- what Manitoba Public Insurance did, it took that one data point, being the seven seven-o-five (7705). It made its usurp adjustment and then it trended it forward at a rate of 6 percent. Is that right?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: And, so in effect for total loss, you gave a hundred percent weight to one observation. Agreed?

MS. CARA LOW: That is true, yes.

DR. BYRON WILLIAMS: So, if we can go back to figure CI-35 please.

Ms. Low, what I'm trying to do is locate that figure of seven seven-o-five (7705) on the total loss severity column. And so, it -- it would appear on line 10, I'll suggest to you, in the 2021/'22 year at -- and you'll see it the fourth column in. Agreed?

MS. CARA LOW: Agreed. Yes.

DR. BYRON WILLIAMS: And to the right is a column that measures the percent change year over year in total loss severity. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And so, in column 5, line 10, when we see that figure of 14.76 percent, that tells us that the percentage change, in terms of total loss severity from 2020/'21 to '21/'22, was an increase of 14.76 percent. Agreed.

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And, in terms of the percentage change column for total severity, which is the fifth column in -- you'll see 10 years of information there Ms. -- Ms. Low. Agreed?

MS. CARA LOW: I -- yes, agreed.

DR. BYRON WILLIAMS: And, in comparison to the 14.76, the next highest percent change, we would see at line 4, the 2015 year, of 7.1

percent. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: So the magnitude of the change in '21/'22 was more than double any of the other years. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: And if we go one column to the left, to total loss severity -- column, the fourth column. In terms of your estimate, of those 10 data points you used one. Agreed?

MS. CARA LOW: I -- agreed, but there was business reasons that we chose to use one point, and that is because we are talking to our claims team. We know that total losses are spiking, or the total -- the severity for total losses, I meant to say. And that's because of supply chain issues.

So, internal reports, as of July, we know the average loss, for a total loss now is over nine thousand dollars ($9,000).

DR. BYRON WILLIAMS: Okay. Thank you for that. And you're suggesting, in essence in your trend selection, that the prior data points have no predictive value. Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: In terms of the 6

percent trend, Ms. Low, would we find that best represented on line 12, in the straight average for three (3) years being 5.99 percent?

MS. CARA LOW: Sorry. What was the question?

DR. BYRON WILLIAMS: We're trying to get at -- at your 6 percent trend moving forward.

MS. CARA LOW: Oh.

DR. BYRON WILLIAMS: And I'll suggest to you that the basis for that, we see in the three (3) year straight average in line 12, being 5.99 percent. Agreed?

MS. CARA LOW: Let me check. Correct. Yes.

DR. BYRON WILLIAMS: And to get that 5.99 percent estimate, what you did was just move up column 5 to the 2019 year. You took the 5.44 percent change between '18/'19 and '19/'20, then the minus 2.23 change between '19/'20 and '20/'21, and then the 14.76 change between '20/'21 and '21/'22, and divided by three (3). Agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: So, if we look on lines 12 to 18, and again, on column 5, in essence, we have six (6) different estimates of -- of change over time, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: The first three (3) in lines 12 through 14 are based on straight averages, correct?

MS. CARA LOW: Correct.

DR. BYRON WILLIAMS: And the next three (3) under lines 16 to 18 are based upon the log linear or exponential trend?

MS. CARA LOW: Correct, yes.

DR. BYRON WILLIAMS: And would it be accurate to suggest that your selected trend is a full point above all the other averages? There's no other one that comes within 1 percentage point of it?

MS. CARA LOW: That is true.

DR. BYRON WILLIAMS: And we've clarified already that the exponential or log liner trends that you use use least squares, agreed?

MS. CARA LOW: Agreed.

DR. BYRON WILLIAMS: Okay. And the exponential trends captured in lines 16 to 18 are all about 2 percentage points below your selected trend, agreed?

MS. CARA LOW: That is true, but we also talked about the older years not being predictive and what's going to happen for rating year '23/'24.

DR. BYRON WILLIAMS: Yeah, we -- we have your point and I truly appreciate it. I am going to turn things over to My Friend Mr. Klassen.

CROSS-EXAMINATION BY MR. CHRIS KLASSEN:

MR. CHRIS KLASSEN: Thank you, and thank you, Madam Chair. MPI witnesses, again, my name is Chris Klassen, co-counsel with Mr. Williams to CAC (Manitoba).

And as Ms. McCandless invited you to do during her cross-examination this morning, I'll direct my questions to the three (3) of you generally and any of you are welcome to answer.

And if you feel that it's more appropriate that I direct these questions to a different panel, you're, of course, welcome to -- to offer that suggestion as well.

Now, in beginning this question, I -- I understand that two (2) of the three (3) of you were not with MPI at this time, but I'm wondering if -- if you're familiar with Order 134 of '21 made by this Board after last year's General Rate Application?

MS. CARA LOW: I've read them.

MR. CHRIS KLASSEN: And --

MS. CARA LOW: Many times.

MR. CHRIS KLASSEN: Thank you. And -- and in that Order, one (1) directive, specifically Directive 11.4 related to generalized linear models.

You're familiar with that directive?

MS. CARA LOW: Correct, I am.

MR. CHRIS KLASSEN: Thank you. And -- and I won't ask you to read it into the record. We can -- we can pull it up for reference, if needed, but at a high level I'd -- I would appreciate it if you could confirm that that directive had two (2) parts:

1) that MPI would provide an alternative rate indication using a preliminary set of gen -- generalized linear models; and

2) that MPI would bring forward a plan to study the use of GLMs more broadly in MPI's rate setting?

MS. CARA LOW: That is true.

MR. CHRIS KLASSEN: Thank you. And I should have acknowledged this earlier, but you're aware as well, that following last year's General Rate Application, process MPI applied to this Board to review and vary certain aspects of Order 134/'21?

MS. CARA LOW: Yes, I am.

MR. CHRIS KLASSEN: And one (1) aspect

of that Order, addressed in MPI's review and vary application, was Directive 11.4?

MS. CARA LOW: Yes.

MR. CHRIS KLASSEN: And -- and so, you're aware than as well, that -- that following the Board's review of MPI's application, Directive 11.4 was amended to require MPI instead to submit a plan for the possible implementation of GLMs.

Is that correct?

MS. CARA LOW: That is correct.

MR. CHRIS KLASSEN: Thank you. Now, the initial directive in Order 134 of '21 did not include a requirement to implement a pricing methodology using GLMs.

Is that correct?

MS. CARA LOW: Sorry? Could you repeat that?

MR. CHRIS KLASSEN: As you understood the initial directive in Order 134 of '21, was this Board requiring MPI to implement a pricing model that used GLMs?

MS. CARA LOW: No, it was a parallel. The request was a parallel --

MR. CHRIS KLASSEN: Right.

MS. CARA LOW: -- review, yes.

MR. CHRIS KLASSEN: Thank you. And then subsequently, your understanding of the revised directive, following the review and vary application, again, did not include a directive to implement a pricing model using generalized linear models, correct?

MS. CARA LOW: Correct.

MR. CHRIS KLASSEN: Thank you for the -- for those responses. I'll next refer to a document that Ms. McCandless directed your attention to earlier today. And I -- I don't think it's necessary to pull it up on the screen, but this was a request for proposals issued by MPI, relating to the generalized linear model solution, as it was referred to, and that was a request for proposals issued on May 18th of 2022, correct?

MR. KHURRAM MASUD: That's right, yes.

MR. CHRIS KLASSEN: And we don't need to go there, but so that we're on the same page, we're referring to the document that's filed as Appendix 13 to the ratemaking chapter?

MR. KHURRAM MASUD: Yeah.

MR. CHRIS KLASSEN: You'll -- you'll accept that. Thank you. And to confirm, based on your understanding, through that request for proposals, MPI was seeking a vendor to provide a software solution for MPI's use in a potential new ratemaking methodology using GLMs, correct?

MR. KHURRAM MASUD: That's correct.

MR. CHRIS KLASSEN: And based on your understanding of -- of the RFP, can you confirm that the RFP did not contemplate all of the steps involved in the transition that MPI has proposed toward using GLMs?

MR. KHURRAM MASUD: The RFP was for a tool, not for a plan to implement GLM. So, the RFP went out to the software vendors who had solutions that could implement GLM. So, it wasn't a consulting arrangement, it was a software solution.

MR. CHRIS KLASSEN: I understand. And thank you very much for -- for that answer.

And so one (1) step in the transition process, for example, that -- that isn't contemplated by the work that the current vendor is doing is the consideration of the application of the new modelling to MPI's ratemaking methodology, correct?

MR. KHURRAM MASUD: That is correct, yes.

MR. CHRIS KLASSEN: And it's my understanding, and I'll ask you to confirm it, that --

that it's set out in the existing RFP that -- that MPI contemplates issuing a subsequent request for proposals for that particular task, correct?

MR. KHURRAM MASUD: For consulting, we may or may not.

MR. CHRIS KLASSEN: Thank you for that answer. And -- but you'll confirm, again, that that particular task is not contemplated in the existing request for proposals?

MR. KHURRAM MASUD: Yes, because the proposal was for software, not for consulting.

MR. CHRIS KLASSEN: Sure. Thank you. Those are my question. Madam Chair, those are questions on behalf of CAC.

DR. BYRON WILLIAMS: Madam Chair, I'll just say that we did not ask for any undertakings, but we are looking forward with great interest to some of the undertakings of the PUB. So, we would reserve our right to ask followup questions on those undertakings.

THE CHAIRPERSON: Certainly, Mr. Williams. Thank you, Mr. Williams. Thank you, Mr. Klassen. Ms. Meek...?

CROSS-EXAMINATION BY MS. CHARLOTTE MEEK:

MS. CHARLOTTE MEEK: Thank you, Madam

Chair. Good afternoon to the panel. My name is Charlotte Meek. I represent the Coalition of Manitoba Motorcycle groups.

I'll similarly, to other Interveners today, just direct my questions generally. Whoever feels best able to answer can -- can go ahead.

You are aware that this year MPI completed a large vehicle study, which was included as part of the road safety technical conference?

MS. CARA LOW: I honestly became aware when I was ready the IRs a couple weeks ago.

MS. CHARLOTTE MEEK: Okay. And I'm not going to get into the details. I appreciate it was part of the road safety conference, but I just want to look at some of the findings of that with you today.

So, if we could just bring up our -- loss prevention, page 11. Thanks, Kristen. So, this page just highlights some of the key findings from that study, so I'm just going to go through a couple of those with you.

So, you'll agree -- so, if we look at line 11 there, you'll agree that this study found that the size of vehicle has an impact on collision costs.

Is that correct?

MS. CARA LOW: I would have to just take that as a given. I have not read the study.

MS. CHARLOTTE MEEK: But that is the evidence of MPI?

MS. CARA LOW: I -- I can see that on the screen --

MS. CHARLOTTE MEEK: Right.

MS. CARA LOW: Yes.

MS. CHARLOTTE MEEK: Right. Thank you. And you'll note further along in that paragraph MPI noted that pickup trucks, mid and full-size cars, and passenger and cargo vans all have a higher incident cost, higher injury cost, and higher vulnerable road user injury costs than compact cars?

MS. CARA LOW: I do read that. I don't know if it's true or not.

MS. CHARLOTTE MEEK: But this -- this is the evidence of MPI from their large vehicle study.

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

(BRIEF PAUSE)

MS. CARA LOW: I would agree that this is MPI's evidence, but I cannot speak to it. I don't know the methodology involved.

MS. CHARLOTTE MEEK: Sure, and I'll -- I'll speak about the methodology with the road safety conference. I don't -- I don't need you to comment on the methodology, but just the -- the findings of this study and -- and what they are. I'm not going to get into too much more detail than that.

You'll see the paragraph underneath there. It states that for SUVs, the study found that:

"The average incident costs and physical damage costs were higher for SUVs, but overall injury and vulnerable road user injury costs were comparable to compact cars."

That's stated there.

MS. CARA LOW: Yeah. That is very true. It's on the screen.

MS. CHARLOTTE MEEK: Thank you. So then if we could scroll down a little bit to the next page, so we're on page 12 now looking at lines 3 to 5.

We see here that MPI acknowledges that the analysis shows us that certain vehicle types have higher collision costs relative to compact cars.

And then the Corporation goes on to note that:

"Collision cost -- collision loss

experience is already considered in
the current rating structure."

Do you see that there?

MS. CARA LOW: I do see that.

MS. CHARLOTTE MEEK: Okay. And so this reference is a reference that -- so the reference that collision loss experience is already considered in the current rating structure, that's the reference to the ratemaking process that we currently have, and that includes things like the CLEAR rating system and the loss allocation methodology that we have?

MS. CARA LOW: I didn't write this statement so I'm not sure what they're referring to, but we do use claims experience in setting rates.

MS. CHARLOTTE MEEK: Okay. And so I want to talk to you a little bit about -- about the CLEAR rating system first. The CLEAR rating system is a system that's produced by the Insurance Bureau of Canada. Is that correct?

MS. CARA LOW: That is correct, yes.

MS. CHARLOTTE MEEK: And the CLEAR rating system uses actual loss experience data from across Canada to determine relative loss cost indices for the make, model, and year of a vehicle.

Is that correct?

MS. CARA LOW: That is correct.

MS. CHARLOTTE MEEK: Okay. And those indices consider costs of collision, comprehensive, and injury cames -- claims costs for each vehicle description. Is that correct?

MS. CARA LOW: That is correct, yes.

MS. CHARLOTTE MEEK: And you'd agree that the intent of the CLEAR system is to provide incentives to customers who purchase vehicles which are deemed safer or less susceptible to damage or more resistant to theft.

Do you agree that that's a fair statement?

MS. CARA LOW: That certainly would be one (1) of the purposes of the CLEAR system.

MS. CHARLOTTE MEEK: Okay. And so if we're talking about that incentive that the CLEAR system provides, that incentive would be in the form of a lower premium. Is that correct?

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Okay. And a vehicle that has a lower CLEAR rating will likely have a lower insurance premium, and then vice versa, a vehicle with a higher CLEAR rating has a higher insurance premium.

MS. CARA LOW: That is correct, yes.

MS. CHARLOTTE MEEK: Okay. And so a couple of features, for example, would be things like anti-lock brakes, dual inside air bags, side impact door reinforcements, anti-theft devices, et cetera. Those would all result in a vehicle having a lower CLEAR rating system --

MS. CARA LOW: That is true.

MS. CHARLOTTE MEEK: -- or CLEAR rating.

MS. CARA LOW: Yeah.

MS. CHARLOTTE MEEK: Thank you. And you'd agree that the CLEAR rating system does not account for third-party bodily injury claims.

Is that correct?

MS. CARA LOW: That is correct.

MS. CHARLOTTE MEEK: Okay. And so that means, in a collision, any bodily injury to a person in another vehicle or a pedestrian or a cyclist would not be considered in the CLEAR rating group assignment.

MS. CARA LOW: Correct.

MS. CHARLOTTE MEEK: Okay. So you would agree then, for example, a pick-up truck that has side impact door reinforcements, for example, would receive a lower CLEAR rating as a result of that feature.

MS. CARA LOW: Well, there's many different features, so whether that one is enough to offset others, I don't know. But it would be one (1) of the reasons for a lower rate group --

MS. CHARLOTTE MEEK: Right. It might be a contributing factor to a lower rating.

MS. CARA LOW: -- (INDISCERNIBLE) yeah.

MS. CHARLOTTE MEEK: Okay. Thank you. And -- and you would agree that a feature like that, like side impact door reinforcements, could conversely increase the third-party bodily injury costs in the event that that pick-up truck is in a collision with another car or a vulnerable road user?

MS. CARA LOW: Sorry? 'Cause bodily injury third-party liability would be the injuries to the person in the other car, not the person in the car causing the accident.

MS. CHARLOTTE MEEK: Right. So --

MS. CARA LOW: So --

MS. CHARLOTTE MEEK: -- so -- exactly. So what I'm saying is a feature like side door reinforcements, that could cause increased third-party injury costs to someone in another -- another vehicle or a vulnerable road user.

MS. CARA LOW: Oh. Yes, I guess so. Yes.

MS. CHARLOTTE MEEK: Thank you. And you're also aware that MPI currently employs a loss allocation methodology in its ratemaking calculations?

MS. CARA LOW: Are you talking claim cost allocation?

MS. CHARLOTTE MEEK: Yes. So I'm talking about the kind of loss transfer allocation that we have.

MS. CARA LOW: Okay. Yes, I am.

MS. CHARLOTTE MEEK: Okay. And so that methodology is pursuant to an Order of the Board following a special hearing that occurred back in 2005 on the issue of the claims cost attribution methodology.

MS. CARA LOW: Right.

MS. CHARLOTTE MEEK: Is that correct?

MS. CARA LOW: Yes.

MS. CHARLOTTE MEEK: Okay. Thank you. And are you aware that that stemmed from issues arising from the introduction of the PIPP, or Personal Injury Protection Plan, that was announced by government in around '93?

MS. CARA LOW: Correct, yes.

MS. CHARLOTTE MEEK: Okay. And so that current system of loss allocation that we use today is pursuant to Board Order 97/'05, and that Board Order requires that MPI allocate 50 percent of the total PIPP costs in a major -- to the major class in which the vehicle belongs that was involved in the collision, and then the other 50 percent is allocated to all other vehicle categories. Is that correct?

MS. CARA LOW: That is my understanding, yes.

MS. CHARLOTTE MEEK: Okay. Thank you. And then that same Order indicates that accidents involving only MPI-insured vehicles, the total PIPP costs are allocated equally across the rating categories to which the vehicles belong that were involved in that collision.

MS. CARA LOW: Correct, yes.

MS. CHARLOTTE MEEK: Thank you. And so based on this Order, if a compact car and a pick-up truck, for example, are involved in a collision, the entire PIPP costs are allocated to the private passenger class, assuming those vehicles were in that class. Is that correct?

MS. CARA LOW: That could be correct.

MS. CHARLOTTE MEEK: Okay. So what we understand then is that the Order only transfers PIPP costs between major classes, not between different kinds of vehicles.

MS. CARA LOW: That is my understanding, yes.

MS. CHARLOTTE MEEK: Thank you. And you would agree that, within the private passenger class, that there are different vehicles of different sizes which we know from the large vehicle study cause varying degrees of damage in collisions, correct?

MS. CARA LOW: There are different vehicles of different sizes in the private passenger vehicle, yes.

MS. CHARLOTTE MEEK: Right. And so we know that those different sizes of vehicles, they cause different kinds of damage who are located within the same major class.

MS. CARA LOW: I can't confirm or deny anything in the study. I haven't read the study, so I don't know. But if it's in there, I guess that's MPI evidence.

MS. CHARLOTTE MEEK: Okay. So -- so you would -- you accepted earlier what we talked about, that the --

MS. CARA LOW: I accept that it's MPI evidence.

MS. CHARLOTTE MEEK: Okay. And you would agree then that MPI does not currently have its own vehicle rating groups for third-party bodily injury claims. Is that correct?

MS. CARA LOW: That is correct.

MS. CHARLOTTE MEEK: Okay. And can you confirm whether MPI has any intention to further investigate the impact that large vehicles have on smaller vehicles and vulnerable road users and how that might impact MPI's ratemaking methodology?

MS. CARA LOW: This is not on our plans right now to look at.

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

THE PANEL CHAIRPERSON: Thank you, Ms. Meek.

Ms. Wittman...?

CROSS-EXAMINATION BY MS. KAREN WITTMAN:

MS. KAREN WITTMAN: Can you see me and hear me all right? I feel like I might be a bit of a talking chair at this point back here. As long as they can see me, that's fine.

Good afternoon, everyone. I'm Karen Wittman, and I am counsel for the Taxi Coalition, and I'm going to have a few questions for you. And like the other people before me, I'm going to direct my questions to the panel, and whoever feels most able to answer it, please go ahead and do so, okay?

So what I'd like to talk to you about first is the issue of serious loss loading. And I just want to start off by -- by clarifying that I understand that serious losses refers to an incident where the total accident benefits, i.e., PIPP claims cost for the incident is greater than five hundred thousand (500,000). Have I got that right?

MR. KHURRAM MASUD: That's correct.

MS. KAREN WITTMAN: Now, as I understand it, MPI's method -- methodological approach to serious loss loading at a very high level goes something like this:

First, the serious losses are removed from the total loss amounts.

Then, second, MPI averages out the last ten (10) years of serious losses by insurance use.

And then, third, MPI allocates that average back by insurance use to the latest five (5) years from the total loss amounts, excluding the actual serious losses.

Have I got that right at a high level?

MR. KHURRAM MASUD: Yeah, that is correct.

MS. KAREN WITTMAN: Okay. Now, Ms. Schubert, could you please pull up TC Exhibit 3-9?

(BRIEF PAUSE)

MS. KAREN WITTMAN: Now, in the Information Requests put forward by the Taxi Coalition, MPI was asked in 29(g) the following question.

Does MPI consider other insurance uses which have ten (10) years of data but no serious losses to be stat -- statistically credible for a serious loss loading?

And the answer was that MPI considers other insurance uses which have ten (10) years of data and larger exposure base but no serious losses to be statistically credible.

And that was the answer, right?

MR. KHURRAM MASUD: That's right.

MS. KAREN WITTMAN: Okay. So, just to

confirm then, what MPI does is that it -- in its current methodology, is that it's using the last ten (10) year actual serious losses to determine the loading applied to each insurance use, correct?

MR. KHURRAM MASUD: M-hm. Yes.

MS. KAREN WITTMAN: Okay. Now, I'd like to pull up at this point, Ms. Schubert, RM Appendix 9, table 9.

(BRIEF PAUSE)

MS. KAREN WITTMAN: And what I understand this table to be telling us is the reported serious losses and ALE (sic) for each insurance use for the past ten (10) years, correct?

MR. KHURRAM MASUD: That's right.

MS. KAREN WITTMAN: And it's broken down by territory and then totalled at -- at the bottom of each section, correct?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: Okay. And -- and ALE, that's an acronym for what? Can you remind me?

MR. KHURRAM MASUD: I just -- I just -- Allocated Loss Adjustment Expenses.

MS. KAREN WITTMAN: Okay. Now, if you

turn to page 90 of 165 of that table, and we look at, for example, a pleasure motorhome -- do you see that?

MR. KHURRAM MASUD: I do.

MS. KAREN WITTMAN: Okay. And if we look at this, my reading of it is is that in 2012 there was a serious loss of two hundred and seventy-eight thousand seven hundred (278,700). Is that right?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: And then since then, there's been no other serious losses for that insurance use, correct?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: Okay. Can you tell me what load is applied to this insurance use in the current methodology?

MR. KHURRAM MASUD: I will have to check. I don't remember. I will have to check.

(BRIEF PAUSE)

MR. KHURRAM MASUD: So, that will be twenty-seven thousand eight hundred and seventy (27,870). That's -- we divided by ten (10).

MS. KAREN WITTMAN: Okay. Now,

assuming pleasure motorhome experiences no additional serious losses in the next year, what would be -- or sorry, this year -- what would be the loading in next year's GRA?

MR. KHURRAM MASUD: As per the current methodology we would exclude this, but we may consider adding a smallish loading. So, I cannot comment at this estate (sic) whether we'll be including a loading for large loss on pleasure motorhome or not.

MS. KAREN WITTMAN: Okay. So, you're saying that you may include a loading or you may not, it's not clear?

MR. KHURRAM MASUD: Yeah. It's -- we will -- we will review this and we will -- we may or may not include a loading. But as the current methodology stands, it should be removed, as per the current methodology.

MS. KAREN WITTMAN: So, if I'm understanding you correctly, under the current methodology what you would do is you would remove it and it would be reduced down to zero?

MR. KHURRAM MASUD: Correct. Yeah.

MS. KAREN WITTMAN: But you're considering whether or not you're going to change that for fut -- on a go-forward basis?

MR. KHURRAM MASUD: That's right. That's --

MS. KAREN WITTMAN: Okay.

(BRIEF PAUSE)

MS. KAREN WITTMAN: And -- and part of the reason you're considering changing that, you'll agree with me, is because the risk of having a serious loss does not drastically change from this year to next year in terms of this insurance use, correct?

MR. KHURRAM MASUD: Yeah, that is one (1) of the considerations.

MS. KAREN WITTMAN: Okay. And if you turn to page 95 of 165, so still in the same table. So, we're now in major class 2. And if you take a look at petroleum/chemical truck as the insurance use.

MR. KHURRAM MASUD: Yes, I can see.

MS. KAREN WITTMAN: As I read this, there are no serious losses for major class 2 petroleum/chemical truck in the 2023 GRA. Is that correct?

MR. KHURRAM MASUD: That's right.

MS. KAREN WITTMAN: Okay. And so in the current methodology, the serious loa -- loading applied to this insurance use would be zero then, right?

MR. KHURRAM MASUD: I will check. Just a second.

(BRIEF PAUSE)

MR. KHURRAM MASUD: That's correct.

MS. KAREN WITTMAN: Right. And, Ms. Schubert, if we could, can we pull up the same figure for last year's GRA and have them side by side.

(BRIEF PAUSE)

MS. KAREN WITTMAN: And so if we look at last year's -- Ms. -- sorry, Ms. Schubert, can you just scroll down so I can see which one is which.

So, on the right-hand side of your screen we have the 2021 table and on the left-hand side of the screen we have the 2022 table. You see that?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: Okay. And then if we scroll down and compare the two (2) insurance uses, petroleum/chemical truck, last year there was a reported serious loss from 2011 of six hundred and ninety-seven thousand seven ninety -- and seventy-nine dollars ($697,079). You see that?

MR. KHURRAM MASUD: I can see.

MS. KAREN WITTMAN: Okay. So, that also meant that there was a loss loading included for that particular insurance use then. Is that right?

MR. KHURRAM MASUD: I will have to check. Yes.

MS. KAREN WITTMAN: Okay. And so the major difference between these two (2) charts, the one from 2021 and 2022, is that that loss loading was reduced from -- down to zero in 2022?

MR. KHURRAM MASUD: That's right.

MS. KAREN WITTMAN: But you'd agree with me that be definition of petroleum/chemical truck likely carries dangerous and inflammable materials -- materials that would like lead to a serious loss, correct?

MR. KHURRAM MASUD: Yeah, it can.

MS. KAREN WITTMAN: Okay. And so, when looking at the risk profile for this insurance use, being petroleum/chemical truck, other than serious losses dropping of the ten (10) year history, what else would change in the risk profile that would justify reducing serious losses from a loading of greater than zero to less than zero?

MS. CARA LOW: I would also argue that they would have professional drivers driving these trucks, as well.

MS. KAREN WITTMAN: Okay. And that -- that would be the justification for --

MS. CARA LOW: No, but just part of the risk profile.

MS. KAREN WITTMAN: Part of the risk profile, okay. Thank you for that.

And, Ms. Schubert, can we please mark this table as the next exhibit for Taxi Coalition, I think...

--- EXHIBIT NO. TC-4: Table RM Appendix 9, table 9.

CONTINUED BY MS. KAREN WITTMAN:

MS. KAREN WITTMAN: Now, I'd like -- Ms. Schubert, could you please pull up Appendix 9, table 11, from the ratemaking, Appendix 9, table 11, please.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Counsel, sorry to interrupt. If you could maybe just bring your microphone a little bit closer to you. It's just a little hard to hear. Thank you.

MS. KAREN WITTMAN: No problem. Is that better?

MR. ANTHONY GUERRA: Yes. Thank you so much.

MS. KAREN WITTMAN: Okay.

CONTINUED BY MS. KAREN WITTMAN:

MS. KAREN WITTMAN: And what this table seem -- is showing -- here, I'll move closer. Is that better now?

Yeah. Okay. And, as I understand it, what this table shows is each insurance use -- use's exposure in earned units by territory and year.

Is that right?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: Okay. Now, if we look at pleasure passenger vehicle, which is at page 121 of 165.

(BRIEF PAUSE)

MS. KAREN WITTMAN: What I understand this table to be showing is a breakdown by year-end territory of all the earned units. So, for pleasure passenger vehicle, for example, this table tells that in 2017 there was a hundred and sixteen thousand one hundred and thirty-one (116,131) earned units in Territory 1, for example.

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: Is that right? Yes.

And then, for all four (4) territories in that same year, there was a total of two hundred and ten thousand three hundred and eighty (210,380) earned units. Have I understood that correctly?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: And so, still looking at pleasure passenger vehicle insurance use, the total earned units for 2021 was two hundred and fifty thousand eight hundred and fifty-three (250,853). Is that correct?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: Okay. Now, would you consider this insurance use to have a large number of exposures? Or said another way, would you consider this to be a large exposure base?

MR. KHURRAM MASUD: I'll have to check.

(BRIEF PAUSE)

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: Okay. Thank you. And so, still on this same page of this table, if we look at pleasure motorhome -- do you see that? Pleasure --

MR. KHURRAM MASUD: I can see it, yes.

MS. KAREN WITTMAN: Yes. Okay. So the total earned units for pleasure motorhome for all territories in 2021, as I read it, is two thousand eight hundred and sixty-three (2,863).

Have I got that right?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: Okay. Would you agree that this is not a large exposure base?

MR. KHURRAM MASUD: I agree.

MS. KAREN WITTMAN: And if you turn to page 125 of 165, and you look at the insurance use for -- petroleum/chemical trucks. Do you see that?

MR. KHURRAM MASUD: I can see it.

MS. KAREN WITTMAN: And so as I'm

reading it, the total earned units for all territories, for loss year 2021, was eight-hundred-and-thirty-seven (837). Have I got that right?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: And would you agree with me that this too is not a large insurance exposure base?

MR. KHURRAM MASUD: Yes, I agree.

MS. KAREN WITTMAN: Okay. So in the examples that I've just reviewed with you, you would agree with me, these last two (2) examples, that these are examples of serious losses for insurance uses -- let me re -- back up.

These are examples of insurance uses with no serious losses, but which do not have a large exposure base. Would you agree with that?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: So if we look back at MPI's response to the Information Request, would you agree with me that these are insurance uses that you would not find to be statistically credible?

MR. KHURRAM MASUD: Let me check.

(BRIEF PAUSE)

MR. KHURRAM MASUD: They are not fully credible.

MS. KAREN WITTMAN: Okay. So would you also agree with me then that MPI's methodology to derive the serious loss load has limitations on insurance uses that are either small in size -- sorry, that are small in size and have no historical experience?

MR. KHURRAM MASUD: I would say every methodology will have its weaknesses no matter which one we adopt, so this method in particular has this weakness.

MS. KAREN WITTMAN: Okay.

(BRIEF PAUSE)

MS. KAREN WITTMAN: Now if -- you're familiar with -- or at least some of you, I think, are familiar with the PUB's order 134/'21. We went through that just a moment ago. I think Ms. Low indicated that she was and everybody else is new to the panel, but...

MS. CARA LOW: Correct.

MS. KAREN WITTMAN: All right. In that Order, what the PUB did -- and this was clarified in PUB Information Request PUB-MPI 1/8 (sic) -- was to propose an alternative method of calculating or -- or developing the calculation related to serious loss loading, correct?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: And what that per -- method involved was to remove the actual serious losses which MPI already does, right?

MR. KHURRAM MASUD: That's right.

MS. KAREN WITTMAN: All right. And to create a serious loss loading dollar amount by collision claim by vehicle type, correct?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: And then -- sorry, and the rationale for using collision claims count is that you can't have a serious loss if you don't have a collision first, right?

MR. KHURRAM MASUD: Sorry, can you repeat that?

MS. KAREN WITTMAN: The rationale for using collision claims counts is that you can't have a serious loss if you don't have a collision first, correct?

MR. KHURRAM MASUD: I'm not sure I agree to that fully --

MS. KAREN WITTMAN: Okay.
MR. KHURRAM MASUD: -- yeah.
MS. KAREN WITTMAN: All right. But still the methodology is that second step is that you're going to create that serious loss loading dollar amount by collision claim by vehicle type, right?
MR. KHURRAM MASUD: 'Cause you can have collision claims and yet not have a serious loss, so it is possible.
MS. KAREN WITTMAN: Okay. All right. Thank you for that clarification. All right.
And then the next step in what the PUB's Order proposed -- or the proposed alternative method has you do is that, based on the vehicle type listed, you calculate the average serious loss loading dollar amount. Is that right?
MR. KHURRAM MASUD: Yeah.
MS. KAREN WITTMAN: And then this tells you how much serious loss you should add on a per collision claim for vehicle type. Is that right?
MR. KHURRAM MASUD: (NO AUDIBLE RESPONSE).
MS. KAREN WITTMAN: Okay. And then, after that you take into account insurance

use/territory by still taking collision claims by insurance -- sorry.

So after that, you take into account the insurance use, but you're still taking into account collision claims by insurance use by territory by year. And then you multiply that by the amount calculated for the serious loss loading based on vehicle type.

Have I got that right, in a general sort of approach?

MR. KHURRAM MASUD: I think so. I lost you in the middle but I think that you've got it right.

MS. KAREN WITTMAN: All right. So this mess that I've just tried to go through with you somewhat clumsily is what I'm going to call as 'the PUB's proposed method', okay? So when I refer to that, you'll know what I'm talking about, right?

MR. KHURRAM MASUD: Yeah.

MS. KAREN WITTMAN: Okay. And what MPI did in response to that -- the PUB's order -- was to produce -- and this directive -- was to produce Rate Making Appendix 12, correct?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: And then, also --

there's also sort of an addendum to that or an update to that that is in response to PUB-MPI 1-8, correct?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: So that work was done in response to this directive?

MR. KHURRAM MASUD: Yes.

MS. KAREN WITTMAN: Okay. Now, would you agree that PUB's proposed method is more of an exposure based approach?

MR. KHURRAM MASUD: What the weight allocates is it's using collision claims. So as I said earlier, collision -- you may have a lot of collision claims, yet not have a serious loss. So, yes, that method also has weaknesses.

MS. KAREN WITTMAN: Sorry, that last word you just said?

MR. KHURRAM MASUD: I said that method may also have weaknesses.

MS. KAREN WITTMAN: May also have -- but would you say it's more of an exposure based approach?

MR. KHURRAM MASUD: It's more of a claims made approach rather than exposures --

MS. KAREN WITTMAN: Okay

MR. KHURRAM MASUD: -- because it's

based on -- off -- off collision claims that starts distributing the large loss load across the different vehicle categories of the insurance classes. So it's more on claims made.

MS. KAREN WITTMAN: All right.

(BRIEF PAUSE)

MS. KAREN WITTMAN: Would you agree with me that this approach is better aligned with the prospective nature of rate making?

MR. KHURRAM MASUD: Not necessarily.

MS. KAREN WITTMAN: Okay. Would you agree with me that PUB's proposed method allocates serious loss loading by vehicle type, while taking into account the relative frequency of collisions claims made by vehicle type?

MR. KHURRAM MASUD: By relative frequency of the collision claims, yes. Not necessarily serious loss.

MS. KAREN WITTMAN: Okay. And would you agree with me that PUB's proposed methods spreads out serious losses such that the insurance uses, which are smaller in size, or new classes with less historical experience, share in the risk of serious losses?

MR. KHURRAM MASUD: Yes, but it would also include the serious losses, even where the exposure is large enough, yet they do not have a serious loss.

MS. KAREN WITTMAN: Okay.

MR. KHURRAM MASUD: Yeah.

MS. KAREN WITTMAN: Would you also agree with me that in the PUB's proposed method, if it was adopted, would result in less volatility for smaller uses or territories?

MR. KHURRAM MASUD: Again, not necessarily. Depends on what you're comparing it with.

MS. KAREN WITTMAN: Okay. Given all of the work that MPI has done, in terms of preparing the ratemaking index number 12 and responding to PUB MPI-1-8, would you agree with me that if MPI were to adopt this proposed method, all of the work that needs to be done in order to go ahead and follow through with it has already been done?

MR. KHURRAM MASUD: In terms of the effort? Yeah. It would not request significant amount of additional effort in order to implement this.

MS. KAREN WITTMAN: Okay. Thank you very much. Just, if my -- may I have one (1) moment? Please?

(BRIEF PAUSE)

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

MR. KHURRAM MASUD: Thank you.

THE PANEL CHAIRPERSON: Thank you, Ms. Wittman. Mr. Guerra, do you have redirect?

MR. ANTHONY GUERRA: I -- I do. If there's any questions from the -- the Panel we can certainly do that.

THE PANEL CHAIRPERSON: I'm sorry. That's right.

MR. ANTHONY GUERRA: Yeah, no worries.

THE PANEL CHAIRPERSON: Friday afternoon. Mr. Gabor...?

BOARD CHAIR GABOR: I have two (2) brief questions.

Kristen, can you go to MPI's presentation Exhibit 59 please. And this is for Ms. Low. Could you go to page 8?

Ms. Low, is it your testimony that MPI

has three (3) lines of business?

MS. CARA LOW: There's three (3) lines that our pricing team works on, but there is fourth -- the fourth line of business, which would be the DVA.

BOARD CHAIR GABOR: Okay. From your experience, have you ever seen a line of business that can't have a profit?

MS. CARA LOW: That can't have a profit? I've seen unprofitable business --

BOARD CHAIR GABOR: Right, but --

MS. CARA LOW: -- in a private market, yes.

BOARD CHAIR GABOR: -- can you explain to me how DVA -- the DVA line of business would have a profit?

MS. CARA LOW: No, I cannot.

BOARD CHAIR GABOR: Okay. Thank you. Second question is for Ms. Ostapowich.

You referred to the survey on people working from home and did the comparison. Do you know when you did the survey result, when you asked the questions, what's the frequency of them working from home?

Is it, when you say, will you be working from home, is it you're working from home full-time? You're working from home one (1) day a week? When you're doing the comparisons. I mean I -- I know there's a percentage, but I don't know how many days they're working from home versus working at the office.

MS. CHERITY OSTAPOWICH: Yeah, that survey never specified that. It did not.

BOARD CHAIR GABOR: So, it could be just one day a week, they're working from home?

MS. CHERITY OSTAPOWICH: Potentially. I think we captured the -- the mileage, but -- let me just check.

(BRIEF PAUSE)

MS. CHERITY OSTAPOWICH: Yeah, so when we asked the question it was just a 'yes' or 'no' question. So, it could, potentially, just --

BOARD CHAIR GABOR: It could be whatever --

MS. CHERITY OSTAPOWICH: Yeah.

BOARD CHAIR GABOR: -- it -- whatever they responded. Yeah.

MS. CHERITY OSTAPOWICH: Very true. Yes.

BOARD CHAIR GABOR: Sure. Thank you. Those are my questions.

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

MR. GEORGE BASS: No.

THE PANEL CHAIRPERSON: Ms. Boulter...?

MS. SUSAN BOULTER: No.

THE PANEL CHAIRPERSON: Mr. Guerra...?

RE-DIRECT EXAMINATION BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Thank you. I don't have a lot of questions for re-direct, but I do note that Ms. Low wanted to make a correction to one of the answers she provided in the exchange between herself and Ms. McCandless.

So, Ms. Low, I'm just going to ask you to comment more on your response to the question about that you were asked by Ms. McCandless about when premium comes in does it go into the claims liability portfolio? Do you recall that line of questioning?

MS. CARA LOW: I do recall that. I just wanted to clarify. We get money coming in from premiums every day. Claims go out every day, claims payments. We don't buy bonds every day.

What happens is it goes into operating cash. Operating cash is -- the target is $80 million with a -- with a plus or minus $20 million. When it exceeds that, then we put money over into our bond portfolio. If it goes under our target, we would sell bonds.

So, they're not all going into the Basic claims portfolio where they're making the ten (10) year yield. Because a lot of it's just going in and out daily, and there is no interest being earned on that. So that's why I wanted to clarify.

MR. ANTHONY GUERRA: Okay. Thank you Ms. Low.

There was also an indication in the testimony about the severity numbers for total -- for -- for repair severities in July, I believe, it was being over nine thousand dollars ($9,000).

Do you recall that testimony?

MS. CARA LOW: Oh, I -- July of 2022, the average severity for a total loss is over nine thousand (9000).

MR. ANTHONY GUERRA: And -- and can you help us understand a little bit more about why that is, that specific number, because it does appear to be significantly higher than we've seen in some of the other tables shown to you today.

MS. CARA LOW: Our understanding is that the cost of fixing cars are going up. While this is total losses, it's getting more expensive to buy a car. There's a lack of new cars in the market and even at -- whether it's a new car or whether it's a used car, it's very expensive to buy a car.

MR. ANTHONY GUERRA: Does MPI have any idea or any information about how long it expects that trend to continue in terms of the -- the difficulty in finding new vehicles or -- or used vehicles?

MS. CARA LOW: We have no idea.

MR. ANTHONY GUERRA: And you were asked by my friend from the -- representing the Coalition of motorcycle -- Manitoba Motorcycle Groups about the results of the loss -- the large vehicle study and -- and the question specifically about MPI not having a rating group for third-party injury claims.

Do you recall that line of questioning?

MS. CARA LOW: Yes, I do.

MR. ANTHONY GUERRA: And, can you help us understand, for the Board's benefit, why that is?

MS. CARA LOW: Why we don't have

rating groups for third-party bodily injury?

MR. ANTHONY GUERRA: Yes.

MS. CARA LOW: Because that's when you injured someone in another car, so it's their vehicle. So, when we're selling insurance for your vehicle, we don't know what kind of car you are going to hit.

MR. ANTHONY GUERRA: Okay. And so how does that play into the decision not to have a rating group for third-party bodily injury?

MS. CARA LOW: It's impossible to do. I've never heard of a fair rate group for a third-party liability bodily injury.

MR. ANTHONY GUERRA: Okay. Thank you. I have no further questions.

THE PANEL CHAIRPERSON: Thank you, Mr. Guerra. I believe we are now moving into Monday to the MPI investment, asset, liability, management study panel with Mercer in attendance.

So we can adjourn for the day now and be back on Monday morning at nine o'clock. I'd like to thank this panel very much and ask that, if possible, Mercer be available on Monday morning. I'm not sure what the planning was, in terms of timing, but just so that we're not inconveniencing them on Monday when we start that panel.

MR. ANTHONY GUERRA: That was our intention and we'll just make sure that our witness can be here as quickly as possible.

THE PANEL CHAIRPERSON: Okay, that's great. Thank you very much. Thank you. Have a good weekend everyone.

MR. ANTHONY GUERRA: Thank you. Good afternoon.

(PANEL STANDS DOWN)

--- Upon adjourning at 2:46 p.m.

Certificate of Transcript

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Wendy Woodworth, Ms.