MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2023/2024 GENERAL RATE APPLICATION

HEARING

Before Board Panel:

Irene Hamilton, K.C.- Panel Chairperson

Robert Gabor, K.C. - Board Chair

Susan Nemec - Board Member

George Bass, K.C. - Board Member

Susan Boulter - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

November 3, 2022

Pages 2198 to 2492

Day 11

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Karen Wittman	) Taxi Coalition
Sharna Nelko	)
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--- Upon commencing at 9:02 a.m.

THE PANEL CHAIRPERSON: Good morning, everyone. I understand that this morning we are going to start with undertakings cross. MPI, do you have any further exhibits?

MR. ANTHONY GUERRA: Good morning, Madam Chair. Yes, I do, so I'll start with that. MPI Exhibit number 99 is response to Undertaking number 23.

--- EXHIBIT NO. MPI-99: MPI's Response to Undertaking 23

MR. ANTHONY GUERRA: MPI Exhibit 100 is MPI's response to Undertaking 35.

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number 106 is its response to Undertaking 39.

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MR. ANTHONY GUERRA: MPI Exhibit number 107 is its response to Undertaking 32.

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MR. ANTHONY GUERRA: MPI Exhibit number 109 is RM-2 rating year '22/'23 discount claims costs.

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MR. ANTHONY GUERRA: MPI Exhibit

number 110 is response to Undertaking 15, Figure 17, backline.

--- EXHIBIT NO. MPI-110: MPI's Response to Undertaking 15, Figure 17

MR. ANTHONY GUERRA: MPI Exhibit number 111 is its response to Undertaking 37.

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MR. ANTHONY GUERRA: MPI Exhibit number 112 is its response to Undertaking 41.

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MR. ANTHONY GUERRA: MPI Exhibit number 117 is its response to Undertaking 31.

--- EXHIBIT NO. MPI-117: MPI's Response to
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MR. ANTHONY GUERRA: MPI Exhibit number 118 is its response to Undertaking number 42.

--- EXHIBIT NO. MPI-118: MPI's Response to Undertaking 42

MR. ANTHONY GUERRA: And I understand that there may be a couple more undertakings that have yet to be answered, so there may be a few more exhibits to be filed in due course.

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

MS. KATHLEEN MCCANDLESS: Thank you.

(BRIEF PAUSE)

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Good morning to the members of the panel. Welcome back. I'm going to start with just some questions to understand the updates on the staffing. And so --

DR. DARREN CHRISTLE: I'm sorry, Kathleen. Could you hold for a second? We're having a wifi problem.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you,

everyone. Sorry for the interruption.

Ms. McCandless...?

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. So first, can we just go briefly to MPI Exhibit number 66. This is the response to Undertaking number 13. And MPI was asked to advise what the two hundred and eighty-three (283) -- so that's additional full-time equivalents -- represents in dollar numbers.

And if we could go down somewhat. Thank you. So we see here that the response provides that this increase translates into $36 million from the 2022/'23 budget, correct?

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

MS. KATHLEEN MCCANDLESS: And this increase represents the October update, the -- or the hearing update of two hundred and eighty-three (283) full-time equivalents?

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

MS. KATHLEEN MCCANDLESS: Then could we go to Exhibit number 96, please.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: I should note -- note that is total corporate all-in numbers, not just Basic.

MS. KATHLEEN MCCANDLESS: Thank you. This is the response to the very big undertaking that was given by MPI in respect of updated staffing, and I'd like to start with page 16, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Can we just go to the bottom of the page, check the page number. Thank you.

And so I understand that this schedule provides a total compensation change on line 10?

MR. MARK GIESBRECHT: Yes. Can we scroll up for just one (1) moment?

MS. KATHLEEN MCCANDLESS: Sure.

MR. MARK GIESBRECHT: Okay. Yes.

MS. KATHLEEN MCCANDLESS: And this -- this schedule is to represent the reported change of $36 million from 2022 to '23?

MR. MARK GIESBRECHT: This schedule

will use a '22/'23 forecast base which is a bit different than the -- the prior number was a prior budget, over budget. This is the forecast base which will be a little bit different than the -- the budget numbers that we looked at previously.

So you have different points in time. You have budgets and you have forecasts, and this is the forecast base for '22/'23, which is -- that will give you a bit of a difference.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So how much of the new staffing budgeted for 2023/'24 relates to the delivery of NOVA?

MR. MARK GIESBRECHT: There are I believe it was approximately fifty (50) -- approximately fifty (50) FTE. That would have been in the slide presentation from the expense panel but it's roughly fifty (50) I believe it was.

MS. KATHLEEN MCCANDLESS: To what extent is this payroll increase being expensed as period costs versus capitalized?

MR. MARK GIESBRECHT: The -- the amounts that we showed on the slide -- again, referencing the two eighty-three (283) -- those are what we call normal operating costs, and so those are all being expensed. Those are -- those are not the capital component.

The capital component are within our initiative FTE accounts. Those -- there would be a component of capital there and similar expense as well, but as it pertains to the two eighty-three (283), those would all be flowing through expense.

MS. KATHLEEN MCCANDLESS: Thank you. And then can we go to MPI Exhibit number 76, please.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And this undertaking response is in respect of providing a comparison on broker commissions between the status quo and the new arrangement. Can we scroll down to figure 1. Thank you.

But it doesn't go out to '23/'24, which I understand is the last year of the fifteen (15) year business case?

MR. MARK GIESBRECHT: Yes, that sounds about right.

MS. KATHLEEN MCCANDLESS: The existing

broker agreement, if continued until online services are made available, the net benefit would include 2033/'34 in that analysis, yes?

MR. MARK GIESBRECHT: If we're using the same complete outlook period, yes.

MS. KATHLEEN MCCANDLESS: And would we add that to come up with the net benefit then?

MR. MARK GIESBRECHT: Yes. If we were looking at it from the business case perspective, then it would have the all in through fifteen (15) years.

MS. KATHLEEN MCCANDLESS: Now, can we please go to MPI Exhibit number 89.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: This undertaking was to provide what MPI consider -- considers its steady state staffing level for 2022/'23 through the outlook period?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And if we scroll down to figure 1. Thank you.

MPI has provided here in terms of the 2022/'23 budget what it considers the steady state staffing level for normal operations increasing from one thousand nine hundred and eighty-six point two (9,186.2) full-time equivalents up to two thousand one hundred and seventy-four point six (2,174.6) full-time equivalents in 2023/'24? And I'm looking at line 10.

MR. MARK GIESBRECHT: Yes, I see that.

MS. KATHLEEN MCCANDLESS: So, that would be an increase of a hundred and eighty-eight point four (188.4) full-time equivalents from May '22/'23?

MR. MARK GIESBRECHT: Subject to check, yes.

MS. KATHLEEN MCCANDLESS: And can you explain the significant growth required to run the business?

MR. MARK GIESBRECHT: Yeah. As we discussed in the Expense Panel, there's a couple of main components, firstly, our -- our service levels and needing to address our customer service levels in terms of a number of wait times, whether it be wait times for driver testing, adjusting, estimating, wait times in service centres.

So, we are experiencing a number of significant gaps in how we are servicing customers, and so there's an immediate gap to fill.

There's also long wait times at -- at

peak times within our call centre with significant amount of calls that are hitting business signals, so that's -- that's the first area.

We talked, obviously, about NOVA enablement and NOVA support being another key area, and then also a number of areas in terms of our support functions. Actuarially we talked about HR and finance.

So different supporting areas where we are -- we have not invested in many, many years in these functions, and so they are lagging behind best practices and, therefore, are not providing the level of support you would expect to a corporation of our -- of our size.

MS. KATHLEEN MCCANDLESS: Can you explain the significant increase at line 2 in actuarial investments and risk division from twenty-three (23) to forty-five (45)?

(BRIEF PAUSE)

MS. CARA LOW: So that's in the division. We're not adding to the investment area. We are growing a risk department. It didn't exist until a couple of years ago, so that is a growing area.

Where most of the counts are coming from is the actuarial side of things, and that was part of my presentation at the Ratemaking Panel. Even here, there's been times where we've been discussing the MCT impact via IFRS 17 or the MCT impact of the asset liability results, and we can't do it because we don't have the resources, so we're growing the team.

MS. KATHLEEN MCCANDLESS: Thank you. At the end of 2025/'26, MPI indicates at line 10 that its steady state is two thousand one hundred and thirty-seven point six (2,137.6) full-time equivalents versus the base budget of two thousand two hundred and eight point six (2,208.6), for a difference of seventy-one (71) full-time equivalents?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Is this the level of staff that's expected to drop away when NOVA is complete?

MR. MARK GIESBRECHT: Essentially, yes, but those are staff that are supporting NOVA and are required for broader transformation that would not be considered in the steady state.

MS. KATHLEEN MCCANDLESS: Thank you. Now I'd like to go to MPI Exhibit number 96, please, and, first, to figure 1. Thank you.

And this schedule represents the average expenses over the two (2) rating years that are affected by this year's rate application, so 2023/'24 and 2024/'25?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And focussing on line 5, operating expenses, over the rating years, MPI is now forecasting an increase of 12.16 percent?

MR. MARK GIESBRECHT: That is correct.

MS. KATHLEEN MCCANDLESS: To what extent is this increase in operating costs related to NOVA?

MR. MARK GIESBRECHT: Broadly speaking, I think we could attribute it to the -- the fifty (50) or so out of the two-eighty-three (283) would be the -- probably the broad-based approach that -- to give you that off, you know, top of my head.

MS. KATHLEEN MCCANDLESS: Thank you. Now, could we please go back to figure 13. Thank you. This is page 16.

So in the original application, MPI forecasted an incremental increase and improvement initiative salaries of $8 million. In the original application. So not -- not in this figure here. Subject to check.

MR. MARK GIESBRECHT: Okay. That -- that sounds right, yes.

MS. KATHLEEN MCCANDLESS: Okay.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So the update now reflects a reduction in improvement initiative salaries. Yes?

MR. MARK GIESBRECHT: There's, I believe, a slight reduction. Yes.

MS. KATHLEEN MCCANDLESS: But MPI is increasing initiative staff -- the forecast is to increase those initiative staff by thirteen-point-seven (13.7) full-time equivalents. Correct?

MR. MARK GIESBRECHT: Can you point me to that reference just to confirm?

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: We can go to MPI Exhibit number 110 for that reference.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So if we take the total of figure 2 -- or figure 1, pardon me -- we see two-thousand-two-hundred-and-eighty-one-point-one (2,281.1). Then if we scroll down to the next figure, we have two-thousand-three-hundred-and-forty-eight-point-one (2,348.1) total Corporate full-time equivalents.

So that's more than thirteen-point-seven (13.7) -- it's sixty-seven (67) full-time equivalents.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So I guess I'll just ask the question more generally.

Can you explain why the proven initiative salaries are going down, yet the staff count is increasing?

MR. MARK GIESBRECHT: Yeah, with the initiative's portion of those costs are capitalized and certain ones are expensed. And so, based on updating the -- the work effort and how it's -- how it's transgressing, that would have an -- a slight change based on the updated budgets. I think that would drive the -- the major difference there.

We also have other initiatives outside of NOVA as well. There would be some costs there.

But it's really -- there's a slight tweak between how much is capitalized versus what was expense-based on the -- the work streams. And where those FTE land within those different work streams.

MS. KATHLEEN MCCANDLESS: Thank you. And so, we can see from figure 2 here, that the 2022/'23 budget total Corporate full-time equivalents was two-thousand-forty-eight-point-six (2,048.6). And now, with the update, the 2023/'24 budget is two-thousand three hundred and forty-eight-point-one (2,348.1).

So the Corporation is increasing its overall staff complement by three hundred (300) full-time equivalents as a result of the latest update. Yes?

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

MS. KATHLEEN MCCANDLESS: Thank you. I'm now going to ask some questions related to Undertakings 2 and 5. And, just to start, in MPI's Exhibit 50, which was the rate update filed October

12th, PF's 1, 2 and 3 reflected MPI's revised investment assumptions, claims assumptions and expense assumptions. Correct?

MR. MARK GIESBRECHT: I believe so, yes.

MS. KATHLEEN MCCANDLESS: And that included the two hundred and eighty three (283) full-time equivalent increase?

MR. MARK GIESBRECHT: It would all be there. Yes.

MS. KATHLEEN MCCANDLESS: And then if we could please go to MPI Exhibit number 67. Thank you, Kristen.

And so this undertaking asked to update slide 10, of MPI Exhibit number 55, which was the expenses presentation, based on the updated staffing numbers. Yes?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And, Kristen, could you please put up slide 10 of Exhibit number 55 and we can just have them, maybe one at the top of the screen and one at the bottom, so we can see the difference. Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Sorry, I'm putting you through your paces this morning. I think that's -- that's good.

So, on the right-hand side of the screen we see what was presented with the expenses panel and then we see the undertaking response on the left-hand side of the screen.

And I'm looking in particular at 2023/'24 and 2024/'25. We can see that those expenses have now increased the percentage of expenses as a total basic operating expenses as a percentage of net premiums earned. So, it's now increased to 24.1 from the 23.4 for 2023/'24.

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

MS. KATHLEEN MCCANDLESS: And increased from 22.8 percent to 23.2 percent in 2024/'25?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And then it shows the expenses coming back down in '25/'26 and 26'/27, as opposed to them staying flat for '25/'26, '26/'27 in the presentation.

MR. MARK GIESBRECHT: That is correct.

MS. KATHLEEN MCCANDLESS: And we

discussed earlier that MPI provided its steady state staffing level for 2022/'23 through the outlook period.

MR. MARK GIESBRECHT: We did.

MS. KATHLEEN MCCANDLESS: And, perhaps, I should have asked what -- what is meant by "a steady state staffing level"?

MR. MARK GIESBRECHT: A steady state takes our total counts and excludes anything that we would classify as for transformation, so primarily NOVA, or any other broader transformation. But would include staff that we are requiring to get to an appropriate or a base level of customer service that we're currently not at.

MS. KATHLEEN MCCANDLESS: And this is for the Corporation as a whole as opposed to just Basic?

MR. MARK GIESBRECHT: That was as a whole, I believe, yes.

MS. KATHLEEN MCCANDLESS: What would the study state staffing level translate to as an expense ratio?

MR. MARK GIESBRECHT: It would be lower. I'd have to -- we'd have to calculate that to get with precision, but yeah, I think we showed about between ninety (90) and seventy (70) in the various years as the difference and so that would equate to lower expense and a lower ratio.

MS. KATHLEEN MCCANDLESS: So, maybe we could jump back to Exhibit 89 then for that steady state undertaking response.

So, would the steady state staffing level translate -- what would it translate to as an expense ratio, which we would assume would be effectively excluding the 90 percent -- the ninety (90) plus difference, pardon me, shown in line 2, plus the costs of NOVA, relative to the 24.1 percent; would that be fair?

MR. MARK GIESBRECHT: Yes, the steady state, you'd exclude all the staff related to that -- to the project that are hitting the expense line and, so, it would reduce the number, but I -- I couldn't give you -- you the precise, actual result right now.

MS. KATHLEEN MCCANDLESS: And we have discussed previously, Ms. Low, that, under actuarial rate-making standards of practice, the act -- actuary would consider amortizing of one-time costs?

MS. CARA LOW: The actuarial standards say that you could do it. You could amortize or not but we choose to follow what the accounting team is doing.

MS. KATHLEEN MCCANDLESS: And, I believe, your evidence, Ms. Low, was that had not been considered but it was something that could be looked at by the Corporation in the future?

MS. CARA LOW: That is correct, yes.

MS. KATHLEEN MCCANDLESS: Would you agree that if the rate indication was based on the steady state staffing level, instead of the actual expenses, which reflect the one-time costs of NOVA, that that would be considered accepted actuarial practice?

MS. CARA LOW: One (1) minute.

(BRIEF PAUSE)

MS. CARA LOW: Sorry. Yeah. It would meet accepted actuarial practice. In a competitive market, a company may not want to price that in, because they don't necessarily want rate shock and, then, lose their market share and, then, drop it down. But, for MPI, we need to price to net income of zero, so, it needs to be incorporated into -- into the rate-making. Otherwise, it has to come from the RST because we have no profit provision.

MS. KATHLEEN MCCANDLESS: Now, could we go to MPI Exhibit 71. This is the response to Undertaking 8, and this is just to provide some more clarity, in terms of the selected risk adjustment. And page 8 of 12, please, and we did discuss this earlier this week.

This shows the discounted provision amount under various methods, including the margin method, the cost of capital method, and the quantile method, using percentiles from 80 percent to 95 percent?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. And the margin method, which assumes the current IFRS claims development provision for adverse deviation, chose a discounted provision amount of a hundred and ninety-six point two million (196.2) for Basic and two hundred and sixteen point one million (216.1) for Corporate, which we reviewed previously?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: The cost of capital method, that assumes a 6 percent cost of capital rate for non-indexed lines, 10 percent for indexed, and capital at 100 percent, 200 percent, and 300 percent MCT for Basic, Extension, and SRE Lines.

Shows seventy-seven one point million (77.1) for Basic and eighty-four point eight (184.8) for Corporate as a whole?

MS. CARA LOW: That is true. Yeah.

MS. KATHLEEN MCCANDLESS: How much would the cost of capital rate have to be increased, assuming it was done proportionately, to get to the risk adjustment based on the margin method for Basic?

MS. CARA LOW: We did do that calculation. I believe it was 17 percent. I could look it up. It was quite high.

MS. KATHLEEN MCCANDLESS: So, that would be about 15 percent cost of capital for a non-index lines?

MS. CARA LOW: I believe it was 17, but I can look it up.

MS. KATHLEEN MCCANDLESS: I -- I don't think -- I -- I mean if -- if you're able to do that now, I don't -- we're not going to ask for an undertaking for that. It's --

MS. CARA LOW: It would just take a few minutes.

MS. KATHLEEN MCCANDLESS: Sure. Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: You know what, 17 is fine if that's what the estimate is.

MS. CARA LOW: Okay. Subject to check.

MS. KATHLEEN MCCANDLESS: Okay.

MS. CARA LOW: Yeah.

MS. KATHLEEN MCCANDLESS: And does this seem a little higher than the cost of issuing debt for the Province of Manitoba?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: Would you agree that selecting a risk adjustment about equal to the current margin method is the equivalent of using a cost of capital method, using the aforementioned cost of capital?

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

MS. KATHLEEN MCCANDLESS: Thank you. The quantile method, using the 90th percentile shows 206.8 million for Basic and 191.6 million for Corporate as a whole?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And can you

explain how Basic can be at a higher level than Corporate as a whole?

MS. CARA LOW: Diversification between the three (3) lines of business.

MS. KATHLEEN MCCANDLESS: The amount for Basic is about $10 million higher than the margin method, which we've discussed previously?

MS. CARA LOW: Yes, that is correct.

MS. KATHLEEN MCCANDLESS: Does this mean that MPI is intending on having a risk adjustment for Basic that is about $10 million higher than the current claims provision for adverse deviation?

MS. CARA LOW: As of March 31st, 2022, if this was implemented, it would have been $10 million higher for Basic. The diversification credit would have been allocated down between the three (3) lines of business as well.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Can we just scroll down the page a little bit here. Thank you.

So, this chart shows that the -- in terms of confidence level, the margin method would generate the 86th percentile for indexed and then 96th percentile for Basic, correct -- for non-indexed for Basic?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: What overall percentile would have to be selected by MPI in order to have a risk adjustment for Basic that is equal to the current claims provision for adverse deviation?

(BRIEF PAUSE)

MS. CARA LOW: I don't have that information handy. Between eighty-five (85) and ninety (90), but yeah.

MS. KATHLEEN MCCANDLESS: Between eighty-five (85) and ninety (90)?

MS. CARA LOW: Yeah.

MS. KATHLEEN MCCANDLESS: Okay, thank you. Next, I'd like to go to the response to Undertaking 16, which is MPI Exhibit 91 and figure 1, please.

And at figure 1, MPI has provided the dollar amount of the increase for each of weekly indemnity and accident benefits other indexed for each fiscal year, as well as the updated Manitoba inflation forecast?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And if we look at the ABO, so that's Accident Benefits Other indexed for 2023/'24, we see an increase of five (5) -- five thousand four hundred and forty-five (5,445)?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And then if we could go to figure CI-20, and that shows the fiscal year of claims incurred.

The corresponding amount is at line 8, seventy-six point nine (76.9)?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: So, if we divide what we saw on the previous screen, the five point four (5.4) by seventy-six point nine (76.9), we would get an increase of 7.1 percent?

MS. CARA LOW: Subject to check, yes.

MS. KATHLEEN MCCANDLESS: And also subject to check, we would get a similar increase of 7.1 percent for 2024/'25 if we did the same calculation? And we can jump back to the previous screen if that helps.

MS. CARA LOW: That would help.

MS. KATHLEEN MCCANDLESS: I believe I said a thousand (1,000). I should have said million, pardon me.

(BRIEF PAUSE)

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

(BRIEF PAUSE)

MS. CARA LOW: Okay. Sorry. And what was the question again?

MS. KATHLEEN MCCANDLESS: The question was: If we did a similar calculation for 2024/'25, as I took you through on 2023/'24, that we would end up with a similar -- we would also get an increase of 7.1 percent?

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

MS. KATHLEEN MCCANDLESS: And then if we look at Figure 2, the Manitoba Inflation Forecast, changes for 2022 -- or, pardon me, 2023/'24, if we subtract seven point six (7.6) by four point two (4.2) at line 2, we get an increase of 3.4 percent from the filing to the update at Exhibit 58?

MS. CARA LOW: That is correct, yes.

MS. KATHLEEN MCCANDLESS: And for 2024/'25, doing the same calculation, we get an increase of 1.3 percent?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And for 2024/'25, we get an increase of .2 percent at line 4.

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: So adding up those three (3) percentages, we get three point four (3.4) plus one point three (1.3), plus point two (.2), takes us to 4.9 percent, correct?

MS. CARA LOW: Sounds reasonable.

MS. KATHLEEN MCCANDLESS: So can you explain how a 4.9 percent increase in inflation included in the forecast now results in a 7.1 percent increase in the fiscal claims incurred for accident benefits, other indexed for 2023/'24 and '24/'25?

MS. CARA LOW: I believe the difference is interest rate impact. So just let me check with the back row.

(BRIEF PAUSE)

MS. CARA LOW: So figure 1. So what we're looking at on the screen right now, that doesn't include the interest rate impacts, so this is just the impact of inflation in here.

MS. KATHLEEN MCCANDLESS: Should the interest rate impact not have been split out?

MS. CARA LOW: This exhibit, it wasn't included.

MS. KATHLEEN MCCANDLESS: And then if interest rates increased, would that not have reduced the impact?

MS. CARA LOW: If interest rates go up, yes, it does reduce the impact, yes.

MS. KATHLEEN MCCANDLESS: For the increase 44.6 million for weekly indemnity and 30.4 million -- 30.4 million for ABO indexed, which accident years were affected for each coverage?

MS. CARA LOW: So which accident year?

MS. KATHLEEN MCCANDLESS: Yes.

MS. CARA LOW: So this is a fiscal year forecast. So for -- sorry. I just want to make sure I get this right. No, back row confirmed it. We have to go back to all past PIPP claims because everyone gets indexed for Manitoba CPI, so it's all last year's that are impacted.

So April 1st, everyone gets a raise based on Manitoba CPI, and that Manitoba CPI is the preceding calendar year. So we're trying to forecast where we think Manitoba CPI's going to be at December

31st, because that's what's going to be applied for April 1st for all past years.

MS. KATHLEEN MCCANDLESS: Thank you. Now can we please go to MPI Exhibit 101.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And here, MPI was asked to provide documentation validating the decrease of $48.9 million lower than forecast collision -- collision claims, the decrease in non-proportional ILAE, and 8.2 million in forecasted increase in ILAE, and the $4.6 million increase in forecasted comprehensive claims.

And if we scroll down somewhat. Thank you. At figure 1, it indicates at line 2 that collision decreased by $48.9 million, yes?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: That was due to the combination of lower forecast -- forecast claims counts if we're looking below here, which resulted in $82 million less in claim dollars, yes?

MS. CARA LOW: Correct, 'cause we updated for July results for claim activity, and we continue to see a drop in the amount of claim counts coming in come.

MS. KATHLEEN MCCANDLESS: Then offset by higher-than-forecasted total loss severity of $22 million?

MS. CARA LOW: Correct. Severity is going up, frequency continues to go down.

MS. KATHLEEN MCCANDLESS: And then an increased light vehicle accreditation agreement impact of $5 million?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And the remaining 6 million is due to the related effects of increased severity and lower frequency, yes?

MS. CARA LOW: Correct. Yes.

MS. KATHLEEN MCCANDLESS: And if we go to Figure CI-34, please. Thank you.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And I'm looking at the red line for 2022/'23. The projected collision frequency was 2.6 percent for total loss, yes?

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: And then the

blue line was 8.3 percent for repair?

MS. CARA LOW: Yes, blue is repair.

MS. KATHLEEN MCCANDLESS: And are you able to say now what your estimates would be for both of those for 2022/'23?

MS. CARA LOW: Back row is typing. I know the total losses, the severity is much higher than we had assumed.

(BRIEF PAUSE)

MS. CARA LOW: Repair is 7.5 percent.

MS. KATHLEEN MCCANDLESS: Is that frequency or severity? We're looking at frequency.

MS. CARA LOW: Yeah. Right. Sorry. I was thinking severity.

(BRIEF PAUSE)

MS. CARA LOW: No, he confirmed, it's frequency. So repair is at 7.5 percent, total loss, or all together is 9.4 percent.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. And I'm not asking MPI to create any more paperwork at this point, so if it's readily available, then please provide the information. But if it's not available, we'll move on.

Do you have the collision frequencies for each of total loss and repair?

MS. CARA LOW: Yeah. We monitor that every month.

MS. KATHLEEN MCCANDLESS: Okay. And is that information handy? Are you able to --

MS. CARA LOW: Yeah, because we have a dashboard where we monitor it every month.

MS. KATHLEEN MCCANDLESS: Are you able to provide that right now or...?

MS. CARA LOW: I can get the back row to send it, yes.

MS. KATHLEEN MCCANDLESS: I'll just jump ahead then.

With respect to severity -- and if we could go back to the previous -- sorry, I'm looking at figure CI-37, pardon me. Thank you.

Now looking at the blue line for 2022/'23, the projected average severity was three thousand six hundred and seventeen (3,617) for repair?

MS. CARA LOW: Sorry, what was the number?

MS. KATHLEEN MCCANDLESS: Thirty-six seventeen (3,617), the blue line at 2022.

MS. CARA LOW: Correct. Yes.

MS. KATHLEEN MCCANDLESS: And then the red line for total loss was eighty thirty-five (8,035)?

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: And does the Corporation have updated estimates now for each of these?

MS. CARA LOW: Yes, we do. We can provide that, as well.

MS. KATHLEEN MCCANDLESS: Okay. And would the estimates include the light vehicle accreditation impact?

MS. CARA LOW: No. That's separate.

MS. KATHLEEN MCCANDLESS: And is the increased severity only based on the higher severity observed for past months or does it also reflect an increase in expected severity for the remainder of the year?

(BRIEF PAUSE)

MS. CARA LOW: Let me think about that. Our dashboard, when we monitor it, is actuals to date. I'll have to find out from the back row if we update our forecast on a monthly basis. I don't think we do.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: I'll just -- while your back row is assisting --

MS. CARA LOW: He confirmed. Remaining months are adjusted, so we do have an updated forecast.

MS. KATHLEEN MCCANDLESS: Thank you. And so, I think there's a couple outstanding questions that we'll just leave in the --

MS. CARA LOW: Yeah.

MS. KATHLEEN MCCANDLESS: -- background for now, and that was the estimates -- updated estimates for severity for total -- or repair and total loss and the collision frequencies for total loss and repair.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: And, Ms. Low, just a follow-up question. With respect to collision frequency, would the updated numbers include the past months or would they also be forecasted to the end of the year?

MS. CARA LOW: The monthly report is actuals to date and then refreshed forecasted numbers.

MS. KATHLEEN MCCANDLESS: Thank you. In the response to the undertaking there was mention of the $6 million, and that's Exhibit 101, the narrative below figure 1, I believe. Yes, thank you. The remaining $6 million being due to the related effects of increased severity and lower frequency.

Can you provide a bit more detail on what that includes?

(BRIEF PAUSE)

MS. CARA LOW: Sorry, I'm just trying to figure out where this 6 million is from.

(BRIEF PAUSE)

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

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So, Ms. Low, I think those are my questions for you. So, maybe while we're waiting for you to hear from your back row, I will move on to my final set of questions just going back to some of the staffing issues and, hopefully, that will make it more efficient.

So, could we please go to MPI Exhibit number 89.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. And so, we -- we reviewed this already. This is the total budget of two thousand two hundred and sixty-eight point six (2,268.6) full-time equivalents for 2023/'24 at line 11?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Steady state was two thousand one hundred and seventy-four point six (2,174.6) full-time equivalents.

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: And so, the excess staff are ninety-four (94)?

MR. MARK GIESBRECHT: Pardon me?

MS. KATHLEEN MCCANDLESS: Excess staff, or the difference, is ninety-four (94)?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Okay and then if we could please go to MPI Exhibit number 96, page 15. Thank you. And then line 6.

This shows the total full-time equivalent budget for 2023/'24 for normal operations, line 6?

MR. MARK GIESBRECHT: Yes.

MS. KATHLEEN MCCANDLESS: Where in this staff count does MPI account for bubble staff?

MR. MARK GIESBRECHT: The bubble staff would be in two (2) parts, mainly within -- there's the -- the improvement initiatives below, so there are bubble staff in there. Those are obviously for projects and -- and for, you know, periods of time but not for -- you know, for steady state or permanence.

We do have a few within the normal operations that we've been talking about, those roughly fifty (50). And part of that would be within IT and part of that would be within the operations group.

MS. KATHLEEN MCCANDLESS: And the

initiative staff that you mentioned are found at line 28 --

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: -- and that's sixty-seven (67) full-time equivalents.

MR. MARK GIESBRECHT: Correct.

MS. KATHLEEN MCCANDLESS: So, that's an increase of thirteen point seven (13.7) full-time equivalents from 2023?

MR. MARK GIESBRECHT: I believe so, subject to check.

MS. KATHLEEN MCCANDLESS: And where in this head count budget are the -- the thirty-seven (37) then NOVA full-time equivalents, if we're taking roughly fifty (50) for NOVA and subtracting the thirteen (13)?

MR. MARK GIESBRECHT: Sorry, could you repeat that?

MS. KATHLEEN MCCANDLESS: Where in this head count budget are the thirty-seven (37) NOVA full-time equivalents? So, that -- I'm taking that number by taking your fifty (50), roughly, and subtracting the thirteen point seven (13.7) increase.

MR. MARK GIESBRECHT: So, the -- the fifty (50) I was referencing are contained within the normal operations, so they're completely excluded from the initiative number.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: So it's sixty-three (63) of the two-eighty-three (283) would account for --

MR. MARK GIESBRECHT: Yes. If you -- if you -- all in, including the initiatives, and then the ones that are comprised or made up in the normal operations. Yes. If that makes sense. Yeah.

There -- there may be -- again, within initiatives, there are other components. But it's -- the vast majority would be NOVA. So just broadly speaking, yes.

MS. KATHLEEN MCCANDLESS: And to what extent are the full-time equivalent counts in digital transformation and -- and IT supporting NOVA?

MR. MARK GIESBRECHT: Within digital transformation, subject to check, I believe we identified about five (5), I believe it was, within the normal operations budget that would be enabling and supporting NOVA.

MS. KATHLEEN MCCANDLESS: And looking

at this budget, can you indicate what is considered a steady state for IT?

MR. MARK GIESBRECHT: Yes. I'm just trying to recall that. I know we had that -- those numbers in one of our responses.

Let me pull that up. One (1) minute. Can you go back to the -- that undertaking? I believe we have it by division there, which we can glean that number.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: Okay. So I have the figures here. For the IT division, to -- to remove the total accounts back to steady state, we'd be removing fifty-seven (57) in '23/'24; fifty-seven (57) in '24/'25; and then thirty-seven (37) in '25/'26. Relative to the counts that are already in the divisional amounts in the -- the base case.

And these are the normal operations. So this would not be the staff that are included in the initiatives, which would naturally roll off at completion of the program. So these are the amounts as it pertains to our -- our two eighty-three (283) that we've been talking about.

MS. KATHLEEN MCCANDLESS: So does that include information technology or information technology and digital transformation?

MR. MARK GIESBRECHT: No, digital transformation would have a -- a few additional amounts. That's approximately seventeen (17) throughout the three (3) years.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: All right. And then, looking forward to MPI 2.0, is there digital transformation staff remaining in order to deliver on MPI 2.0?

MR. MARK GIESBRECHT: There would be ongoing staff that would be, I would say, MPI 2.0 and beyond, as we build in our different business process management, lean portfolio management, these are ongoing practices that are not just getting to MPI 2.0. But are, what we would consider, steady state going forward.

MS. KATHLEEN MCCANDLESS: Thank you. So those are all my questions.

Ms. Low, I don't know if you've got responses from your back row yet?

MS. CARA LOW: I'm being told it's a net impact with severity and frequency.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: All right. Thank you. I don't believe any -- I have any further questions for you, Ms. Low. But perhaps, with the indulgence of the panel, if something does pop up, I would ask for the opportunity to just ask one or two follow-ups. Thank you.

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

DR. BYRON WILLIAMS: Yeah. Madam Chair, if I might, I estimate about an hour of joyful going through financial information.

So my recommendation might be that you -- if you want a coffee break, or a leg stretch break now and then I'll take you through -- if -- if that's --

THE PANEL CHAIRPERSON: Sure. That's a good idea. We'll break now until quarter after 10:00. Thank you. Sorry, twenty after 10:00.

--- Upon recessing at 10:05 a.m.

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

MR. ANTHONY GUERRA: I don't have anything to read into the record, but I do have one (1) document that we will -- that came out from the cross-examination with Ms. McCandless this morning that we'll be filing as an exhibit later on today. So I'll just let the parties know that.

And then, I believe, there's a correction on the record that Ms. Low would like to make.

(BRIEF PAUSE)

THE PANEL CHAIRPERSON: Thank you. Sorry for the delay. Mr. Guerra, I understand you have a couple of issues.

MR. ANTHONY GUERRA: Yes, Madam Chair. Just a few housekeeping issues.

So first off, it looks like my good friend at the Consumers Association of Canada counsel has informed me that there may be a need for MPI to update its response to undertaking 10. So we may see an updated filing on that in the near future.

I can also indicate that we will be

filing, as a separate exhibit, the updated collision forecast, I believe it's to July if not longer than that, as a separate exhibit. That was in response to some questions asked by Ms. McCandless this morning.

And then, finally, I believe, Ms. Low would like to make a correction or add some additional evidence to the record in terms of the imply return on equity from the current PfAD amounts.

So Ms. Low, if you'd like to speak to that now, please.

MS. CARA LOW: So the question was if you take the current claims PfAD and we map it to what the imply return on equity would be. I had said 17 percent.

That was a preliminary number. The actual number is 14 percent return on equity for short-tail lines and 24 percent for long-tail lines.

THE PANEL CHAIRPERSON: Thank you, Ms. Low.

Mr. Williams...?

CROSS-EXAMINATION BY MR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Good morning and thank you for this opportunity. Mr. Giesbrecht, I believe most of my questions are for you, but you can call on your team at any time.

If we can start with MPI Exhibit 115. And Mr. Giesbrecht, this is not a finance thing. It's a very high level benchmarking question, so.

MPI Exhibit 115, please. I believe this might have been an undertaking to a Board member.

But, Mr. Giesbrecht, you -- you see the request was for MPI to provide the nine (9) IT domains employed by Gartner Group for its peer analysis; agreed?

MR. MARK GIESBRECHT: I see that, yes.

DR. BYRON WILLIAMS: And if we can just scroll down to the response. If someone's looking for it, those nine (9) areas would be strategy and execution, being number 1; applications; data and analytics; number 4, enterprise architecture and technology -- keep scrolling, please.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: I've lost, Ms. Schubert. Thank you. She's back and she's invaluable.

Number 5, being infrastructure and operations; 6, security and risk management; program and portfolio management; sourcing and procurement; and vendor management, sir?

MR. MARK GIESBRECHT: Yes, I see that.

DR. BYRON WILLIAMS: A bit of a compound question, but we're just trying to move through it.

Let's go to MPI-110, where the Public Utilities -- Exhibit 110, where the Public Utilities Board has already had you there, but I'll try to -- to not trench upon where they have been.

Mr. Giesbrecht, I want to direct your attention -- first of all, what this figure is depicting is normal operations full-time equivalents by division, running out from the 2020/'21 actuals to the 2023/'24 budget. Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And if we can go right to line 10, the bottom line, the normal ops FTE in the 2020/'21 actual was one-thousand-seven-hundred-and-sixty-six-point-seven (1,766.7), sir?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And it's -- for the purposes of the 2023/'24 budget, it's grown to two-thousand-two-hundred-and-eighty-one-point-one (2,281.1), sir?

MR. MARK GIESBRECHT: Yes. And just to clarify, I believe the actual figures would be actual filled, not budgeted. So there -- there's naturally a difference based on vacancy. So part of that would play into that.

DR. BYRON WILLIAMS: Fair enough. So then, let's back up for a second then.

For 2022/'23 for budget it was one-thousand-nine-hundred-ninety-five-point-three (9,995.3), correct?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And that grew by one-hundred-and-eighty (180) to two-hundred and -- two-thousand-two-hundred-and-eighty-one-point-one.

MR. MARK GIESBRECHT: The one-eighty (180) is the difference between the '22/'23 budget and the 2021/'22 actual.

DR. BYRON WILLIAMS: Fair enough. So if we looked at the growth between 2022/'23 budget and 2023/'24 budget, it would be in the range of two-hundred-and-ninety-three (293). That's the -- agreed?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: Mr. Giesbrecht, if we could just go down to figure 2 on this -- this page, and you don't need to write these down, but you might want to because I'm going to come back to some of these figures a bit later.

This sets out total corporate FTE by division, again, from the actuals in 2021 through the '23/'24 budget. Correct?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And if I'm looking at line 5, finance for the '23/'24 year, that's one-hundred-and sixty-three (163); agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And if -- if one was looking at line 8, operations for the '23/'24 budget year, that would be one-three-six-four (1,364).

Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And total Corporate FTEs, on line 10, for the '23/'24 year would be two-thousand-three-hundred-and forty-eight point 1 (234.1).

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And you've written those down, so if we come back to them we'll be...

MR. MARK GIESBRECHT: I'll write them down.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Thank you, Mr. Giesbrecht, for your cooperation.

If we can go to -- just give me one (1) second. If we can go to MPI Exhibit 97, please, figure 1.

Mr. Giesbrecht, this figure compares normal operation expenses over a two (2) year period compared to the Consumer Price Index. Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And so, lines 1 through 3 look at the growth in normal operating expenses, starting from a '21/'22 actual if they would have tracked the inflation rate for that period of time, sir.

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And -- and you'll see, on line 3, the CPI changed year over year, '21/'22 to '22/'23 was 7.4 percent. Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And year over year, the CPI changed for '22/'23 to '23/'24 was 8 percent; correct?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And stopping -- starting from that base for normal operations of three-hundred-and -- three-hundred-and-one point three (301.3) million under '21/'22 for the actuals. Agreed?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And tracking CPI, MPI would have -- for the '23/'24 year, expected that number to be about three hundred and forty-nine point six (349.6) million. Agreed? On the extreme right-hand col --

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: Yes, okay. And what lines 4 through 7 set out, sir, are the -- the actual changes from the '21/'22 actuals to the '23/'24 budget for Manitoba Public Insurance. Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And there, it's starting from the same base, which is three hundred and one point four million (301.4) in '21/'22. Correct?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And it's growing by about sixty-seven million (67) to the '23/'24 budget of three hundred and sixty-eight point seven million (368.7) million. Correct?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And, focusing on the change year -- if we go -- there may be a mislabeling exercise. If we go to line 4 and we go across to the second lost -- last column, is that intending to depict the change from '22/'23 to '23/'24?

MR. MARK GIESBRECHT: I believe you're correct. I believe that should be '22/'23 to '23/'24.

DR. BYRON WILLIAMS: So we'll make a verbal correction to that.

And what -- what that is telling us is that, when we look at the '22/'23 budget of three hundred and twenty-four point 7 million ($324.7) as compared to the '23/'24 budget of three hundred and sixty-eight point 7 million ($368.7) for normal operations, it grew by some forty-four ($44) million year over year.

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And that's about a 13.56 percent change percentage wise. Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And, as compared to CPI, it would be about 5.56 percent for the same time period, sir?

MR. MARK GIESBRECHT: Correct.

MR. BYRON WILLIAMS: And, in terms of the difference between a -- a CPI result being three hundred and forty-nine point six (349.6) million versus the 2023/'24 budget result of three hundred and sixty-eight point seven (368.7) million, that's about a nineteen ($19) million difference, sir?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: Thank you. If we can go to MPI Exhibit 96, line 3, Mr. Giesbrecht, and you did go over -- or sorry, figure 1, excuse me.

MPI Exhibit 96, figure 1. And Mr. Giesbrecht, you'll recall going over this with my learned friend counsel for the Public Utilities Board and you discussed changes in -- in road safety and operation expenses. Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And again, we're looking -- when we're looking at this table, it's an expense comparison between the 2023 General Rate Application and the update, and it's looking at the average of the rating years. Agreed, sir?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And the line that

I -- I want to draw to your attention, sir, actually relates to claims expenses and it would be correct to suggest, sir, that between the General Rate Application and the rate update, claims expenses are actually declining by about 3.7 percent.

Is that right, sir?

MR. MARK GIESBRECHT: Yes, there's a -- an allocation factor that will change, based on the initial filing that was using a preliminary figure.

The updated file uses more year end and final figures into that rolling average that goes into that. So there was a -- that's an allocation adjustment. And so, really, you want to look at the sum of the different components, not necessarily one in isolation, but it's based on how things are allocated across the lines.

DR. BYRON WILLIAMS: Okay. Thank you. And if we can go to figure 15 of this same document, being MPI Exhibit 96, that should be right towards the end, Ms. Schubert.

And, Mr. Giesbrecht, this is looking at the normal operations staffing estimates over the course of various General Rate Application budgets. Agreed?

MR. MARK GIESBRECHT: Yes, agreed.

DR. BYRON WILLIAMS: And, if we turn to line 5 of this document or this figure, relate -- relating to the 2023/'24 forecast, we'll see -- and, Ms. Schubert, go over to the fifth column under the '22 General Rate Application budget, please. And down to line 5 so that...

Mr. Giesbrecht, at the General Rate Application last year, for the '23/'24 year, the expectation was that normal operating staffing would be one thousand eight hundred and sixty-eight point eight (1,868.8). Is that correct, sir?

MR. MARK GIESBRECHT: Yes, at that point in time, that was the number provided.

DR. BYRON WILLIAMS: And for the -- moving over two (2) columns to the right, based upon Exhibit 50 and the October Update Budget, it's two thousand two hundred and eight-one point one (2,281.1).

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: About a four hundred and twelve (412) FTE difference, sir.

MR. MARK GIESBRECHT: From the 2022, yes.

DR. BYRON WILLIAMS: Subject to check, about an 18 percent difference in estimates in sixteen

(16) months?

MR. MARK GIESBRECHT: Sounds reasonable, yes.

DR. BYRON WILLIAMS: Mr. Giesbrecht, are you familiar with the term 'guardrail'?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: Okay. And, if you don't like my definition, you know, substitute your own, but would you accept a definition of 'guardrail' as a strong fence at the side of a road, or in the middle of an expressway, intended to reduce risk?

MR. MARK GIESBRECHT: I would accept that.

DR. BYRON WILLIAMS: Okay. I wonder if, Ms. Schubert, we can turn to Exhibit MPI-86, Appendix 2, slide 1. And that's PDF page 22 and you are a miracle worker.

And, Mr. Giesbrecht, at a really high level, you'll recall that a couple of weeks ago I asked for some of the guidelines and indicators that guided the budget deliberations of Manitoba Public Insurance over the last two -- the last two (2) years. Agreed?

MR. MARK GIESBRECHT: Agreed. Yeah.

DR. BYRON WILLIAMS: And this is one of the appendices that is -- that you kindly provided in -- in your three hundred and twenty-five (325) page document. Would that be fair?

MR. MARK GIESBRECHT: Yes, it is.

DR. BYRON WILLIAMS: Okay. And, what we're looking at is from August of 2020, a -- a presentation to the budget review committee, is that correct, sir?

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And, at slide 3, of this document, so a couple over, I want to point your attention to the guiding question, number 2, Mr. Giesbrecht, because what MPI was telling its -- its staff was come to speak about today, but also come to speak about what is needed for tomorrow to transform the business. Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And if we go to slide 8, of this same document, you'll see another guiding question is: How will the requested new roles support the journey to MPI 2000? Agreed, sir?

MR. MARK GIESBRECHT: I see that. Yes.

DR. BYRON WILLIAMS: So, that was part of the budget discourse in 2021. Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And it was also part of the budget discourse in 2022. Correct.

MR. MARK GIESBRECHT: Yes.

MR. ANTHONY GUERRA: Just to confirm, for the record, it would be MPI 2.0.

DR. BYRON WILLIAMS: Oh, what did I say?

MR. ANTHONY GUERRA: Two thousand (2,000).

DR. BYRON WILLIAMS: Oh.

MR. ANTHONY GUERRA: Okay, just making sure the record is consistent.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: At least I didn't call it NOVA 2000 but -- or MPI 1.5 either, but thank you for the correction. I appreciate it.

Mr. Giesbrecht, it seems so long ago, but if you turn your mind back to the very first day of the hearing, you'll recall PUB counsel was trying to -- to pin down your Chief Executive Officer in terms of what MPI 2.0. was.

Do you recall, at a high level, that conversation?

MR. MARK GIESBRECHT: I recall some of that.

DR. BYRON WILLIAMS: Yeah. And I can give you the references if you -- if you need them, but if -- if -- if not, I'll ask you to recall that he described it as being aspirational in nature, a strategic direction. We have not defined all the elements of it. Do you, generally, recall that?

MR. MARK GIESBRECHT: I believe that sounds correct. Yes.

DR. BYRON WILLIAMS: And, again, you'll agree with that?

MR. MARK GIESBRECHT: I would. Yeah.

DR. BYRON WILLIAMS: Mr. Giesbrecht, if we can still move back in this document, back to page slide 5. So this would be Appendix 2, slide 5, just back three (3) pages.

Again, we're looking at the -- if I direct your -- we're looking at operating expenses and the corporate expense budget request versus target for -- again, from the 20 -- August of 2021, looking at three (3) separate years, '22/'23 out to '24/'25? Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And, directing

your attention down to Corporate requested budget with normal op changes and, then, over two (2) columns to the '23/'24 year, back then, you were contemplating normal op for '23/'24 of three hundred and forty-two point six million (342.6) , sir?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And, if you'll accept, subject to check, what the Cor -- Corporation is currently budgeting for is about three hundred and sixty-eight point seven million (368.7) for normal ops and the cite for that is MPI Exhibit 97?

MR. MARK GIESBRECHT: Subject to check, yes.

DR. BYRON WILLIAMS: If we could turn to Appendix 3, which, I think, might be pdf page 37, Ms. Schubert.

And, Mr. Giesbrecht, this is the Budget Review Committee presentation of the Operations Division back, again, in August, being 2021? Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And, if we can go to slide 9. And if we look at what Operations was forecasting, going to Operation Division V-1 Budget, for the '22/'23 years versus the '24/'25 years, they were basically suggesting flat full-time equivalents.

Mr. Giesbrecht, would that be right?

MR. MARK GIESBRECHT: At that point in time. Yes.

DR. BYRON WILLIAMS: And I -- I can take you to a reference in this document if -- if you like but, at that point in time, Operations was also expecting claims volumes to return to nor -- normal levels? Would that be fair?

MR. MARK GIESBRECHT: I think they were expecting that, at some point, they would return to normal, yes.

DR. BYRON WILLIAMS: Okay. And, if we can go to slide 17 of this same document, and this is for estimating, Mr. -- Mr. Giesbrecht, estimating ops province-wide? Do you see that, sir?

MR. MARK GIESBRECHT: I do.

DR. BYRON WILLIAMS: And what they're, in essence, doing is looking at setting out their estimates of their capacity needs for various years, including the 2018/'19 year through the 2022/'23 year?

MR. MARK GIESBRECHT: Fair.

DR. BYRON WILLIAMS: And if we were looking for the estimate for '22/'23, that would be the -- the dark blue line, that starts around 70 in August and extends out to around 60 in -- in July?

MR. MARK GIESBRECHT: I see that. Yes.

DR. BYRON WILLIAMS: So, that's reflective of kind of the flat estimates in terms of (INDISCERNIBLE)?

MR. MARK GIESBRECHT: Right. So, it would be one input into that overall ops at that point and that makes sense. Yes.

DR. BYRON WILLIAMS: If we can go to SRE -- sorry, the same exhibit, MPI Exhibit 86, Appendix 9, page -- pdf page 169, Ms. Schubert.

And, sir, this is the Budget Review Committee presentation of the commercial line? Yeah?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And just more for housekeeping than -- than other purposes, in this year, SRE, this year being the 2021 year, SRE is -- is putting in its Budget Review Committee presentation as on a stand-alone basis?

MR. MARK GIESBRECHT: It's its own directorate. So, it -- it typically would be -- that's a component of -- of a division and rolling out to the (INDISCERNIBLE).

DR. BYRON WILLIAMS: If I -- if I tried to find SRE in the 2022 budget estimates, would

I find that rolled up into Operations?

DR. BYRON WILLIAMS: Yes, you would.

DR. BYRON WILLIAMS: So, there wouldn't be a stand-alone SRE budget analogous to this for the 2022 year.

MR. MARK GIESBRECHT: So --

DR. BYRON WILLIAMS: So it would have been presented. It's not in these materials anyways.

MR. MARK GIESBRECHT: Yeah. I'm just trying to think what was all provided but there would -- there should be reference to -- to SRE.

I should note -- note, at this period of time, SRE previously had been part of the Actuarial Division. In 2021, it did move to Operations. So, there is one shift, if you're looking between divisions.

DR. BYRON WILLIAMS: Fair enough. Thank you.

MR. MARK GIESBRECHT: But, it's -- it operates as its own directorate and -- and team that leads that business line.

DR. BYRON WILLIAMS: Okay, and, if we think of SRE conceptually, it's really a competitive line of business. Agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: It's not the statutory Basic monopoly. Correct.

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And it's also distinct from the Extension market dominance. Like, SRE is really out there, fighting for -- fighting for market share?

MR. MARK GIESBRECHT: Much more so than -- than Autopac, yes

DR. BYRON WILLIAMS: And by 'Autopac', you mean both Basic and Extension?

MR. MARK GIESBRECHT: I do. Now, that said, Extension -- there are -- there is competition for Extension and there actually has been recent products enter the market to compete with Extension. So, not to say that Extension doesn't have competition as well, to a lesser degree, I would say, than SRE.

DR. BYRON WILLIAMS: And, by "a lesser degree," you'll accept that, for many years, Extension has had over 90 percent of the Manitoba marketplace?

MR. MARK GIESBRECHT: Subject to check. I know I've heard that figure. I don't have a specific -- complete market analysis to validate that but I believe that's a figure that has been accepted.

DR. BYRON WILLIAMS: Thank you. So,

if -- if we can just turn to slide 11 of this presentation. Went back -- yeah, just go back a couple, one more.

And under 'Current State of Operations', which is the second bullet, you will see the first kind of indent under that, a suggestion that there are some issues at that point in time, in terms of operational capacity and efficiency, flowing both from COVID, as well as work from home. Is that correct, sir?

MR. MARK GIESBRECHT: Yes. The SRE line of business does have some manual and some paper-based processes that weren't easily moved to an on-line or to a work from home scenario so that did cause some strain, definitely on this segment.

DR. BYRON WILLIAMS: Okay. And we don't need to spend a lot of time but, Ms. Schubert, can you just scroll to the next slide for a second.

Mr. Giesbrecht, you'll recall that, throughout this hearing, I've been a desperate search for key performance indicators on the record? We've been looking for --

MR. MARK GIESBRECHT: You questioned that topic. I'm not sure how desperate you were but you did question.

DR. BYRON WILLIAMS: Perhaps I wasn't that desperate. And you re -- you do recall me asking for an itemization.

Is there one (1) consolidated itemization of some of the key performance indicators, and you indicated that there was not. Fair enough?

MR. MARK GIESBRECHT: Right. There are numerous places with different data points and different metrics across the application.

DR. BYRON WILLIAMS: And, without going into burdensome detail, this would be an indication of a -- a KPI that's special risk Extension looks at. KPI being 'key performance indicator', this slide?

MR. MARK GIESBRECHT: Yes. This is one but I wouldn't expect you'd see this in a Basic application but this is an example of a KPI for this business line.

DR. BYRON WILLIAMS: And, sir, if I looked throughout this three hundred and twenty-five (325) page document, it -- it would really be difficult to find KPIs in that document, wouldn't it?

MR. MARK GIESBRECHT: Yeah. You're referencing the undertaking?

DR. BYRON WILLIAMS: Under -- Exhibit

86 undertaking 10?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: You'll accept, subject to check, that there'll will be less than five (5) slides with KPIs in this -- in this document?

MR. MARK GIESBRECHT: Subject to check.

DR. BYRON WILLIAMS: And three (3) of them are related to SRE?

MR. MARK GIESBRECHT: Subject to check.

DR. BYRON WILLIAMS: If we can go to Exhibit 86, Appendix 12, and this is -- I've given -- Mr. Giesbrecht, I've given you -- you, through your legal counsel, a heads-up on -- on this inquiry.

And this is the Budget Review Committee finance presentation of August 9th, 2022?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And we don't need to go through it, but you'll agree that this is a earlier -- earlier draft and not the actual document that was submitted as part of that presentation, correct?

MR. MARK GIESBRECHT: Yes, as you indicated, it appears that this was an early draft that was not complete. And we will undertake to make sure that the proper version --

DR. BYRON WILLIAMS: Thank you.

MR. MARK GIESBRECHT: -- is supplied.

DR. BYRON WILLIAMS: Thank you. And so, just to clarify the undertaking, with regard to the Budget Review Committee presentation for '23/'24 of finance, Manitoba Public Insurance will -- is undertaking to provide the -- the one provided in the August 9th presentation.

MR. ANTHONY GUERRA: Yes, Counsel, that's correct. And -- and what we're proposing to do is -- is not to recreate the entire undertaking, but just that specific document.

DR. BYRON WILLIAMS: Absolutely, yes, please.

MR. ANTHONY GUERRA: Thank you.

--- UNDERTAKING NO. 43: With regard to the Budget Review Committee presentation for '23/'24 of finance, Manitoba Public Insurance will provide the one provided in the August 9th presentation.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Now, I want to leave the 2021 year, Mr. Giesbrecht and go to 2022. So, if we could go to Exhibit 86, Appendix 1, slide 1, which should be PDF page around 10.

And, Mr. Giesbrecht, this is the budget -- budget kickoff '23/'24 presentation by the Finance Department to the Executive Committee from June 14th, 2022, sir.

MR. MARK GIESBRECHT: That's correct.

DR. BYRON WILLIAMS: And if we could go to slide 6 of this document, sir. Ms. Schubert, please.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Directing your attention to the first bullet under 'budget targets', what MPI is indicating here that -- is that it will be providing budget targets to the budget owners who will be -- which will be based on a high level target of 2022 budgets and management will be requested to stay within those guardrails. That's agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And the below this page relating to budget targets is a table, I'll suggest to you, Mr. Giesbrecht, and what it does is for the various Vice Presidents or VP Directorates, set out their -- the guardrails in terms of total operating expenses, as well as budget FTEs?

MR. MARK GIESBRECHT: Yes, based on the prior budget levels.

DR. BYRON WILLIAMS: And just -- so if we just to work our way through that, if we took the CFO VP Finance, which is about the 4th -- 5th row down, the budget total for Op ex, the middle column, would be about $92 million, sir?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And that's with one hundred and forty-nine (149) full-time equivalents?

MR. MARK GIESBRECHT: That's right.

DR. BYRON WILLIAMS: And if we took the operations, going up to the third row, the Chief Operating Officer and the VP, their budget would be in the range of one -- $101.8 million, sir?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: And that's over

FT -- full-time equivalents of one thousand two hundred and sixty-two point two five (1,262.25).

MR. MARK GIESBRECHT: Correct.

DR. BYRON WILLIAMS: And subject to check, sir, if we summed the FTE column on the right-hand side, that would be -- you'll agree, subject to check, that that would total one thousand nine hundred and eighty-six point two (1,986.2)?

MR. MARK GIESBRECHT: Subject to check, yes.

DR. BYRON WILLIAMS: And, Mr. Giesbrecht, you can accept my figures or you can look to what you've written down, but if we took the VP Finance number on the -- of FTEs at one forty-nine (149), for the purposes of the -- this Application and its up -- update, that number would now be one hundred and sixty-three (163); agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And if we took the operations guardrail of one thousand two hundred and sixty point 25 (1,260.25), and took the current GRA application include -- inclusive of the update, that figure would be subject to check, one thousand three hundred and sixty-four (1,364).

MR. MARK GIESBRECHT: I believe so,

yes.

DR. BYRON WILLIAMS: And if we took the total full-time equivalent guardrail of one thousand nine hundred and eighty-six point 2 (1,986.2) and took it to the budget update, of course, sourced in MPI Exhibit 110, that figure would be two thousand three hundred and forty-eight point 1 (2,348.1)?

MR. MARK GIESBRECHT: Yes.

DR. BYRON WILLIAMS: Okay. Mr. Giesbrecht, going back to CFO VP Finance, if we took that $92 million figure and divided it by one hundred and forty-nine (149) full-time equivalents, would that yield six hundred and seventeen thousand seven hundred and sixteen point seven eight dollars ($617,716.78) per full-time --

MR. MARK GIESBRECHT: Subject to check, sounds -- I'll take your math on that one.

MR. MICHAEL GANDHI: Just something to add quickly in there. In the overall budget for the CFO, we also include benefits. We also include commission. Sorry, bank charges, et cetera. So, it's not just a full-time equivalent calculation that you can do simply on -- in terms of that piece.

DR. BYRON WILLIAMS: And if we looked at the budget, there'll be a lot of consulting fees rolled up into there as well?

MR. MARK GIESBRECHT: Across the Corporation, yes.

DR. BYRON WILLIAMS: Yeah, and in -- in finance, in particular?

MR. MARK GIESBRECHT: Finance, yes.

DR. BYRON WILLIAMS: Now, if we go to MPI Exhibit 114.

In terms of the consultants on board at MPI, as of October 28th, 2022, we're looking at seventy-seven (77) active consultants for IT, leaving aside NOVA, sir?

MR. MARK GIESBRECHT: I see that.

DR. BYRON WILLIAMS: So agreed?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And an additional forty-four (44) consultants related to NOVA, correct?

MR. MARK GIESBRECHT: Agreed.

DR. BYRON WILLIAMS: And just to clarify, because I was following your exchange with PUB counsel on Exhibit 96.

I think in that conversation you were suggesting that sixty-three (63) of the two hundred and eighty-three (283) staff of the -- of the new FTEs were NOVA associated. Sir, is that --

MR. MARK GIESBRECHT: Yeah, I was looking at the -- the change in the initiative component of FTE as long as -- as well as the -- the small component, which is now comprised within normal operations.

DR. BYRON WILLIAMS: So, Ms. Schubert, just going back to 117 for a second. Exhibit 117.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: And just to help our team out a little bit, Mr. Giesbrecht, if we're trying to make sense of the forty-44 (44) for NOVA on this page versus the sixty-three (63) that you discussed with Ms. Schubert, (sic) could you just help -- help us to make sure that we're -- explain that to us again.

MR. MARK GIESBRECHT: Yeah, I believe that these costs and these consultants you're seeing here would typically be expensed in what we call our external labour. So, these are not full-time equivalents necessarily but they're other costs through a consulting arrangement.

DR. BYRON WILLIAMS: Thank you. Madam Chair, those are my scheduled questions. I just wonder if we could stand down for a couple minutes just in case there's been other new exhibits that come in and it would take me like five (5) minutes just to check.

THE PANEL CHAIRPERSON: Certainly. Thank you.

(BRIEF PAUSE)

DR. BYRON WILLIAMS: Madam Chair, I think we're current up to Exhibit 118. So I'm -- I'll -- I'm prepared to conclude my cross on undertakings.

THE PANEL CHAIRPERSON: Thank you, Mr. Williams. Ms. Sokal...?

CROSS-EXAMINATION BY MS. JENNIFER SOKAL:

MS. JENNIFER SOKAL: Good morning. I don't expect to take more than a couple minutes of your time. My questions are for Mr. Giesbrecht.

Ms. Schubert, could you please pull up MPI Exhibit 76, figure 1, and MPI IR 22, figure 1.

(BRIEF PAUSE)

MS. JENNIFER SOKAL: Mr. Giesbrecht,

we've discussed the bottom image before, but the top image was from an undertaking.

You'd agree with me that these figures both demonstrate the anticipated commission benefits from Project Nova to MPI with the new re-baseline compared to the benefits that would have been realized under the old broker agreement?

MR. MARK GIESBRECHT: Yes, and the difference really being the timing of the deployment of the online solution.

MS. JENNIFER SOKAL: Perfect. So you anticipated my next question. So you discussed with My Friend for the Board that the Project Nova business case uses a forecast for fifteen (15) years, to the years 2033 to 2034?

MR. MARK GIESBRECHT: Yes, fifteen (15) years, correct.

MS. JENNIFER SOKAL: Could you please provide updated versions of both of these figures that would include a column for the 2033/2034 year?

MR. MARK GIESBRECHT: Yes, I believe that would be readily available.

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

--- UNDERTAKING NO. 44: MPI to provide updated versions of both of these figures that would include a column for the 2033/2034 year

CONTINUED BY MS. JENNIFER SOKAL:

MS. JENNIFER SOKAL: Thank you. And I did advise My Friend Mr. Guerra that I was going to be asking for these, so are you able to advise at this time what the total difference column would be for both of these figures with the revisions?

MR. MARK GIESBRECHT: To -- to add those years would take a bit more time. I don't have them right now, but it would not take long, I don't expect.

MS. JENNIFER SOKAL: Fair enough. In that case, would you agree with me that in both these figures, the benefits appear to be increasing year over year?

MR. MARK GIESBRECHT: Yes, really based on two (2) pieces. The first one is the anticipated premium, and as there's typical growth in premium, that would change this -- this figure.

And then the assumption of the online

transactions, that flatlines at forty (40). So once that forty (40) hits, then it -- then it's just based on premium growth and how that translates to -- to the commissions.

MS. JENNIFER SOKAL: Right. And you can see that in column 10 for both figures. The difference is $14.17 million?

MR. MARK GIESBRECHT: That's correct.

MS. JENNIFER SOKAL: And so it would be fair to assume that fig -- or that column 11 in both these figures will be around there or a little bit more than that?

MR. MARK GIESBRECHT: I would expect so, yes.

MS. JENNIFER SOKAL: So in that case, the total benefits of broker commissions in the NOVA business case compared to current rates could be anticipated to be about $96 million, up from that eighty-one point four five (81.45)?

MR. MARK GIESBRECHT: Yes.

MS. JENNIFER SOKAL: And in the case of the other figure, in the case of delayed commission differences on the launch of Project Nova -- or, sorry, of -- of release 3, we could anticipate that the total difference would be approximately $104.6

million?

MR. MARK GIESBRECHT: Subject to check, yes. And -- and in the business case, these would be present valued to current day, but these are the -- the dollar differences in those given years.

MS. JENNIFER SOKAL: Thank you. Those are my questions.

THE PANEL CHAIRPERSON: Thank you, Ms. Sokal.

Mr. Gabor...? Ms. Nemec...?

BOARD MEMBER NEMEC: I have just I think just two (2) questions. First question is just on the first page of MPI Exhibit 86, and just a little clarification, Mr. Giesbrecht. It says:

> "MPI based its budgeting for '22/'23 similar to '23/'24 planning -- budget planning process, except that it did not have a budgeting system introduced in 2022."

Can you explain what that means?

MR. MARK GIESBRECHT: Yeah. So this year is the first year we introduced a new system that would aggregate our budgets. It was based on spreadsheets in the past, and we now have introduced a system where there's, you know, automatic inputs that then have approvals that go up to the next level manager, director, or VP, but it's all on systems where there's no manual aggregation of the spreadsheets required any longer.

So it's been a bit of a learning curve for our staff as far as input and how to use the system, but it's much quicker in terms of consolidating all those different department and -- and divisional budgets.

BOARD MEMBER NEMEC: Thank you. And just my -- my other question -- I'm not sure how to ask it, but a lot of the -- the different information we see, there's normal operating costs, there's initiative costs. Some of those are expensed, some of those are capitalized, which makes it a little challenging to sometimes follow, to be quite -- to be frank.

But the question that I wanted to ask is that capitalization versus the expensing, and how does that get defined when you have consultants, you have FTEs, everyone's working on a different project? Like how has that been defined for individuals and how you track -- just tracking in between those two (2)?

MR. MARK GIESBRECHT: Well, so we would follow the -- you know, the standard in terms of the -- what -- what can be capitalized and what cannot be capitalized. So based on, you know, is there that -- that future economic benefit, you know, all the -- I believe it's IS 38 that will spell out the different criteria.

So where eligible, we will -- we'll capitalize. And so with the initiatives, what we have found is, moving to lean portfolio management and -- and having more Agile releases and a lot more cloud subscriptions, that we are seeing a bit of a trend of moving to -- to more direct expense.

So the timing will shift a little bit, but -- so it does have an impact in terms of how that flows into the financials.

BOARD MEMBER NEMEC: Can you give me just a little more specific example? For example, if you have a consultant working on release 1, how would you decide in that situation?

MR. MARK GIESBRECHT: Yeah.

BOARD MEMBER NEMEC: Like just something a little more substantial.

MR. MARK GIESBRECHT: It's primarily based on the stream of work. So we have a leadership stream that is really working across the entire project, and much of that is -- is expensed whereas all the other streams -- digital, P&C, the DVA stream -- all of the consultants direct on those streams are being capitalized.

BOARD MEMBER NEMEC: So that -- is that a decision in each stream as to -- and who makes that decision? Is that you and your --

MR. MARK GIESBRECHT: That's the finance group, yes.

BOARD MEMBER NEMEC: Okay, thank you.

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

BOARD MEMBER BOULTER: Hi, I'm -- I'm also looking at Exhibit 86, the very last sentence. You've got September 2022 completed BOD approvals and submission to Treasury Board Secretariat.

What's the status of that?

MR. MARK GIESBRECHT: Yes. So September 29th, the MPI audit committee and -- and board subsequent (sic) approved our '23/'24 budget. We have submitted our -- our figures and the requirements to our -- our minister, and we have scheduled a meeting with the Treasury Board in late November to present the MPI budget.

BOARD MEMBER BOULTER: Okay, thank you. And I'm a little confused as to where the DVL staff is lodge on all of this -- these incredible charts and everything.

Where are they -- are they all over the place or where are they?

MR. MARK GIESBRECHT: They are in I believe the legal and compliance. So they're -- we have our -- our deputy registrar who leads that group, and -- and that'll be a directorate to -- within the Corporation.

BOARD MEMBER BOULTER: And how many DVL staff actually are there?

MR. MARK GIESBRECHT: Just one (1) moment.

BOARD MEMBER BOULTER: Today.

(BRIEF PAUSE)

MR. MARK GIESBRECHT: We have a directorate for the DVA policy and registrar that has eighteen (18) dedicated staff. I'm just going to follow up with our back row about any others.

A lot of the DV activity is performed by staff that are servicing customers for both insurance and for DVA. So there's -- there are staff that are dedicated, and there are staff that will perform functions for both sets of -- of transactions for customers.

BOARD MEMBER BOULTER: Okay. I guess that sort of comes right back to my first question is: The eighteen (18), are they in policy or compliance or -- and then -- like how do you apportion what the workload is that you're going to be charging back to the government?

MR. MARK GIESBRECHT: Well, as far as the amounts charged back to government, essentially, we receive a -- a fixed amount that was set many, many years ago. That has not -- there -- there was a period of indexation, but that ceased about four (4) years ago.

So that number is set and not directly tied to actual costs that we bare, and that's what's led to a deficit for the DVA line.

BOARD MEMBER BOULTER: But how do you know there's a deficit if you're not tracking it specific to that?

MR. MARK GIESBRECHT: Well, we do through the -- our allocation process approved by this Panel. There are costs -- there are direct costs that are directly attributed to the DVA line of business.

And then there are the shared costs,

both within operations and within our support functions. And so through that methodology, we -- we assess how much does it cost to operate DVA, and that flows into the -- the financials which then leads to a comparison to the funding from government and then a -- a surplus or deficit which has historically been a deficit.

BOARD MEMBER BOULTER: I don't think I'm any less clouded on all that, but I -- I think I'll just --

MR. MARK GIESBRECHT: Well, maybe I'll try to clarify a little bit. Any direct costs related to DVA is, of course, assigned to the DVA line. Any costs where there's a shared portion, so, for example, within the service centres, you don't have a front office attendant who is only doing DVA functions versus insurance.

So, a portion of that -- and they're based on different factors, such as transactions based on our -- our different calls to the call centre and what types of -- of transactions they're looking for.

So, there are allocation factors for all of our shared services or -- or shared personnel to then be allocated to DVA.

And so, we had a -- about ten (10)

years ago, Deloitte assisted MPI in -- in building that model, and that model was tested, in my understanding, through this -- this GRA process in that year, and there hasn't been any material changes to it since that point in time.

BOARD MEMBER BOULTER: You mentioned before that new staff has been assigned to road tests; that's part of the numbers that are going up. Now, we all know COVID put a stop, a hold, on all the road tests and everything, but there's a certain amount that's fairly consistent year from year what the road tests are.

So, the catch-up, when do you think that's going to be done to deal with the backlog and when will you right size back to pre-COVID staffing levels?

MR. MARK GIESBRECHT: Yeah, there has been a significant demand, not only a backlog but just a ongoing demand for driver testing.

So, in this plan, the intention is to get from the -- for class 5 road tests, currently we are booking out about a hundred and fifty (150) days. And the intent -- and with the budget ask that we -- that we have, is to bring that to forty-five (45) days by March of next year.

BOARD MEMBER BOULTER: And is that the pre-COVID level, forty-five (45) days?

MR. MARK GIESBRECHT: I don't have that figure in -- I think that would be an improvement over the pre-COVID, as well, but the one fifty (150) definitely is -- is much worse than it had been pre-COVID.

BOARD MEMBER BOULTER: So, you're not anticipating right sizing that additional hiring that you've done for quite some time, until you get that under control?

MR. MARK GIESBRECHT: Yes. As of right now, that's what we anticipate as the new steady state, or the new requirement, for driver testing --

BOARD MEMBER BOULTER: Oh, okay.

MR. MARK GIESBRECHT: -- but that would be -- have to be assessed based on that demand on an ongoing basis.

BOARD MEMBER BOULTER: Thank you. And you've talked about the damage severity to vehicles going up.

Has there been a commensurate increase in damage to individuals and -- and long-term injuries to people, catastrophic even?

MR. MARK GIESBRECHT: Well, maybe I'll

start and let Ms. Low comment. You know, one (1) piece that is directly impacting that in terms of the indexation of -- of personal injury benefits, that's been a major change based on inflation and where that's going, so that -- that's -- that would be my comment there.

MS. CARA LOW: Inflation is hitting everywhere, so you've got the indexation on the PIPP benefits, which is a leg because it's a 2022 inflation that's going to be applied in 2023. For physical damage that's happening now, and that's to do with supply shortages. New cars are expensive, so that's driving up the claims cost right now on the physical damage.

BOARD MEMBER BOULTER: I'm talking now of injuries to people.

MS. CARA LOW: Yeah.

BOARD MEMBER BOULTER: Yeah. And so, I'm just wondering, a lot of your set amounts are imbedded in the actual Act.

MS. CARA LOW: That is true, yeah, so those ones cannot go up. But anything like prescriptions or any -- those type of costs are going up.

BOARD MEMBER BOULTER: No, I -- I

recognize that part. I'm -- I've read the Act, which is just a fun evening. But -- but in there -- in the Act itself there's limits on -- and maximums. For instance, a funeral is six thousand dollars ($6,000). And I think the maximum lifetime is 1 million. These are unchanged since -- some of them since 2004.

And if you -- and you guys are much better at the math stuff. If you figure a million bucks in 2004 is a lot less than a million bucks -- or today's million dollars is a lot less than then and that it's in the Act, it's harder to change, and considering inflation is going up even higher.

I'm -- I always am concerned and focussed on people. So, I'm concerned that while you're addressing the -- the tin game, are you talking about the people game too?

MS. CARA LOW: Well, we have the indexation on the weekly indemnity, and that, of course, is the biggest piece of our PIPP benefits. The caregiver benefits are also indexed. So, that's when someone needs a person to come into their home to help them do their personal care.

Medical benefits are not limited. So, if you're looking at, like, prescription costs, that kind of thing, that's not limited. But there are some limitations; you are correct.

BOARD MEMBER BOULTER: Well, those are -- those are things that were concerning me, was the limits and some of them being so outdated. And my -- my thought was -- might not -- it should be maybe in regulation or -- or somewhere other than in the Act, which makes it harder to amend.

So, those were concerning when you've been talking about the severity and about it going up. And I always look to what's happening to Manitobans, the people themselves. And -- and that was what was bothering me and I was concerned so I thought I'd express my concern. And that's it. That's all I got.

THE PANEL CHAIRPERSON: Mr. Gabor...?.

BOARD CHAIR GABOR: Mr. Giesbrecht, I've -- I've just got a short question that sort of follows up on Ms. Boulter.

If I go to the service centre and I want to renew my driver's licence and, at the same time, I want to get rental car insurance. That person is performing two (2) different functions.

Is there -- is there some sort of allocation to deviate for one (1) of them and somebody to the line of business on another?

MR. MARK GIESBRECHT: Well, it

wouldn't be that granular, like, to that specific transaction, that visit. You know, it's based on more the -- the high level, what are the -- in aggregate, what are the -- the different drivers and the different inputs that go into that.

So, the -- you might have recall the -- we call it the WCCR, W-C-C-R, the waited call centre. It's -- so that is one (1) of the key inputs in terms of the -- the types of transactions that customers are looking for.

So, there are a number of -- of allocation factors, but it wouldn't get to that level of granularity in terms of a specific visit with a customer who had two (2) -- as you described it.

BOARD CHAIR GABOR: So, it's just sort of a best guess overall in terms of the -- of the service centre?

MR. MARK GIESBRECHT: Yes.

BOARD CHAIR GABOR: Okay. If I take the different scenario and I go to an agent and I go to the agent to renew my driver's licence and I go to the agent at the same time to get rental car insurance and the agent performs both, how does the commission break down?

Is there -- is there a commission on

the -- the driver's licence portion separate from -- from on the rental car insurance?

MR. MARK GIESBRECHT: Yes.

BOARD CHAIR GABOR: Okay. And in terms of the portion of the commission for the driver's licence portion, how does that show up?

Does that show up just simply as a commission to brokers or is that somehow distinguished for the -- the DVA so that you can get an actual estim -- actual number --

MR. MARK GIESBRECHT: The commission would be on a much more granular basis because it actually bills out, you know, commercial transaction that requires payment to a third party. So, those would be very -- based on the specific transactions.

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

MR. ANTHONY GUERRA: Thank you, Madam Chair. Just a couple of quick questions.

RE-DIRECT EXAMINATION BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Mr. Giesbrecht, you recall a line of questioning from my learned friend from the Consumers' Association of Canada regarding some of the key performance indicators that we saw having to do with the SRE, or special risk Extension line of business?

MR. MARK GIESBRECHT: I do.

MR. ANTHONY GUERRA: And do you recall the specific point that my learned friend had made in terms of, within that presentation that we saw, there may have only been three (3) or five (5) different KPIs available and most of them being specifically to this special risk Extension line of business?

MR. MARK GIESBRECHT: I do.

MR. ANTHONY GUERRA: You'll agree that that there are KPIs, or key performance indicators, that pertained to other lines of business other than just the special risk Extension line of business, correct?

MR. MARK GIESBRECHT: Yes, there are many.

MR. ANTHONY GUERRA: Would those include KPIs pertaining to the Basic line of business?

MR. MARK GIESBRECHT: Yes.

MR. ANTHONY GUERRA: And I appreciate that you may not have a specific number at the tip of your fingers, but, would you be able to help the panel understand how many different KPIs MPI measures for its Basic line of business?

MR. MARK GIESBRECHT: Yeah, I couldn't have an actual number off the top of my head, but there would be dozens and dozens if not hundreds really across the Corporation depending on how granular that you get.

You know, we look at -- the starting point would be the high-level corporate figures; then you have divisional, directorate, you know, physical damage, you know, customer service levels, so there are -- there are many, many, many KPIs across the Corporation.

MR. ANTHONY GUERRA: Thank you.

MR. MARK GIESBRECHT: And I should also elaborate. In terms of the -- the need to address our current customer service levels, there are a number there, but, you know, the -- the key ones are around driver testing wait times, call centre, both in terms of dropped calls and picking up calls within a certain threshold of -- of roughly two (2) minutes, also adjusting in estimation.

So, those are specific areas that we're focussing on to -- to move from a current state to the desired end state to be within acceptable customer service standards.

MR. ANTHONY GUERRA: Thank you very

much. I do have another question in regards to the questions asked by the panel in terms of the impact of inflation on PIPP benefits.

Ms. Low, you -- you mentioned the -- the term 'indexing'. And I'm just wondering if maybe it's beneficial for -- for you to get into a little bit more detail about what indexation is and what the process actually entails.

MS. CARA LOW: Indexation means it's tied to Manitoba CPI. So, if Manitoba CPI goes up by 5 percent, the limits go up by 5 percent.

So what's in legislation was old figures. Most of the limits do go up every year tied to Manitoba CPI.

MR. ANTHONY GUERRA: So when we talk about things like weekly indemnity, for example, what does that refer to? If I'm a -- if I'm an MPI customer receiving weekly indemnity, what is that product to me?

MS. CARA LOW: That's your replacement of your salary because you are unable to work because of the injuries. And so, on the anniversary of your claim you get a raise, per se, for inflation is maxed out at a certain percentage, and that maximum amount does go up. So, if you're a high wage earner, you do get maxed out at that point.

MR. ANTHONY GUERRA: So, in terms of the concerns with -- with inflation rising, should -- should recipients of PIPP benefits be concerned that those benefits will not match inflation?

MS. CARA LOW: No. It's just that sometimes there's a lag to it, but they will get the benefit of inflation.

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

THE PANEL CHAIRPERSON: Thank you. It's 11:30 now. This afternoon I believe we have the Consumers Association witness. And at approximately what time were you intending that he would be here?

DR. BYRON WILLIAMS: They'll be ready to go at 1:00, certainly 1:15, in that range, but we'll be -- we'll be here practising at 12:30.

THE PANEL CHAIRPERSON: Thank you. We'll adjourn then until one o'clock.

--- Upon recessing at 11:32 a.m.

--- Upon resuming at 12:58 p.m.

THE PANEL CHAIRPERSON: Thank you. Good afternoon. Mr. Williams, before you start Mr.

Gabor has a question for MPI.

BOARD CHAIR GABOR: Yeah. I don't know if it's Mr. Scarfone or Mr. Guerra.

This morning, there was discussion -- my friend Ms. Boulter was talking about the time frame of MPI going to Treasury Board and with the budget going forward -- with its budget going forward with approval.

I just wonder if MPI -- and I don't need the answer right now and it could ask -- or else if counsel wants to put on the record -- if there's reference in the materials to PricewaterhouseCoopers' report.

And I wonder if you could advise if those reports were part of the material presented to Treasury Board.

MR. ANTHONY GUERRA: I don't have the answer for you at the moment, Mr. Gabor. I can certainly make those enquiries. We can do that by way of an undertaking, if you'd like.

BOARD CHAIR GABOR: That's fine.

MR. ANTHONY GUERRA: Sure.

BOARD CHAIR GABOR: That's fine.

MR. ANTHONY GUERRA: Thank you.

--- UNDERTAKING NO. 45: MPI to advise if PricewaterhouseCoopers reports were part of material presented to the Treasury Board

THE PANEL CHAIRPERSON: Thank you. Mr. Williams, would you introduce your witnesses, please.

DR. BYRON WILLIAMS: Yes, I'll happily introduce our witness who is Rajesh Sahasrabuddhe. And he's to my immediate right. And his back row, who's to his right, is Mr. Chris Schneider.

And perhaps Mr. Sahasrabuddhe can be affirmed.

THE PANEL CHAIRPERSON: Thank you.

CAC PANEL

RAJESH SAHASRABUDDHE, Affirmed

DR. BYRON WILLIAMS: And Madam Chair, we're at the -- we're seeking guidance from the Board. Mr. Sahasrabuddhe has not been pre-qualified in the spring. He was qualified last year and I'm advised that our friends from Manitoba Public Insurance, as well as from the insurance brokers, have no objections to his -- him being qualified.

I can indicate that, the same as last year, we're seeking to have him qualified as an expert qualified to give evidence on actuarial analysis with a particular focus on pricing, ratemaking, and risk related to automobile insurers generally.

So we seek guidance from the Board. I'm happy to walk through his qualifications. But alternatively, if the Board is prepared to accept him on those grounds, we could save us a little bit of time.

THE PANEL CHAIRPERSON: Thank you, Mr. Williams. The Board is certainly prepared to accept Mr. Sahasrabuddhe as an expert.

Mr. Scarfone...?

MR. STEVE SCARFONE: Absolutely. We consent and -- and we've indicated that in an email exchange. Yes.

THE PANEL CHAIRPERSON: Thank you.

EXAMINATION-IN-CHIEF BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: So Mr. Sahasrabuddhe, before you, you'll see on the screen Exhibit CAC-4. Do you see that, sir?

MR. RAJESH SAHASRABUDDHE: I do.

DR. BYRON WILLIAMS: And can -- can you confirm that the report on the screen in front of you titled 'Review of Rate Applications, submitted by Manitoba Public Insurance Actuarial Evidence' and dated October 7th, 202 -- sorry, 2022, was prepared by you with support from additional actuaries and actuarial analysts on your team?

MR. RAJESH SAHASRABUDDHE: Yes, it was. CAC-4 is not in front of me right now, but -- but I know what you're referring to.

DR. BYRON WILLIAMS: Excuse me and thank you for your -- for your precision when the -- when the lawyer is falling down on his job.

And in terms of -- I wonder if you can confirm that part of your engagement by CAC (Manitoba) involved the preparation and review of Information Requests, as well as responses to Information Requests submitted to CAC related to CAC-4, which is not in front of you.

MR. RAJESH SAHASRABUDDHE: Yes, I can confirm that that's the scope of our -- of our assignment.

DR. BYRON WILLIAMS: And, sir, in terms of your expert report, as well as the

Information responses, recognizing that they were attributed to by a number of members of your team, you'll confirm that it was prepared under your supervision, care, and control?

MR. RAJESH SAHASRABUDDHE: Yes, I do confirm that.

DR. BYRON WILLIAMS: And the opinions presented there draw on your professional and independent judgment, experience, and expertise.

Agreed?

MR. RAJESH SAHASRABUDDHE: Yes, they do.

DR. BYRON WILLIAMS: And can you confirm that in preparing this report and in appearing here today, that the terms of your engagement with CAC (Manitoba) make it clear that your duty is to assist the Public Utilities Board, and that this duty overrides any obligation to CAC (Manitoba)?

MR. RAJESH SAHASRABUDDHE: Yes, I can confirm that.

DR. BYRON WILLIAMS: On the screen before you now, I believe there's a PowerPoint presentation, which we're going to ask be marked as CAC-6. And I believe you have control of the screen.

MR. RAJESH SAHASRABUDDHE: I believe I

do as well.

--- EXHIBIT NO. CAC-6: PowerPoint Presentation

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Okay. I'm going to invite you to take over the show. I'll try to stay out of the way. From time to time, I might interrupt, but please lead us through your presentation.

MR. RAJESH SAHASRABUDDHE: Okay. Thank you, Mr. Williams. And again, my full name is Rajesh, but you can call me Raj. That's fine. That's a little bit easier. And -- and certainly, you don't always have to refer to me as Mr. Sahasrabuddhe. Some people would say that's my father, but -- but now, with these grey hairs, I guess that's me as well.

So, again, thank you for the time to -- time to present our findings of our review of the Manitoba Public Insurance 2023 General Rate Application.

The presentation that I'll review today is, essentially, a summary of the findings and our analysis that we conducted. And is intended to -- to convey to the Board the approach that we use and the approach that we're suggesting that Manitoba Public

Insurance adopt for -- for determining the claims incurred provision.

So our presentation is divided in -- and I'll just mention one (1) minor thing. For some reason, the -- what's on the screen displays slightly differently than the PDF that I had. I don't quite know why. It looks like it's a Microsoft issue.

For example, insurance was in lower case in the first slide, but it's in all upper case in the -- so I -- I hope I don't see some other little formatting errors like that. But I think -- or differences, I should say. But -- but they might be -- there might be slight differences in formatting. I think the content is the same.

So the presentation is divided into seven (7) sections that -- that we're going to review. And the first section is really an introduction to our practice and our firm.

I know that we reviewed this at a high level with you last year. But just -- just so you understand, the perspective that we bring to the review of the MPI GRA.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: Okay. And again, we want to thank both the -- the Board and the CAC for the opportunity to provide this evidence at this Hearing.

Our -- our actuarial consulting practice provides -- provides actuarial services to -- to various types of entities. And within Canada, we are focused on providing assistance in matters of rate regulation strictly to public stakeholders throughout the country. So we never work on -- on the insurer side.

We're -- we're proud now that we provide services in every single border, every single English-speaking border province, other than Prince Edward Island. So -- and Manitoba, last year, sort of completed our -- you know, completed that -- that circle for us. So again, we really thank you for the opportunity to participate in this Hearing.

As -- as Mr. Williams indicated and as I affirmed, our -- we've been retained by the Public Interest Law Centre on behalf of the Consumers Association of Canada. But our primary objective is to provide independent and non-partisan advice to -- to the Board. And that duty does, again, override any obligation we have to CAC.

DR. BYRON WILLIAMS: Before you leave this slide, Raj, in terms of public stakeholders, is -- is that limited to non-profit organizations like CAC (Manitoba) or is your definition broader than that?

MR. RAJESH SAHASRABUDDHE: Yeah. So the -- the definition is broader. For example, in -- in New Brunswick, we work for the Office of the Attorney General. In Nova Scotia and Newfoundland, we work directly for the regulator. In Ontario, we work directly for the regulator with FSRA. And in -- in Alberta, we work for a Board as well but there's -- there's several, sort of, competing regulatory interests in Alberta.

DR. BYRON WILLIAMS: And -- okay. Thank you.

MR. RAJESH SAHASRABUDDHE: Here's just a map so you can see the -- sort of, the breadth. One day, we'll -- we'll get to the areas of the country in grey. But -- but it might take a while.

I think it's -- I don't know that too many people live up there and I'm not sure how -- how much of an issue auto insurance is.

I did actually do a -- do some work for a client in Nunavut as well but not related to auto insurance. But we did do a small insurance program up there as well.

So we have a total team of five (5) members. Three (3) of us are, sort of, what I'll call, our senior team members. We're the -- there's -- there's three (3) qualified actuaries. Actually, there's a fourth qualified actuary as well, and I'll mention her in a second.

But Paula (phonetic), Chris, and myself are, sort of, the three (3) team leads in the Canadian regulatory practice.

We -- we really focus on this area. It's where Chris spends most of his time. I -- I certainly spend a large portion of my client work in this area. All three (3) of us are members of both the Casualty Actuarial Society and the Canadian Institute of Actuaries.

I serve on the Property and Casualty Insurance Pricing Committee of -- of the Canadian Institute of Actuaries, and -- and we also participate and do presentations at -- at meetings for the Canadian Institute -- sorry, Canadian Association of Insurance Regulators.

And Chris and I were actually just there in -- as we were discussing, in Vancouver last week providing a presentation to -- to that group about two (2) matters, you know, one (1) related to -- or the primary presentation was related to just regulating through the pandemic and how you -- how you look at that experience.

In addition to -- to the -- the three (3) of us, we have one (1) more senior also credentialed Canadian and US actuary on our team. She is -- she's I guess -- I guess I'll say she spends less of her time on Canadian work than the three (3) of us do, and principally supporting Alberta and British Columbia.

And then we have a junior analyst as well, but the nature of this work is such that it does require sort of more senior and more experienced resources. It's -- it's not the type of analyses that -- that is easily delegatible (sic) to more junior staff. So Chris, Paula and I tend -- tend to do the majority of the work, along with a dedicated analyst who can support us.

So, with that introduction, I'm going to turn really to the scope of our review and really summarize sort of at a high level our view of the GRA and where -- and our view of MPI's ratemaking approach.

So the -- the general concern that

we've expressed through the evidence that we submitted and the presentation that we'll review today really relates to the way that MPI develops the claims incurred provision, that -- that our view is that, given the importance of the provision and given the nature of actuarial work, that there should be more of a -- and I'll say not just the current nature of actuarial work, but the evolution of actuarial work and the evolution -- I'm sure you've heard the term 'data science', as everyone's heard that term.

But it's really just an evolution as to how different professions look at data, including the actuarial profession, and -- and really what it can -- what it -- what the -- what the field of data science and why it's evolved is that we have better computing power to run and -- and identify statistical -- appropriate statistical models.

So the work has become a lot more statistical because we have the ability for it -- to provide statistical analysis. And at our -- at a high level, our concern is that MPI is not sort of availing themselves of those tools to extract signal from -- from noise -- or, I'm sorry, extract the signal from the data and sort of take out the noise. And it tends to be much more of a judgment-based approach.

And given the materiality of the claim costs relative to the overall rate which I'll -- I'll review with you soon that -- that we really believe that this is an area where MPI would be better served in spending more time and resources in order to -- in order to improve the development -- the ratemaking development process.

However, we do recognize that at times that it is important to -- to employ statistical -- I'm sorry, actuarial judgment. But when that happens, it's -- it's just as important to describe the rationale and reasons for those deviations from -- from the modelling so that public stakeholders and regulators have confidence in the underlying approach to develop -- to -- to develop again the claims incurred provision.

Our focus today is going to be on the - - on the claims incurred provision. I know there has been some discussion about the statistical model, sometimes referred to as a generalized linear model. That -- the -- the GLM is really focussed on what we would call classification ratemaking. So it's not the overall rate level but how that rate level is distributed to different policyholders.

So we'll -- we'll talk about that a

little bit as well, but I just want to make sure that when we refer to linear models and statistical models, that that's not confused with the GLM that MPI has been promising to implement to -- to handle classification and offsets in -- in areas such as the Driver Safety Rating.

So what we're -- what we're going to do is we're -- again, we're going to focus on the implications of the models that we suggest and our recommended transition to those models for several coverages.

And we're going to use the term 'perils'. I'm not sure what term MPI uses, but, for example, within Comprehensive, we would say, you know, road damage is a peril, glass breakage is a peril, theft is a peril.

So if I use the term 'peril', that -- that's what I'm referring to. It's not -- it's sort of a -- some might -- some might use the word 'sub-coverage' or -- or potentially another term, but I'll -- I'll try to stay with the word 'peril' for the discussion today.

Okay. So why is this important? When -- when we think about the -- the GRA, so the original GRA, we believe the page count was just under thirty-four hundred (3,400) pages. And the claims incurred section of that General -- General Rate Application was only three hundred (300) pages. So it's less than -- you know, less than 10 percent of the overall GRA.

But if we look at where the expenditures are that make up the total rate that the ratepayer is going to pay, you'll see the vast majority of -- of the cost is within the claim costs bar. That's -- I'm -- I'm referring to the -- the left-hand side of the slide.

I'm sorry, Ms. Schubert, I meant to indicate when I advance the slides. Mr. Williams asked me to do that and -- and I forgot, so I'll try to do that going forward.

So again, this is on slide 8. You'll notice that the -- that the highest bar relates to the claim costs, and it's significantly higher than any other category of costs. And we believe that the amount of effort spent on determining those -- determining these costs should be proportional or in proportion to the -- to their materiality.

I'll say, you know, even just beyond the raw size of that graph, I'll mention that that's probably the area that requires the most analysis as compared to claim expenses which tend to be longer term, operating expenses which tend to be a -- a budgeted item, and those -- they would tend to vary in a much narrower band than claim costs.

And then within claim costs -- so now I'm referring to the -- to the right-hand side of slide 8. Within claim costs, we believe that the effort should be proportional to -- to the materiality of the -- of the coverage that's being reviewed.

And, you know, as -- as we say in our group in Philadelphia, the action is all in the collision coverage. So it's -- it's just critically important that MPI or the Board, that that coverage be -- be sort of reviewed as the most important item, and that's where the effort -- whether it's in rate regulation or it's in rate development, that's where we believe that the rate should be focussed.

The other coverages sort of fall off quite a bit from there, as you'll -- you'll notice from the chart, with comprehensive accident benefits and weekly indemnity being, you know, much smaller coverages, and then beyond that, a slightly -- a reduction in property damage, and then bodily injury is obviously, you know, not -- not at all material given -- given that we are in a PIPP environment in Manitoba.

DR. BYRON WILLIAMS: And just by "PIPP environment," you mean the Personal Injury Protection Plan?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

DR. BYRON WILLIAMS: And that would encompass, on the right-hand side of slide 8, accident benefits and weekly indemnity?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct. Yes.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: Okay. In -- in the next two (2) slides -- and, I'm sorry, I'm advancing to slide 9 now.

In the next two (2) slides, we -- we sort of summarize our reviews of the data and where we agreed or -- or did not agree with the models put forward by -- by MPI, or the estimate -- I should say the estimates put forward by MPI because they're not always -- they're -- they're not always models.

And when -- at times, the -- the checkmark indicates that we're not going to raise any -- any objections to -- to the estimates prepared by

MPI. That shouldn't be taken to mean that we agree with their modelling approach, but it should be interpreted as any differences that we have, we don't believe are material to -- to the development of premium. So, for example, if we had -- even if we had a 20 percent difference in the bodily injury estimate, it just doesn't matter because it's such a small coverage.

So, we -- we tried to just identify areas where we have material differences and -- and not spend too much time on areas where we have -- where we don't believe the difference is material.

We have a review process that -- and it's -- it's sort of the process that we're going to be recommending that MPI adopt, but it really begins with the visualization of the data, and then a -- and a comparison of the data to the models themselves. And that's sort of our first step in identifying where we believe that -- that there could be potential issues or concerns that we would have with the MPI projections.

DR. BYRON WILLIAMS: Just before you leave slide 9, you've used the word "material" or "materiality" a couple of times.

In your experience or practice, what

does or does not constitute a material difference between estimates?

MR. RAJESH SAHASRABUDDHE: Yes, thank you for the question, Dr. Williams. So, 'materiality' is a -- is a term that's only defined in -- in context.

And in this particular context where the ratepayer really doesn't have an option to buy insurance elsewhere, our threshold for materiality will be significantly lower because, for example, in other provinces, if we are reviewing a rate filing for -- for a particular insurer, let's just say, Intact, for example, and we think that Intact has -- has materially overstated rates, our -- our materiality standard may be higher because that -- that ratepayer could always leave Intact and go to Aviva, for example.

So, it might take a much larger -- a much larger difference to be considered material in that particular situation than it does here because, in -- in this particular case, even if it's a 5 percent difference at a average premium of approximately a thousand dollars, that's fifty dollars ($50) per -- per ratepayer.

And we would view that as material,

whereas, in another case where the consumer had a choice, we may not view a 5 percent difference as being material. So, that's the context in which we evaluate materiality.

DR. DARREN CHRISTLE: Dr. Williams, could you speak right into the microphone. Please, thank you.

DR. BYRON WILLIAMS: Is that an admonition or are you encouraging me to speak into the mic?

DR. DARREN CHRISTLE: We are encouraging you to speak right into the mic.

DR. BYRON WILLIAMS: My apologies to Ms. Warnock.

MR. RAJESH SAHASRABUDDHE: Okay. So, this slide includes all the coverages other than Comprehensive and so weekly indemnity, accident benefits, bodily injury, collision, and property damage.

And the next slide, advancing to slide 10 if I can -- okay. Slide 10 presents our summary findings for all the comprehensive coverages. And you'll note that the comprehensive coverage is divided into, let's see, one (1) -- I think it's thirteen (13) if -- if I'm counting -- I counted fairly quickly --

thirteen (13) different perils.

And, again, if we go back to that chart back on slide -- back on slide 8, we can sort of see, again, where's the relative work being put in. We're spending -- we're spending three (3) times as much effort -- or MPI's spending almost three (3) times as much effort modelling comprehensive than they are collision even though collision is a substantially larger coverage.

And -- and that -- that three 3X multiplier is -- is the difference between thirteen (13) perils and three (3) perils, roughly speaking. And I know there's some efficiencies, so I used three (3) instead of four (4).

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: Okay, before we -- before we review our concerns with individual perils and coverages, we'd like to just maybe at -- at a high level mention two (2) environmental changes that affect the data and -- and our view of the way MPI has -- has treated those -- those changes.

The first is the -- the CERP program.

And I'm not going to spend too much time on this mostly because we -- we are providing this as background. We don't really have an -- have an issue with the way MPI has treated it, but it is important because -- because both of these items affect the data that we reviewed and the models that -- that we present.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Could you just go back to slide 11 for just one second. I apologize for interrupting.

MR. RAJESH SAHASRABUDDHE: No.

DR. BYRON WILLIAMS: And on the left-hand side you mentioned the compulsory and Extension revision project on the -- on the right-hand side, I don't think you discussed that.

MR. RAJESH SAHASRABUDDHE: Yes. Thank you, Dr. Williams. So, yes, the -- the other adjustment that affects the data is obviously somewhat more uncertain, but it's the effect of more of a hybrid work from home -- I'm sorry, a hybrid environment which involves a significant percentage of the workforce working from home.

And, of course, when people work from

home, they don't -- they don't drive to the office; that takes vehicles off the road. And that should create fewer claims, as well.

And MPI estimates that that impact is -- or the effect -- or the -- the reduction in claims is approximately 5 percent. And we think that that's reasonable, though we do recognize that it's -- it's extremely difficult to understand exactly what that effect is going to be at this point in time.

I don't think -- different -- different places and different sort of occupations are going to have different rates at which they can work from home and -- and do work from home.

And -- and just in discussing with colleagues at work, we're not sure that that's reached equilibrium just yet, but we'll find out, but -- but certainly, it's -- it's unlikely that we're going to go back to pre-pandemic days of -- of in the office every day.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: Okay. So, the -- just advancing to slide number 13 at this point. I'm going to discuss the first coverage that we took issue with the estimates. And I'm going to take the opportunity to, because it's the first one and there's sort of a parallel presentation, spend a little bit more time on -- on the way we presented our findings. So, each of -- each of the other coverage and peril combinations that we'll review both follow a fairly similar format, and they will start with a slide that includes a table that results in the claims incurred provision.

That's the slide that you see on -- I'm sorry, that's the table that appears on the left side of slide 13.

On the right side of slide 13 you'll see a visualization of the -- of -- of the data and projections which is, essentially, just a plotting of that claims incurred -- the -- the claims incurred column that's in the -- in the left-hand table.

And you'll see some colour coding on -- on the -- the visualization of the claims incurred projection. And just to walk through that colour coding briefly, the dark blue points are what I'll call unaffected data points, so they are observations -- pre-pandemic data observations.

Then there are two (2) data -- two (2) data points that are in green. Those are data points that we believe were -- or I'm sorry, that are affected by the pandemic, so that's the 2021 year and '21/'22 year, to -- to varying degrees, but -- but certainly, the pandemic affected claims experience and -- and in -- in both of those -- in both of those -- both of those periods.

Then the -- then the -- the line sort of turns to a lighter blue, and the dots also turn to a lighter blue. And those are the projections that MPI's proposing in support of their claims incurred projection.

Within that string of blue points you'll notice that there are two (2) red points, and those are the two (2) -- the -- the two (2) years which flow forward into the '23/'24 -- '23/'24 rate provision.

So, we're -- we're really going to focus on the impact in those two (2) years because that's what affects the rates. The other data points are -- and other projection points are important, too. We actually -- or I'll say this. My personal view, I think the way MPI does the rate application is actually quite clever, how they combine the development of the rate and they've -- formal fiscal forecasting as well.

So, but it's just on the first part, just in -- in the development of the rate, it's only those two (2) data points that -- that really matter. So, we're going to focus on those two (2) data points as -- as we go through the present -- as I go through the presentation.

Following -- following this chart, we will -- I'll present the MPI model and what they're suggesting and then I'll also present our -- our model and our alternative model.

In this slide you'll notice that the -- before we start on -- on sort of the granularity, again, keeping in mind now, using the table at the left, each of the claims incurred projections is a combination of claim frequency. How many claims you have and claim severity, the average value of those claims.

And, we -- we acknowledge that this -- this is going -- going to be a recurring theme throughout the -- the perils that we review. That, generally speaking, severity will be increasing as costs increase.

But, similarly, you'll -- you'll hopefully see a theme that -- that claim frequency is decreasing. And there's lots of reasons for that, some of those reasons -- or many of those reasons have to do with improvements in safety technology and even road -- and -- and even better road safety.

And, we see this, not only in Manitoba, but -- but we see it across the country, that there are just fewer -- there are just fewer and fewer claims. And -- and I know at some point there's certainly the possibility if we have complete autonomous driving that there will be no claims.

That if you just sort of think about the, you know, where things are headed to -- to potentially having no claims, we're -- we're just on -- we're -- we're just sort of on the slow path there. But that's really what's driving the decreased -- the -- the decrease in frequency.

The other thing -- the -- the other aspect that I'd -- I'd just ask you to -- to understand is that when -- on -- on these charts when we plot the claims incurred, it's -- it's not -- it's not -- it's not always going to be apparent depending on the way the axis is labeled.

But we plot these as, what we call a log linear scale, which means that percentage movements appear as a straight line. In a straight linear scale, when percentage movements would -- would differ as you move across.

So, you know, for example, it -- just thinking about it doubling, a -- a move from one hundred (100) to two hundred (200) on a linear scale, would -- would show a delta of -- of a hundred (100). And -- and then if that were to double again, it would go from two hundred (200) to four hundred (400), so you'd have a much bigger jump on a linear scale.

On a log linear scale, both of those jumps will look the same because they're both just doubling of -- of the base values.

So, just keep in mind -- just sort of keep that in mind as -- as we -- as -- as I review the evidence with you.

And -- and the other aspect that -- that I'm going to focus on a lot and I -- I discovered before the meeting, that -- that this Microsoft presentation tool gives me sort of this pointer so I -- I'm hoping you can see this.

But you'll -- you'll see that the -- no -- I think I -- might have picked the wrong pen, so I -- I think I have a different -- let me actually try this -- that -- okay, I'm going to try this again. Okay -- okay -- it did go away.

You'll see that -- that there's sort of

this general decreasing trend through here, and yet what MPI is projecting is -- is -- I didn't do a great job of drawing that, but -- but you can see sort of it -- it was -- even before the pandemic, claim costs for weekly indemnity were trending downward and -- and -- and -- and where MPI is at now, they're projecting, really, that it's going to go -- it -- it's going to turn and -- and it's going to start going upward. And -- and that's really what they're asking the ratepayer to accept as the basis for the premium and asking the -- the Board also to accept the basis of the premium.

This -- hopefully this -- this is just one example. We're -- we're going to go through several of these, but this -- hopefully this sort of helps you understand why we focus so much, or I should say, I -- I -- hopefully it conveys why we focus so much on data visualization. That it's important to sort of -- get it to -- look at the data and we'll get into overlaying models over data so that we can see the consistency of models with data.

But -- but we think this is an important aspect of -- of -- of understanding projections, understanding models, understanding the way data is moving.

Okay, I'm advancing to slide 14 now.

And, this is, as I mentioned, that -- that -- the -- the commentary is going to follow relatively parallel tracks.

And, again, part 2 of that is a review of the MPI model that we're taking -- that -- that we're identifying as a potential concern.

So, again, as -- as we -- as I mentioned in the last slide, the claims incurred provision is a product of frequency and severity. In this particular case, we -- we don't have an issue with MPI's approach to severity. So, we're only going to -- we're only going to discuss the -- the MPI frequency model.

And, we -- we have two (2) particular concerns, or two (2) concerns that we identified in the evidence that I'm going to review with you.

I -- I'll spend probably a little bit more time the -- the first time that we review it and I'll try to review it more quickly in -- as we go through the subsequent perils.

So, the -- the first item is this issue of -- of linear trends versus log linear trends. You, as -- as I mentioned, we review rate filings throughout -- throughout the country. We -- we do our own trend analyses for various regulators throughout the country and we just find it far more common to fit log linear trends to both frequency and severity.

We -- we find that it's more intuitive and more natural to think about changes in a -- on a percentage basis, rather than an absolute basis.

I -- I think we can all see that now, when -- when -- when the media or politicians quote the rise in inflation, they don't say costs went up ten dollars ($10), they say costs went up 10 percent.

I -- I think it's the natural way to look at the way costs are changing and -- and those models are -- referred to as log linear models, and because -- because costs change on a percentage basis, they can never go negative.

And, while we acknowledge that -- that it's not as if the MPI models produce a negative result. If you're -- if -- let's say you started at a -- at a hundred ($100) base and you're reducing by ten ($10) each year, in theory, in year 11 you would have a negative projection.

So that really just, again, it -- it's not consistent with the way -- the way costs actually operate. What will more likely happen is costs will decrease by 10 percent each year and they'll still remain positive.

Recognizing that over shorter terms maybe that's not a -- a material issue, but it does, I believe, point to the idea that a -- a log linear model -- or would -- point to the rationale for using a log linear or expon -- sometimes they're called exponential models, rather than a -- a linear model.

And I think we have a -- a quote in our -- in our report. I'll just, again, read it relatively quickly, but this is from an actuarial publication.

> "Since the inflationary spiral of the 1970s, the exponential curve has replaced the straight line as the regression model of choice. The exponential model is now commonly accepted, even by regulators. By fitting an exponential curve we, as actuaries, can avoid the underestimation of losses that often results from the decreasing rate of change that's characteristic of a linear regression model."

And this was in -- in a 1991 -- it was -- actuarial research that was published in 1991.

The other -- the other important aspect

of using a model, as well, whether it's linear or log linear, is the publication and submission of -- of -- and review of the model fit statistic. It's to try to identify if the model provides a good, average or poor fit.

And, two (2) of the more common statistics that are used, that we'll review today are -- are what's called R-squared statistics. That's a statistic that -- that -- that provides information on the percentage of variation that is explained by the model. And we'll go through it in much more detail, other than to say, high R-squareds are good and low R-squareds are -- are less good.

If -- if you'd like me to go through the statistical aspects of it, I -- I would be happy to, but well -- I -- I think we'll try to keep it at a high level, for now anyway. And certainly, you'll have the chance to ask me questions and I can go through it then, if you -- if you'd prefer.

The other statistic is called the 'P' value and that actually works in the opposite. Low 'P' values are good and -- and high 'P' values, you know, are -- are less good. And there's a commonly accepted threshold of 5 percent for statistical significance. And that means that the variable is a significant indicator of the change in costs.

Now, if it's below 5 percent, it means it's a statistically significant indicator, if it's above 5 percent, it -- it would be viewed as not, but I -- I would caution that that 5 percent is sort of a -- a commonly accepted threshold but there is no -- no real science behind it. It's just -- just sort of what the community has come to accept over time. So, it's a -- a -- and we don't, generally, love to have these sort of black and white thresholds but -- but we recognize that that's sort of -- accepted in actuarial practice these days.

So, in this particular frequency model, the MPI frequency model that's on -- on this Table, the -- the R-squared value is just under 15 percent. There's another metric called adjusted R-squared, which -- which also considers the number of predictors, and that is -- it's a little bit of a -- the stat -- the way the statistic is calculated it allows for negative values and, in this case, the -- the adjusted R-squared value is negative.

It doesn't mean that the model explains less than -- less than 100 percent of the variation. What it -- what it really means is that, if you're comparing two (2) models, you want to pick the one that has fewer predictors in it. So, it's a means for allowing comparison between two (2) models.

So -- so, the fact that it's negative just underscores the fact that it's -- it's a -- it's a relative -- it explains relatively little of the variation with -- with too many predictor variables.

The 'P' value here is point five two eight (.528). As I mentioned, these -- these -- these two (2) metrics, good and bad, are in opposite directions. High 'P' values are -- are not so good and, as I mentioned, again, the 5 percent is the usual threshold and -- and, obviously, point five two eight (.528) is -- is well above the 5 percent threshold.

DR. BYRON WILLIAMS: Just one (1) question. In terms of the rate application itself, were you able to find Manitoba Public Insurance's measures of fit in the rate application?

MR. RAJESH SAHASRABUDDHE: Yes. Now, thank you for that question, Dr. Williams.

Yes. So, not in the claims incurred section we weren't. There's other parts of the rate application that get into classification ratemaking where some but not all of those statistics are presented.

Certainly, if you -- if you review CAC-

4, our evidence, we present the output from the statistical software that we use, and you -- you'll see that that, even in the areas where MPI did include some of the statistics, it's not nearly as robust as -- as what they could have included.

And, again, we provide an example of what they could have included in -- in the report, in our -- in our evidence, and, you know, I will mention that the statistical software that we use is -- is free, so that there is no additional charge for MPI to -- there would be no additional cost for MPI to use that statistical software.

Okay. So, again, following on, in terms of our -- our general approach, we go -- we go through at a high level. Second, we review the MPI model and -- and, now, we're going to review our proposed alternative frequency model, and that's what you see in -- in the slides that's -- I'm sorry -- in -- in slide 15, you see our proposed alternative severity model.

So, it's the -- it's the same data. Our model before application of the work-from-home adjustment is the straight blue line. Again, it -- it's a -- even though we have percentage changes, the -- the -- the line is straight because it's on a log scale.

Here's -- here's a situation where you could see the effect of that log scale maybe slightly better. You'll see the axis goes -- the axis at the bot -- on the -- I'm sorry -- the y axis starts at one point five (1.5) and it goes to one point six (1.6) so that's a -- a change -- a jump of point one (.1). Then, it's a jump of point two (.2), point two (.2), point two (.2), and, then, point three (.3).

Those values are rounded. So, I -- I don't know exactly where those values are but what you should recognize is that the percentage change between those tick marks is equal across that scale. So, it will take a larger change to produce the same spatial difference, up at the top of the scale, as compared to the bottom of the scale.

So, again, we have our proposed model. We acknowledge that that model is slightly -- the 'P' value is slightly greater than that 5 percent upper brown that I discussed. It's approximately 8 percent. It does explain a high -- a much higher percentage of the data and it's of a log linear form, which we think is -- is -- is the most accepted approach to modelling and -- and fitting data.

DR. BYRON WILLIAMS: Just, again, when

you start to describe this slide, being slide 15, you -- you have misspoken and suggested it was weekly indemnity severity. This is frequency model, sir.

MR. RAJESH SAHASRABUDDHE: Yes. It's a frequency model. I apologize if I said "severity". So --

DR. BYRON WILLIAMS: And, just before we leave, in terms of the data points that are included in the Manitoba Public Insurance analysis for weekly indemnity frequency versus the data points that is included in the Oliver Wynman approach, could -- could you discuss that very briefly?

MR. RAJESH SAHASRABUDDHE: Yes. No. Thank you, Dr. Williams.

So, in -- in -- in the -- the -- the charts that we present, you'll notice the MPI model doesn't include those first three (3) data points. They -- our lines only extends -- so, I'm sorry -- I've returned back to slide 14, presenting the MPI model.

And the red model -- modelling line only extends back over the period that -- that -- that's included in -- in the modelling itself.

In comparison, you know, we've used all of the data points. So, our line extends all the way back to the -- the first data point.

Now, we -- we recognize that it's not always the best approach or preferable to -- to include all the data points but we're not suggesting that that's always better but, in this particular case, we -- we do believe it's better. We -- we get this -- the -- the modelling statis -- the statistical output would indicate it's better. We get lower 'P' values. We get higher R-squareds and -- and -- and we think it -- it captures the trend significantly better as -- as we align the -- the data and the models.

DR. BYRON WILLIAMS: Finally, just before we leave this page, with my apologies, what is this narrative telling us, on -- on slide 15, in terms of the trend in terms of week -- weekly indemnity frequency?

MR. RAJESH SAHASRABUDDHE: Yes. So, as -- as I've mentioned, I think this will be a common theme in our proposed frequency models, that -- that frequency is decreasing across coverages and, really, across the country.

Again, I -- man -- many of our -- many of -- much of the work we do -- much of the work we do is in the public sphere. So, it -- so, you could certainly see that work and -- and observe that --

that this isn't -- this isn't a one-off that's happening in Manitoba, reductions in claim frequency. It's -- it's really everywhere and -- and -- and we see it here as well.

So -- so, just improvements because there are, principally, the -- the -- the prevailing factor, lower traffic densities -- I guess we were talking to someone. I think there's some pollen out there I -- I keep getting in my throat. So, hopefully, I'll be able to get through here without too much more water. Okay.

So, again, here's this model presents the -- the prevailing negative frequency trend. Okay and, now, we get to, you know, what does this mean? How does it actually impact the claims incurred provision.

And I -- I -- I think we -- we advised MPI that this is a chart that actually doesn't appear in our -- in our evidence though it's -- it's compri -- it's -- it can be compiled quite easily from the information that is in our evidence but it doesn't appear directly in there.

And what we show here is a comparison between -- between our model and -- and what the MPI model would indicate, and the differences that would result.

And, again, we're not implying that costs aren't increasing, that's -- that's not -- that's not where we're going. We -- we do think, on some level, we accept that severity is increasing and we accept that there's a decline in frequency and we just think that that creates a much -- a much flatter trend in the claims costs.

So, the -- the blue line here is the MPI projections and the red line is our projections and, again, you will -- you will notice that we do have an increase but it's just at a more -- much more moderate rate and it -- our estimates are sort of more in line with the claims history.

Again, if you think about the claims history in -- in this range here, recognizing that some of those points are COVID affected. But that's a lot more consistent with the starting point in here and a gradual increase in costs. And, you know, you could even argue that it's -- it's somewhat conservative. If costs were to continue to decline, that -- that this could be substantially flatter.

So, we don't think that we have been overly aggressive in proposing a -- a cost model it -- that, you know, could potentially go something like this, right. That's a -- that's a potential outcome as well.

It's difficult right now. The -- the environment is difficult just because we have data points that are affected by COVID. We have a situation where inflation is increasing. So, it -- there -- there's a lot of uncertainty, but I would argue that -- I certainly wouldn't argue that our model is aggressive, because I can just see on here -- as I mentioned, I could see a model that would look something like this that, you know, would be viewed as much more aggressive than we have proposed.

Ms. Schubert, I'm sorry, that was on slide 16. And I'm -- I'm sure you don't pick up -- you can't pick up the pointer -- the pointer markings, but hopefully -- I'll try to convey when -- when I'm using the -- the pointer just so -- just so that's in the record.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: Okay. So, I'll try to move through the other coverages. In the interest of time, maybe slightly more quickly. I -- I see that I've already taken fifty (50) minutes and

I've only gotten through three (3) sections, so I'll try to move through them slightly more quickly and then allow for initial -- additional elaboration, you know, when you might have some questions.

So -- but I do want to spend a little bit more time on the next one. As I said, we think it's important to spend -- spend effort, and time, and resources on collision, because that's where -- that's where the action is at, that's where the money is at, that's where the -- that's what the ratepayers is -- that's the primary coverage that the ratepayer is re -- responsible for the premium.

Okay. So, in Collision there are two (2) types of perils. And I know that sometimes the word 'total loss' can be misleading. It might sound like the sum of the two (2) types of perils, but no, it's -- there's a -- when -- when a vehicle can be repaired and when -- when a vehicle cannot be repaired and it's a total loss.

So, when I use the word "totalled" here, it should not be used as -- in the con -- it's the same terminology that MPI uses, but it's not a -- a sum of parts. It just refers to a type of event where the vehicle cannot be repaired.

And this represents approximately 40

percent of the overall collision provision. And -- and we'll -- we'll review sort of the concerns that we have with the -- with the MPI frequency model on -- I'm sorry, with the MPI modelling of claims incurred on total loss.

Again, here, just a -- a common theme, and again, I'm on slide 18 and I'm -- I'm just going to use the pointer again just to sort of show -- what we see in the data is a -- is a relatively flat period here.

I sort of -- my pointer skills aren't the greatest, but you can sort of see that it's relatively flat. You could even argue that there was a slight decline right before the pandemic in -- in these periods that I'm using the pointer on.

Two (2) pandemic affected periods, but even the '21/'22 period that's somewhat less pandemic affected is still relatively flat relative to those points. And what MPI is proposing is that the ratepayer pay for this jump and then continual increase from there.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: I think

we've talked a little bit about the impact of frequency and -- and how frequency has been declining. And -- and we will say that though we, as actuaries, don't get into causation and causative analysis, we would acknowledge that -- potential with lower traffic densities that the -- that the types of vehicle accidents that occur could be more severe.

Though while the total number of accidents, we believe, were -- is pretty convincingly declining, the percentage of those accidents that have -- that are more severe and result in weekly indemnity claims, total losses within the Collision side, or -- or bodily injury claims, or -- I'm sorry, accident benefit claims, that percentage could be rising, which would offset some of the improvement in claim frequency.

So -- and would actually -- given that would potentially reduce the amount of correlation between -- sort of between the repair Collision and other coverages because, again, repair Collision is sort of more minor fender-benders, let's call them.

I know there can be more severe repairs, certainly, but more minor accidents. Those others are more major accidents or the types of -- more serious accidents would trigger claims under those coverages.

And the percentage of those types of accidents may be increasing, thereby, creating a little bit of a separation between the frequency trends in -- for repairs as compared to -- and total loss that we're going to review or our weekly indemnity, or accident benefits.

So, again, I'm not going to go through this in great detail but this -- this is the MPI -- the MPI model that -- that's being proposed. Again, we would indicate through data visualization that -- that there's been, actually, you know, even pre-pandemic, there was these three (3) pre-pandemic points that I'm using the -- the pointer to indicate that we're showing that frequency is -- is, you know, is falling, and perhaps quite significantly.

We're not suggesting that -- that -- we're not taking a very aggressive approach and suggesting that that's the direction it's going to go. We think it's a, you know, reasonably prudent approach that we're suggesting.

This is the model that we propose. You know, on -- on some level it doesn't look that much different than the MPI model, but again, this is a coverage where, you know, smaller percentage changes can lead to more material impacts because it is the largest coverage. It's where the majority of the dollars are.

So, you know, perhaps if we had this sort of impact on a smaller coverage, we wouldn't have viewed it as material and would not have brought it to your attention.

But in this particular case, just given the materiality, you know, we did bring it to -- to your attention. So, again, our model explains a higher percentage, though not necessarily a high percentage of the variation in the data.

And again, we -- we've used this -- you know, our model, yeah, is in log-linear form and -- and includes a percentage change.

Okay. So, I'm going to turn to severity. So, our -- the -- the first two (2) models that we've reviewed were frequency, so, you know, I'll spend a little bit more time. It's Collision and it's our first severity model and I promise I'll go more quickly through the rest.

So, the -- the MPI model here is to adopt the most recent data point, that's this point here, as I'm indicating with my pointer on slide 21, and then what we call trend that forward or inflate that forward or project that forward at -- at an average rate implied by the last three (3) data points.

And we really think that there's two (2) issues with that approach. The -- the first issue is that they just leverage one (1) data point. So, instead of relying on the totality of the evidence across -- you know, since 2012 that's available, they just look at one (1) data point and project that forward.

That data point also is potentially an unusual data point. As we look at the trend rates it's been plus five four (54) minus two two (22) and plus fourteen eight (148).

And -- and I think fourteen eight (148) is twice as high as any observed increase that -- that we've seen over this period. So, it's potentially just an outlier high value that -- that we -- that we -- we observe for that point.

So, if -- if you start from a high value and then trend it forward you can see -- then you get the results like we reviewed with the claims incurred projection where it's significantly higher than the -- than the data.

I think the other aspect of model

visualization and data visualization that I would like to draw your attention to is the -- the position of the val -- of the red line, which is again, the MPI model to the data. And it really just doesn't describe the data all that well going backward.

That it -- it's really just not consistent. The -- the -- if you think about the line as -- as a bit of a see -- as a seesaw, all right so there's a fulcrum in the middle and as you pull it down on the left side it goes up on the right side.

And that's essentially what you -- what -- what's happened is that the model on the left side is significantly below where the data is at so -- so the model is sort of -- it's getting pulled down on the left side, so it gets pulled up on the right side and creates projections that -- that we believe are inappropriately high and -- and not supported.

So our -- our model here is -- or, I'm sorry, we present our model in this particular chart, and we did our modelling in a -- in a slightly different way. We -- we fit to the CERP adjusted data, and that's what -- you see sort of the raw data.

That's sort of the -- the higher of the two (2) data point lines, and then we have the adjusted severity below that. And then the -- the red and the blue lines are -- are -- I'm sorry, the blue -- the -- yeah.

So -- so we have a -- the blue lines are model, and then we incorporate the -- the work-from-home adjustment to get to the -- red line. And you'll see that our model that's sort of the combination of the red and blue fits that -- that data, you know, significantly better. It lines up quite well with the data that -- that we observed, the darker blue filled points, in comparison to the MPI model.

And again, we -- we end with just a description of -- of where the claims incurred provision is at. And again here, we -- we would suggest that -- that, you know, pre-pandemic -- and I'm on slide 23 now, for the record -- that pre-pandemic costs -- the claims incurred provision had sort of flattened out in this region and -- over the course of two (2) years.

And what we're essentially -- what MPI is essentially suggesting is it's sort of going from this approach to this. I didn't do a great job of drawing that. Let me try one (1) more time.

So sort of drawing this flat line into this sort of approach, right, and remembering again we're on the log scale, so a line already indicates consistent percentage changes. So if you see that curvature, there -- it's sort of creating even more extreme changes.

We are -- we believe our model is -- allows for sort of a reasonable -- reasonable view of percentage increases. We just don't think it's quite as high as -- as MPI's suggesting. And we believe that when -- when we compare our model to the data, that, you know, our model is -- is significantly more reasonable than the projections that MPI has put forward, and again, still could be viewed as somewhat -- it's not the most aggressive model that we could propose.

As I mentioned, in this particular case, we could probably propose a model -- if I can draw this pretty well -- that looks something like this that -- that again could be ultimately what -- what results, but those -- those are features we'll only know with time.

BOARD CHAIR GABOR: Sorry, can I just ask you a question on this one?

MR. RAJESH SAHASRABUDDHE: Sure.

BOARD CHAIR GABOR: If I look at 2021 --

MR. RAJESH SAHASRABUDDHE: Yes.

BOARD CHAIR GABOR: -- okay, and am I correct that the data is going up to where the blue line is for 2022?

MR. RAJESH SAHASRABUDDHE: Yeah. So in this case, what we have labelled as 2021 is the '21/'22 year.

BOARD CHAIR GABOR: Okay.

MR. RAJESH SAHASRABUDDHE: So that's the last data point. The -- the sort of the line that connects that point to the -- the points that follow --

BOARD CHAIR GABOR: Yeah.

MR. RAJESH SAHASRABUDDHE: -- isn't actual data. That's sort of what -- the projection that's occurring.

BOARD CHAIR GABOR: Okay. So this is just a projection of data. It's not actual data.

MR. RAJESH SAHASRABUDDHE: That's correct, right. So every point after '21/'22 -- and again, '21/'22 is labelled as 2021 on our charts -- is data. '22/'23 and subsequent are projections.

BOARD CHAIR GABOR: Okay. So I'm -- I'm just having trouble reading it. That's -- that's a dotted line then, then a straight line? Sorry. I mean, I went through on the left --

MR. RAJESH SAHASRABUDDHE: Yes.

BOARD CHAIR GABOR: -- in the -- the description of everything, so I assumed, when it said, "data," that's it. I notice now it looks more dotted than the others, though.

If that is -- if the projection there ends up being the real data, does that have an impact then on your projection versus MPI's projection?

MR. RAJESH SAHASRABUDDHE: Yeah. So that's what we're trying -- we and MPI are trying to do to -- to assist the PUB in understanding what the correct rate level is --

BOARD CHAIR GABOR: Right.

MR. RAJESH SAHASRABUDDHE: -- is providing those projections. And if I understand your question correctly, I think you're asking sort of more of a hindsight question: that what if we actually observe data points that are either on the blue line or the red line?

And -- and, you know, clearly, in hindsight, you know, neither of the estimates is going to be exactly correct. It's just which do we think is more likely to be correct given the evidence that we have right now.

BOARD CHAIR GABOR: Sir, I would say your interpretation of my question is far more intelligent than my --

MR. RAJESH SAHASRABUDDHE: Okay.

BOARD CHAIR GABOR: -- than my question, so you know what, I'll -- I'll just wait until the end. Thank you.

MR. RAJESH SAHASRABUDDHE: Okay. Next slide is on comprehensive. Like I said, I'll try to go through these much more quickly. I wanted to spend time on collision, I wanted to spend time on weekly indemnity because one (1) was the first one, the second one's the most material coverage.

Okay. Comprehensive. So comprehensive is divided into six (6) different perils. One is an 'all other' peril. Within those six (6) perils, five (5) are further divided into claims that are for total loss and claims that can -- that allow for repairs.

I think really just the one (1) comment that we would have here is that -- is that the rodent peril is -- is actually quite minimal, and we don't really think it makes sense for MPI to spend effort modelling loss due to -- to damage created by rodents to -- to cars.

It could very easily be put through the

'all other' -- into the 'other' category, and that -- that effort could be spent in modelling the -- modelling collision ideally, but -- but even some of the other coverages.

I'd also mention that, again, we review rate filings throughout -- throughout Canada, and typically the only splits that we see for comprehensive are poten -- are -- are hail, theft, and then 'all other'. And sometimes not even hail is split out.

Sometimes -- we often see theft and 'all other' split out, and sometimes we see hail split out, but -- but certainly, we don't see vandalism split out and glass certainly, almost never see rodents split out.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: So the first -- the first coverage that we're going to take issue with or that we're raising concerns is -- or first peril is on the total loss peril within hail. We -- we present the -- the MPI model here.

The MPI -- MPI selects a ten (10) year average claim count, so -- and projects that forward.

So the reason that you see their model implies a decreasing frequency is because the number of units is growing where the counts is the same, so that implies fewer -- a lower frequency.

And our -- our selected model -- and what we did was we -- we fit a ten (10) -- ten (10) year -- we put a log linear model to the ten (10) years of data, and through our statistical testing -- and it's sort of very easy to see in the data, so we sort of knew what to expect.

But the time variable was not considered significant, so that gets essentially dropped and it becomes a ten (10) year average. Now, it's log linear, so it's the ten (10) year average of the -- of the logarithm of the values, but -- but it does just sort of default to a ten (10) year average.

But then we think that -- that it's always important to -- even once you have that, to inspect the -- inspect the projection relative to the data. And, you know, we observed that the projection is substantially above four (4) of the last five (5) years, and you had one (1) year that was higher, but -- but certainly you have years that are significantly lower.

So from our perspective, this -- this

looks, you know, fairly reasonable. We recognize that it's a coverage -- it's a peril that's subject to weather risk and that creates a lot of volatility. Of course, there's some aspects of climate that are -- that are probably more systemic changes and not just natural variance, but -- but here what we see is that there's actually just been fewer hail claims over the course of four (4) of the last six (6) years.

Turning again -- turning now to Comprehensive theft repair, again, a visualization of the data and a comparison to the -- the MPI models.

Our -- our concern with the MPI model -- and, sorry, I'm on slide 30 now.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: So, in -- in this particular case, MPI really didn't -- didn't use a model in developing the projection. They just -- they -- they selected a trend rate based on the observed rate of change and just -- just trended forward from there.

There's -- there's a significant degree of variability in the data, we -- we acknowledge that, and that the model doesn't -- doesn't discern a statistically significant trend parameter.

As you'll see again comparing the data to the model, it doesn't really -- if you -- if you backward -- project it backward, it looks nothing like the data. So -- so, why would it look that way going forward if it looks nothing like the data going backward?

In general, we observed flatness in the data, as you can sort of see. And I'm using my pointer to -- to reference the years 2014 through generally 2020 where it's generally flat to, you know, potentially declining, though certainly part of that is -- is due to the impacts of the COVID pandemic.

The model that -- that we present, again, is we -- we fit a model. The -- the statistical output of that model indicated that time wasn't a significant predictor, meaning costs aren't varying with time.

And -- and so, what happens in that case is the model defaults to the average, and that's what you see here. It's the red line overlayed with the data that's -- the data that's a comparison to that, which is the -- sort of the -- the solid line, not the dashed line, on slide 31.

So, you can see how our -- our -- the

red line that we're proposing, sort of aligns with the -- with -- with the blue points that are connected by the solid line.

Vandalism, again, similar table. Some similarities here again where you see flatness in the -- in the data and projections, and then some slight increasing, you know, post -- post COVID.

And this one's a little bit harder to see because of the way the unadjusted data and the adjusted data appear here, but -- but you'll see -- see it a little bit more clearly in the -- in the charts that we prepare.

So, in vandalism, this -- and I'm referring to slide 33 now.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: So, MPI selects a zero percent trend rate, and then applies it to the -- the three (3) year average. So, that results -- results in this -- the suggested flatline. Again, we would offer that it doesn't really line up with the data.

The data actually on slide 33 shows quite a significant decreasing trend all the way through here, remembering -- again, keeping in mind that this last -- that -- that this last little line segment that we just sort of spoke about, about connecting data and -- and projections, right, that's not a movement in data.

So, that -- that last segment is not a movement from -- in data from 2021/'22 to '22/'23. That's just a way to visually link where the last data point is to where MPI is projecting that the next data point will be.

So -- so, again, I think you're -- I think the -- the earlier question was a good one because I think it is important to recognize that -- that little linkage isn't a movement in data, but it's just sort of, you know, how you go from the last data point to the next projection.

So, rather than -- rather than -- than having credit for this declining trend, there's actually a proposal, that instead of continuing to decline, it's -- it's going to jump back up.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: Our model in -- in comparison, it really picks up on sort of the

-- the significant declines in -- in frequency trend and projects this forward. Again, we feel that our model is -- visually our model sort of aligns much better with the data than -- than the MPI model.

I'll also say, like, that here you may -- you may sort of notice where the -- that we see a lot more shape to the data than -- than is evident in -- in the claims incurred projection. And, again, that -- some of that is due to the offsetting effects of frequency and severity, so frequency declining, severity's increasing, and then we get this flatter claims incurred projection.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: Again, the final test of the overall claims incurred projection, we're still continuing to project an increase for Comprehensive just at a much more modest rate than MPI's proposing.

Property damage is the last coverage that we'll review before we get into some concluding remarks about processes and -- and our suggested approach that MPI adopt.

Again, similar table with -- with the

data and their projections here. There is a -- there's -- MPI projection is also showing a slight decrease though certainly at higher -- starting from a higher level than -- than we see in the data.

So, this -- within property damage, there is a peril that's referred to as third-party deductible transfer. And this -- in this slide, again, it's -- there's -- there's the unadjusted data that -- that is at the -- that's sort of along the bottom. And then there's the adjusted data that's -- that's at the top. And the adjustment is the inclusion of the -- the CERP program -- the adjustment for the CERP program.

And, again, here MPI just minimally selects a trend growth rate based on observed growth rate since 2012. It's really not a statistical model. MPI projects forward the 2021 severity, again, projecting for both the signal and noise in that data point are, again, repeat -- not to repeat myself too much, but our recommendation is that they use a more model-based approach to separate the signal and noise and -- and look at more of the totality of the data. And, again, a common theme that -- that we've tried to raise, which is that, if you -- if you look at the way their model would -- what the past looked like, it looks nothing like what the past actually looked like.

CONTINUED BY DR. BYRON WILLIAMS:

DR. BYRON WILLIAMS: Can I just stop you here on slide 38 for one (1) second?

MR. RAJESH SAHASRABUDDHE: Yes.

DR. BYRON WILLIAMS: When you were referring to the CERP, and this is obviously a table about property damage, third-party deductible, the change -- the change in the CERP we've been referring to, does that relate to the increase in the deductible?

MR. RAJESH SAHASRABUDDHE: Yes. So, it's an increase in the deductible. But because this is a deductible transfer -- so the cost for the policyholder go up because they're paying for transfer of a higher deductible to -- to the other party.

DR. BYRON WILLIAMS: And -- and that's why you see such a sharp difference between what's at the bottom of the screen and the top.

MR. RAJESH SAHASRABUDDHE: Correct. And directionally, also, it goes up as opposed to -- if you have a higher deductible, you would think it would go down because -- because there's less insured loss.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: The -- the deductible model that we're proposing -- and, again, this data may look slightly different, but it is the same data. It's just we provide this on -- and I'm on slide 39. Our scale runs from seven fifty-seven (757) to seven ninety-six (796) on this slide.

And if we were to look at this slide, that's sort of just the upper reaches of -- of the chart on slide 38. And you can sort of see the shape in this data, where it goes up and comes down and comes back up.

That -- that shape is just magnified and a little bit easier to see here, where it goes up and comes down and comes back up. So, it is -- it is the same data. It's just -- like I said, just a little bit easier to see because we're, essentially, zooming in on that region of the -- of the plot.

So, you know, here again, that -- that -- we feel -- we feel that our statistical test indicated that '21/'22 was an outlier. We fit to all of the other data points. And our model, again, explains those data points.

Adjusted data points. So these are after the CERP adjustment. Much better than -- than what the MPI model does that -- that we see on the prior -- prior slide.

The -- the next -- again, the next peril is the third-party loss of use for property damage. This is the -- the model that MPI proposes. They start with the use of the two (2) most recent data points. I believe it's a one-third (1/3), two-third (2/3) averaging of those two (2) data points.

And again, just getting back to this idea that this last link here -- this is on slide 41 -- is not a movement in data. It's -- it's the starting point for their trend model, the red line. And they developed that starting point -- I believe it's a two-thirds (2/3) weight to this data point, the '21/'22 data point. And a one-third (1/3) weight to the 2021 data point. That averages out to about here.

It doesn't look two-thirds (2/3), one-third (1/3), remembering again that this is a log scale, so it'll look slightly differently -- or it won't look exactly like a two-thirds (2/3), one-third (1/3) would look on a linear scale.

So they're projecting that it goes down here, and then, you know, starts to increase going forward.

And, again, the model that -- in some cases, I'm going to use the word 'model', but it's really an implied model what they're suggesting, how costs are going to move in the future. If we were to predict that backward, it doesn't really align very well with what we actually see in the data.

Here's our model. Again, there's a lot of variation in this data. And so, we're proposing we -- we created -- we fit a model. We looked at the regression statistics, and indicated that trend wasn't significant. It wasn't a significant predictor. So in such -- in those cases, we believe it's appropriate to select a zero percent trend.

But then, even after all that, we always plot it and make sure, Does this make sense?

And -- and our view is it makes sense. You know, it's potentially -- it's potentially a little bit conservative because we really just have the one higher data point. And again, keeping in mind that property damage and third-party loss of use, those types of claims will take a little bit longer to settle out than -- than a collision claim. That -- that this last data point -- that -- the '21/'22 data point may -- may move.

Ideally, it moves downward, then -- but -- but even if it doesn't, there's some uncertainty with that data point.

But what we saw was, prior to that -- and this is severity model; not a frequency model. So it's not as affected by the -- by -- by the COVID and the -- the COVID pandemic and the decreased traffic congestion.

But you'll see, for four (4) straight years, that the data had -- had shown decreases in value. Then we have one (1) year that's a jump, but that -- that estimate is still preliminary.

And again, here's the final suggestion as to where we think this coverage is. And we recognize that some of these differences are small, but again, as -- as we stated, there are differences that are borne by 100 percent of the ratepayers in Manitoba.

So we're -- I'm going to finish with just some concluding remarks on -- on our view of -- of MPI's approach to developing the claims incurred provision.

And it really starts with our suggestions as to how -- and I'm on slide 45 -- our view as to how MPI can improve their projection of claims incurred.

I know that MPI has had significant turnover in the leadership of their actuarial department and has significantly more resources now in that actuarial department. And, essentially, we're -- we're trying to suggest a way for MPI to deploy those resources.

And what we're -- what we're suggesting is that, in the development of the claims incurred provision, that there be a more modern statistically driven objective approach that -- that MPI adopt and -- and report in its General Rate Application.

The general steps that -- that we -- bless you. The general steps that we see as part of that process are to visualize the data, and we say, you know, See it to understand it. Look at the data, see what sort of trends are -- are in the data. Use a log access, so that the changes on a percentage basis become apparent.

Propose a model to explain the relationships. You know, I won't go into dependent variables and independent variables, but there are various aspects that can -- various factors that can be used to predict change -- values of a variable over time and changes over -- over time. And time is the obvious one, but there's other -- other aspects of change over time.

Seasonality. MPI always gives you an annual data point, but -- but there's's -- GISA and other insurers typically look at data on a half-year basis because there are differences in -- particularly claims frequency, but somewhat -- sometimes also claim severity that are created by different weather patterns in the first six (6) months versus the last six (6) months of the year.

I notice it got very cold today. I'm hoping it gets a little bit warmer for tomorrow.

But -- but those sorts of things. And when -- if it were to rain today, it might be snow. If it were to rain yesterday, it might have been rain.

And over longer periods, of course, having snow on the ground is going to trigger more collisions than having rain on the ground.

You know, you could incorporate a parameter to explain the effects of the pandemic. We call it mobility, but they -- they could potentially call it something else.

You could include a parameter to capture product reform, such as the CERP adjustment. So all of this can be incorporated into a model and that's the approach that we're suggesting.

Once they have the model, they can evaluate the -- the statistical output of that model in 'P' values and R-squared values, we -- we have already discussed. But they're also statistical tests to identify outliers.

And -- and then, there's, sort of, the ultimate test, which -- which we'll call the eye test, which is -- again, does the model look like it would predict the data in the past? Does it look like a reasonable prediction of the data in the future?

And, you know, we talk a lot about statistics and we talk -- but -- but I'll tell you, we -- we probably rely on the eye test more than we rely on anything else at the end of the day.

And then, just reporting out the results of that exercise. We believe that that exercise will be viewed as more objective and the reporting will be more transparent to the ratepayer, to the regulator. And we believe that if they were to do that, that would actually create a greater degree of confidence for stakeholders in -- in automobile rates in Manitoba which, essentially, means every single citizen.

And -- and also, there will be a better

understanding between those parties of the predictive value of -- of the modelling that's been done.

I'm going to briefly just touch on a few -- few other points. I talked about this just -- just a little bit at the beginning of the presentation.

But I understand that -- that the projections have decreased. Again, it's just one year. We haven't been working on this file. We don't have a ten (10) year history on this file.

But -- but just visually, it looks like some of the provisions are -- are conservative. And I think we actually, sort of, see that as well when -- when the estimates come down from one GRA to the next.

Just, again, briefly talking about the -- the difference from the current minimum bias approach to the generalized linear model. Again, that has -- that particular modelling is not the -- the modelling that I discussed today. That was -- that relates to classifications and the -- essentially, the RM section of the -- of the GRA. I was focused really on what we call the CI section.

And we understand that the plan is to shift for the 2025 GRA for private passenger vehicles and 2026 for all other classes.

What we would suggest, though, is that our expectation is that the GLM and the minimum bias procedures, while one is certainly more sophisticated and more robust, they're probably going to be directionally similar.

So if the minimum bias procedure is indicating that a certain classification would receive -- should receive a decrease or an increase, the GLM probably will as well and, so there's really no harm in sort of moving in that direction. And -- and in fact, it could be a benefit because the dislocation, when the GLM comes in, could potentially be smaller.

There's no reason to think that a different type of model is -- while it's going to be more robust, but it -- there's no reason for me to think that on space, it's going to have directionally a significant difference than the minimum bias model that MPI is using. And then, of -- of course, expansion of the DSR scale is part of that process.

Just a -- just a few items that we wanted to -- to respond to as far as, you know, concerns that have been brought to -- to our attention.

Again, we've talked about the linear versus log linear models. The correlation of recoverage -- by coverage, I think we've discussed a little bit, where we believe there may be some separation in that, just because the types of accidents are changing.

And -- and then the value of -- of company insights, internal company insights. So, we -- we acknowledge that there's significant value to -- to those insights.

And as part of that, we expect that -- that MPI also has access to significantly more granular data than is presented in the GRA, whether it's -- what we call accident half years, accident -- sometimes they're called accident semesters, even monthly data that -- that I understand was submitted today as part of an undertaking.

So, there's no reason why when -- you know, models improve when there's more data, but you don't want the data to get thin. So, there's no reason why MPI can't, and I'm sorry, when I use the word "thin," what -- what I'm saying is, you don't want to subdivide the data so much so that there's not that many underlying observations in each data point.

But, this is -- you know, that they -- this is -- there's almost, I -- I think -- I believe almost a billion dollars in premium every year, so they're going to have a significant amount of volume. They can cut it relatively finely and -- and maintain volume, just because it's such a large data base.

And when -- and when I talk about cutting it finely, that means we can look at monthly trends, we can look at semi-annual trends to identify seasonality. We can try to identify where there's a, you know, for example, an unusual large loss that -- that might happen and we really believe that MPI should -- should include that in -- in their process -- in their analysis process that not simply rely on -- on annual data points.

Again, this all -- this all comes back to -- we recognize that this is going to be more effort. That -- that it's not -- this doesn't come without cost, but they've expanded their staff and this is the cost that represents the majority of the -- of the premium for ratepayers, so to the extent that you're going to spend money, this is where you should spend money.

Again -- and as they gain those insights they should be incorporated in the -- MPI's model or model design.

And then, just one final point that -- that -- that we'll leave you with, because it's a, you know, the hot topic of the day.

There are certainly varying views on where potential future inflation and our recommendation and we make this -- really in provinces and to regulators throughout the countries. We're not economists. We -- we don't -- we don't know where inflation is going either, but we want the -- the rate -- the insurer to present their view and justify their view as to where economic inflation is -- is headed and how economic inflation drives underlying claims inflation.

And, again, put that back into a model to estimate claims costs. I'm not pretending that that's a -- a -- that that's -- that's an exercise that can be done in two (2) hours but, again, when we -- when we talk about, you know, roughly six hundred million ($600) in claim costs, we -- we think it's -- it's well worthwhile as to how MPI should spend their time.

So that is the end of the presentation.

DR. BYRON WILLIAMS: Thank you. And I have no additional questions. The -- the witness is ready for cross-examination, although I might suggest a -- brief leg stretch and health break opportunity.

THE PANEL CHAIRPERSON: I think that's

a good idea, thank you. We'll reconvene at quarter to 3:00.

--- Upon recessing at 2:35 p.m.
--- Upon resuming at 2:49 p.m.

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

MR. STEVE SCARFONE: Thank you, Madam Chair. I'm going to be careful to talk close to my microphone because I know they've been some concerns about the transcripts.

This I'll just do before I start with my cross-examination 'cause it'll be our last opportunity, I believe, to read in some exhibits.

MPI Exhibit 119 is the Collision Forecast, as of July 31, 2022.

--- EXHIBIT NO. MPI-119: Collision Forecast, as of July 31, 2022

MR. STEVE SCARFONE: MPI Exhibit number 120 is a revised Undertaking number 10, Appendix 12, Budget Review Committee Financial Decision of 2023/'24.

--- EXHIBIT NO. MPI-120: Revised Undertaking 10,
Appendix 12, Budget Review
Committee Financial
Decision of 2023/'24

MR. STEVE SCARFONE: And MPI Exhibit number 121 is the updated Undertaking number 9, Figure 1, a black lined clean version of that document.

--- EXHIBIT NO. MPI-121: Clean Version of Updated
Undertaking 9, Figure 1

CROSS-EXAMINATION BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Mr. Sahasrabuddhe, I'm going to take you up on your offer to call you Raj, like I did last year. You'll recall, sir, I asked you some questions last year about your report?

MR. RAJESH SAHASRABUDDHE: I do recall that, and that's perfectly fine with me. Thank you.

MR. STEVE SCARFONE: Thank you. And glad to have you back here.

So I sent an email to your counsel last night. My intention will be to revisit your report last year, especially in light of your comments earlier about being able to move from one (1) GRA to the next. It provides some greater insight perhaps into your analysis. So I'm going to ask you some questions about -- about your report from last year. And my co-counsel, Mr. Guerra, will probably deal more with the report that you've -- that's been furnished in this GRA when I'm done.

But you should know that I will at all times during this cross-exam be about one (1) question away from totally unravelling. And -- but I have my actuary team behind me for support.

So, I'll begin by -- by asking Ms. Schubert to pull up from last year CAC-4 which is the report that was furnished by your firm in last year's General Rate Application.

So, sir, just generally, before we begin because it appears again in -- in this year's report, I'd like to confirm with you -- touch on a little bit in more detail what My Friend Mr. Williams indicated as part of your duty as an expert before this Board is to be fair, objective, and non-partisan, correct?

MR. RAJESH SAHASRABUDDHE: That is correct.

MR. STEVE SCARFONE: And to touch upon

matters that are only within your area of expertise?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. STEVE SCARFONE: And to provide additional assistance to the Public Utilities Board as they might require, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. STEVE SCARFONE: And -- and further to that, sir, you're not an advocate for the Consumers Association of Canada?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. STEVE SCARFONE: And with that, you have no particular interest in whether this Board was to adopt your recommendations or reject your recommendations?

MR. RAJESH SAHASRABUDDHE: That's correct. I'm not a ratepayer in Manitoba.

MR. STEVE SCARFONE: Thank you for that. So last year, I think it's fair to say that your report touched upon different areas, where this year it focusses primarily on the trending of different coverages, and perils, as you've described them, correct?

MR. RAJESH SAHASRABUDDHE: Yes, that's

correct.

MR. STEVE SCARFONE: And last year, the report, at least part of it, dealt with an analysis of pure premiums?

MR. RAJESH SAHASRABUDDHE: That's my recollection. I'll accept that, yes.

MR. STEVE SCARFONE: Okay. And -- and as part of that analysis of pure premiums -- and I know your report this year touches upon it as well, but there is, as -- as you've described, a consideration of the 'P' value in determining -- determining the accuracy of the forecast.

MR. RAJESH SAHASRABUDDHE: Yes, I'll accept that, that -- slight -- slight nuance difference in how we'd interpret the use of the 'P' value, but -- but I think that's close enough.

MR. STEVE SCARFONE: Okay. But it's an important factor in pure premium trending. Would you agree with that?

MR. RAJESH SAHASRABUDDHE: It's an important factor in -- in any trend models to look at the 'P' values, yes.

MR. STEVE SCARFONE: Okay. And -- and as we've heard, the -- the higher the trend the less reliable the forecast will be, correct?

MR. RAJESH SAHASRABUDDHE: The higher the 'P' value --

MR. STEVE SCARFONE: Or the 'P' value, yes.

MR. RAJESH SAHASRABUDDHE: -- yeah, the less reliable the -- it's not -- it's not a measure of reliability, but let's say the less good the model is. How about that?

MR. STEVE SCARFONE: Okay.

MR. RAJESH SAHASRABUDDHE: If that's okay.

MR. STEVE SCARFONE: Well, let me -- let me put this to you and see if you accept this definition.

So I have it as the 'P' value measuring the probability of realizing an observed result?

MR. RAJESH SAHASRABUDDHE: That -- that -- if -- if the true value is zero. So if the true value is zero and you conduct an experiment, what's the probability that you would achieve that observed result.

MR. STEVE SCARFONE: So, the zero being the null hypothesis (phonetic)?

MR. RAJESH SAHASRABUDDHE: Correct, yes.

MR. STEVE SCARFONE: Okay. But more simply, whether the outcome is the result of chance?

MR. RAJESH SAHASRABUDDHE: Yes, that's fair to say, yes.

MR. STEVE SCARFONE: And -- and with that, trends can be not statistically significant, correct?

MR. RAJESH SAHASRABUDDHE: Yes. I mean, certain variables can be not statistically significant, and time is the variable that would be consistent with -- with trend in that particular context. Yes, that's correct.

MR. STEVE SCARFONE: And as it concerns the 'P' value, I think I heard you say that a 5 percent or greater would suggest that no trend can be discerned.

MR. RAJESH SAHASRABUDDHE: Yes. I stated that that's the common threshold, that we don't generally believe in such bright lines, but that's the common threshold that's used.

MR. STEVE SCARFONE: And -- and the corollary to that would be a 'P' value that is less than 5 percent is considered statistically significant?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. STEVE SCARFONE: And so where there is no evidence to support a non-zero trend, that is where the 'P' value is 5 percent or higher, a future pure premium at least last year was fixed at zero percent in your report.

MR. RAJESH SAHASRABUDDHE: Yes, that's my recollection.

MR. STEVE SCARFONE: So we have that report before us, and I just -- I'm not going to obviously go through it because it was evidence in last year's proceeding. But I -- I want to follow up on some of the recommendations that were made to the Board and compare it against some of the actuals from this General Rate Application.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Kristen, could you please go to page 15 of the report.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So we see before the screen, sir, these collision trends from last year. And if I'm understanding, just to refresh the

Board's memory, the top two (2) graphs represent the MPI models? One (1) is --

MR. RAJESH SAHASRABUDDHE: Certainly --

MR. STEVE SCARFONE: -- identified as MPI, the other one MPI Residual?

MR. RAJESH SAHASRABUDDHE: Yes. Certainly the top left does appear to be -- that is the MPI model. The -- I think the -- the top right is not the MPI model. It's -- it's a tool to evaluate the MPI model, but -- but I -- or it's a visual to evaluate the MPI model, but -- but I don't believe that it -- it is the MPI model.

MR. STEVE SCARFONE: Okay. So if you can just scroll down a little bit for me, please, Kristen.

And you'll see there, sir, that the report reads that:

> "Although the trend is significantly -- or statistically significant, the MPI approach does not recognize the flattening."

And then it also reads in the top right panel, which is the one that we just discussed, it speaks to a trend, and you'll see it there, to five

five five point three zero (555.30). Do you see that?

MR. RAJESH SAHASRABUDDHE: I do, yes.

MR. STEVE SCARFONE: And that would represent the claims costs divided by the number of vehicles, correct?

MR. RAJESH SAHASRABUDDHE: That -- that's what I would assume, yes.

MR. STEVE SCARFONE: So it would be five hundred and fifty five dollars and thirty cents ($555.30) per vehicle?

MR. RAJESH SAHASRABUDDHE: Yes, per HTA unit I believe is the -- sort of the technical divisor.

MR. STEVE SCARFONE: And -- and that would be the -- the pure premium that your report was trending for MPIC or that MPI was proposing to use in last year's forecasting?

MR. RAJESH SAHASRABUDDHE: So this is where we had -- again, this -- this filing is complicated and we didn't fully understand how it was laid out last year.

This is actually a trend analysis that's included in the ratemaking or classification section. We -- we didn't appreciate at the time when we prepared this report that the -- that the actual projection of costs is in the claims incurred section. There -- there's reasons for that. They're -- they're sort of generally similar.

But -- but I -- I think the -- the answer -- if you could restate your question. Like I don't think we were -- I don't MPI was proposing this pure premium. This is a way for MPI to allocate the rates to different classifications. It's not a pure premium proposal, as I understand it.

MR. STEVE SCARFONE: Okay. So -- and -- and that's the reason for the question that -- that I'm -- I'm putting to you, sir.

So when you prepared the models as -- as we've seen -- and, Kristen, can you scroll so that all four (4) are back on the screen. Thank you.

At least we can -- we can land, I think, and agree on that the bottom two (2) are not MPIC models, correct, for pure premium?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. STEVE SCARFONE: And that for collision, the -- the modelling that Oliver Wyman was -- was recommending in terms of pure premium are in the box on the bottom right?

MR. RAJESH SAHASRABUDDHE: I would

assume that's the case. Yes. Yes, I assume -- yes, I -- I agree with that.

MR. STEVE SCARFONE: So -- and -- and just further to that, four hundred and eighty-four dollars and fifteen cents ($484.15) per vehicle?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. STEVE SCARFONE: For collision?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. STEVE SCARFONE: But the number up top where it reads five -- five hundred and fifty-five dollars and thirty cents ($555.30) that, in -- in your view, is not what Oliver Wyman was suggesting was the pure premium trend that MPIC was using last year for collision?

MR. RAJESH SAHASRABUDDHE: Not to develop the claims incurred provision. I think MPI's trending -- so, it's -- it's a matter of nuance, but in the claims incurred section, which is the basis of the overall rate, there's not -- there's not a separation between trend and -- and experience. There's one (1) model to forecast future claims incurred that's comprised of -- of a combination of essentially a starting value and a way to project that forward.

And that's not always referred to as a trend, whereas in the ratemaking section, they refer to it as a trend, but that's simply to divide up that total provision between various classes, such as motorcycles and commercial vehicles and private passenger vehicles.

So -- so, yes, MPI was using that as a trend and they refer to it as a trend in the -- in the ratemaking section, but it's not a trend that underlies the overall rate level development.

MR. STEVE SCARFONE: I understand. So, Kristen, sorry to have you keep flipping back and forth. If you can scroll -- yes.

So, where it reads there, sir, in the first bullet, and there again it's referenced, the five hundred and fifty-five dollars and thirty cents ($555.30):

> "A visual inspection of the top right panel indicates that the projected pure premium of that amount is unreasonable given the pure premium history for collision."

Do you see that?

MR. RAJESH SAHASRABUDDHE: Yes. Yes.

MR. STEVE SCARFONE: So, that isn't in

reference to MPIC?

MR. RAJESH SAHASRABUDDHE: It's not in -- or it's -- again, we made -- we didn't have a complete understanding or a good understanding of MPI's modelling approach last year, and it is not in reference to the development of the MPI.

I'm sorry, as written, it -- it -- and when we wrote it, we thought it -- we -- we thought we were assuming to the -- referring to the overall rate making process. It's in a chapter of the GRA called 'Ratemaking'.

MR. STEVE SCARFONE: Yes.

MR. RAJESH SAHASRABUDDHE: But it's actually not -- which is, you know, part of what through us off. We look for ratemaking, we saw a ratemaking chapter, and we sort of ran with it.

But -- but over -- over time, we sort of have come to recognize that -- that that ratemaking chapter is, essentially, a classification chapter -- classification analysis chapter, it is not a development of the overall rate level. The development of the overall provision for loss is in the claims incurred section.

MR. STEVE SCARFONE: Okay. Thank you for that. And -- and so, I think you'd agree with me that the development of -- of the actual rate that's used as -- as found in the claims incurred section is a more nuanced approach that would maybe make use of the pure premium trend that you've identified there but does a re-balancing of sorts against the collision frequency, correct?

MR. RAJESH SAHASRABUDDHE: I don't know that it's a more nuanced approach. I think it's just a different approach. I think, in some ways, the fact that MPI uses more statistical analysis in testing in -- in the ratemaking section makes that more nuanced.

The -- in our view, the -- the -- again, as we described, the claims incurred section's only three hundred (300) pages, so that doesn't leave room necessarily for a lot of nuance. And -- and as we described in -- in the evidence that we've prepared, much of the MPI -- MPI projections claims incurred review is as -- as not adopting modelling approaches. It's sort of a much simpler approach.

So, I'd struggle to find a more simpler approach as being more nuanced than a -- than an approach that -- that sort of does look at factors that could be considered nuances.

MR. STEVE SCARFONE: Okay. So, you

would quarrel with me on that -- on the use of the word 'nuanced'. Let me just maybe put this to you then, sir.

The -- the pure premium rate, if in fact the Corporation was being asked to use five hundred and fifty-five dollars and thirty cents ($555.30), is -- is then balanced back against the collision forecast, as I've indicated. But, also, there's an assessment or an adjustment made for each of the major classes on pro rata basis.

You're aware of that now?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. STEVE SCARFONE: Okay. Thank you. And, Kristen, could you pull up MPI-109. MPIC Exhibit 109, sorry.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So, this, sir, is from last year's rate application, and it shows the forecasting that was done for all the -- the major coverages. But you'll see there, sir, at lines 13, 14, and 15 forecasting for collision.

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. STEVE SCARFONE: And you'll see at the bottom that those collision claims costs were totalled at line 25?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. STEVE SCARFONE: And there was a discounting that occurred for product changes?

MR. RAJESH SAHASRABUDDHE: I --

MR. STEVE SCARFONE: At line 14.

MR. RAJESH SAHASRABUDDHE: Oh, in line 14. Yes, I see that.

MR. STEVE SCARFONE: And I will confirm with you, sir, that last year the -- the pure premium trending that you did didn't factor into a consideration for CERP, as it does this year?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. STEVE SCARFONE: And you'll see also that it was -- there was a factor there for the unallocated loss adjustment expense, correct?

MR. RAJESH SAHASRABUDDHE: I -- I do see that factor, yes.

MR. STEVE SCARFONE: And so, as I've indicated earlier, the total claims costs when divided by the projected number of units at line 26 give you the pure premium of three hundred and eighty-seven dollars and twelve cents ($387.12), correct?

MR. RAJESH SAHASRABUDDHE: Yes, I see that.

MR. STEVE SCARFONE: And that would be significantly lower than the five fifty-five (555) that we saw in the report from last year?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct. Now, the five fifty (550) -- again, they're -- I don't view them as necessarily being comparable, but -- but they are -- they -- directly comparable. There -- they're sort of measures, but they're prepared for different purposes.

MR. STEVE SCARFONE: Okay.

MR. RAJESH SAHASRABUDDHE: And -- and I -- there's -- and I actually have not -- I haven't reviewed if there are balancing adjustments from that five fifty (550) because, ultimately, the ratepayer will pay the three eighty-seven (387). So all of the -- the values that sort of underline that five fifty-five (555) will be balanced back to the three eighty-seven (387).

So -- so, in that sense, for them to comparable, I'd have to understand where that -- what that balancing factor looks like, but -- but I'll acknowledge that -- that they're sort of measures of the same -- same value.

MR. STEVE SCARFONE: And -- and -- but, again, I would suggest to you that whether they're comparable is really no moment because they're both just guesses, correct?

MR. RAJESH SAHASRABUDDHE: Yes, they're both -- they're both estimates.

MR. STEVE SCARFONE: Yes.

MR. RAJESH SAHASRABUDDHE: Yeah.

MR. STEVE SCARFONE: And --

MR. RAJESH SAHASRABUDDHE: I use the word 'estimates' rather than 'guess', but -- but that's okay.

MR. STEVE SCARFONE: Yes. And then, Kristen, if you could, please, pull up MPI Exhibit number 15 from this year's application.

And this, sir, represents the actual numbers. You'll see at the bottom there there's the accident year '21/'22. And if we can -- yeah, if you can just keep it so we see the headings. Thank you.

And so you'll see about halfway across there are the collision numbers: 408 million?

MR. RAJESH SAHASRABUDDHE: I do see that, yes.

MR. STEVE SCARFONE: And you'll also

see the number of units there in the first column, correct?

MR. RAJESH SAHASRABUDDHE: Yes, I do.

MR. STEVE SCARFONE: And -- and doing that same math, if you move over to the second last column, you'll see the pure premium number -- the actual pure premium number, four four four point four four (444.44). You agree with that?

MR. RAJESH SAHASRABUDDHE: Yes, I do. Could you remind me, is this part of the RM section or the CI section? Is there a title on this?

MR. STEVE SCARFONE: This is from the ratemaking section.

MR. RAJESH SAHASRABUDDHE: Yeah, okay. Yeah. So, again, in -- in that same context, the context in which we compared that five fifty-five (555) and four forty-four (444), they're the same. I don't know exactly how that would compare to the context of the three eighty-seven (387). But -- a general idea, but I haven't done the calculations to -- to reconcile the two (2).

MR. STEVE SCARFONE: Okay. Thank you for that.

But to the extent that MPIC used three-hundred-and-eighty-seven dollars and twelve cents

($387.12), and the actual turned out to be four-hundred-and-four dollars and forty-four cents ($404.44), they missed.

Would you agree with that? The Corporation did?

MR. RAJESH SAHASRABUDDHE: If -- if those numbers were comparable, I would agree with that. But, again, I don't know that -- I don't know that this pure premium that's presented here exactly corresponds to that three-eighty-seven (387). Because in the RM section, as I've stated, that -- that there's a different use of values in the RM section.

MR. STEVE SCARFONE: And --

DR. BYRON WILLIAMS: Excuse me, Madam Chair. Just for clarity, is my learned friend trying to compare a figure from the CI, or the claims incurred section, to a figure from the RM section?

Is that what you're attempting to do?

MR. STEVE SCARFONE: And I think it --

DR. BYRON WILLIAMS: Because it -- if it is, then I think, analytically, that is objectionable.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Okay. And

perhaps my friend can deal with that on re-direct.

But what we have here, and I think you'll agree with me, sir, that we have an actual pure premium of four-hundred-and-forty-four dollars ($444). Correct?

MR. RAJESH SAHASRABUDDHE: There's a value labelled as pure premium that's four-hundred-and-forty-four dollars ($444). I don't -- I don't know that it's comparable to the other pure premium.

MR. STEVE SCARFONE: Okay. And let's go back to your report. Kristen, if you can again pull up Raj's report from last year.

(BRIEF PAUSE)

MR. STEVE SCARFONE: And if you go to page 14, please. And, sir, this was an analysis that was performed last year on pure premiums for comprehensive. Correct?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. STEVE SCARFONE: And, again, you may quarrel with me on this point, but, in the top right-hand corner, the report was suggesting that the Corporation was making use of a hundred-and-twelve dollars and seventy-five cents ($112.75)?

MR. RAJESH SAHASRABUDDHE: In the RM section, to balance the rate level, yes

MR. STEVE SCARFONE: And the suggestion that was being made by Oliver Wyman was the use of a hundred-and-two-dollars and sixty-four cents ($102.64)?

MR. RAJESH SAHASRABUDDHE: Again, in review of the data in the RM section; not -- it's not -- we don't view that as the -- as the rate that they -- that the Corporation was using as a basis to develop premiums.

MR. STEVE SCARFONE: Okay. And Kristen, can you go to -- back again to Exhibit number 15, please.

And you'll see there, sir, that -- and, again, you'll probably quarrel with me on use of the claims incurred document against one that's a ratemaking document.

But we see there, an actual comprehensive pure premium of eighty-three-point-three-nine (83.39)?

MR. RAJESH SAHASRABUDDHE: Yes, I see that.

MR. STEVE SCARFONE: Which is

significantly lower than both a hundred-and-twelve (112) and a hundred-and-two (102) that was cited in your report. Correct?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. STEVE SCARFONE: And, Kristen, MPI-109, please.

So this was the document we looked at earlier, sir, that had the forecast for the pure premium that MPI used for collision, at the bottom.

MR. RAJESH SAHASRABUDDHE: Yes, I see that.

MR. STEVE SCARFONE: At three-eighty-seven-point-one-two (387.12)?

MR. RAJESH SAHASRABUDDHE: Yes, I see that.

MR. STEVE SCARFONE: And for comprehensive, sir, we could do that same math by adding lines 16 and 17, and dividing that by the number of vehicle units.

MR. RAJESH SAHASRABUDDHE: Yes, I would agree.

MR. STEVE SCARFONE: And subject to check, sir, last year's forecast that MPIC actually used was eighty dollars and nineteen cents ($80.19) of pure premium?

MR. RAJESH SAHASRABUDDHE: That -- that -- just eyeballing it, that seems about right. Yes.

MR. STEVE SCARFONE: Which wouldn't be a material difference from the actual number we just saw of eighty-three dollars and thirty-nine cents ($83.39); about a three dollar ($3) difference.

MR. RAJESH SAHASRABUDDHE: Yes, I wouldn't view it -- again, I just have a hard time comparing the two (2).

(BRIEF PAUSE)

MR. STEVE SCARFONE: On the -- the current report that's before the Board, sir -- and if you could pull that up, Kristen. Or Mr. -- Mr. Raj as I'm going to call you.

MR. RAJESH SAHASRABUDDHE: That's fine.

MR. STEVE SCARFONE: Mr. Raj's slide deck please. And slide 9 and slide 10 I want to examine.

(BRIEF PAUSE)

MR. STEVE SCARFONE: So these summaries, sir, I found helpful. Number 9 has all the coverages and perils that your firm analyzed outside of comprehensive. Correct?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. STEVE SCARFONE: And on the next slide, slide 10 there, we see all of the comprehensive perils that your firm analyzed?

MR. RAJESH SAHASRABUDDHE: Yes. Just -- just, again, a slight nuance, which is that, at times, we would look at it visually and choose not to proceed with an analysis because -- as it looked -- since the results looked reasonable to us.

So if you -- to the extent you consider that analysis, that's true.

MR. STEVE SCARFONE: Your eye test?

MR. RAJESH SAHASRABUDDHE: Yes, the eye test. But -- so as long as you count the eye test as part of analysis, that -- that's true.

MR. STEVE SCARFONE: Well, I'm going to count the eye test because you said it's the most important test.

MR. RAJESH SAHASRABUDDHE: Yeah, that's fair.

MR. STEVE SCARFONE: So let's count the eye test.

MR. RAJESH SAHASRABUDDHE: Yeah.

MR. STEVE SCARFONE: And I see there, three (3) Xs. And on the slide earlier, I saw -- one (1), two (2), three (3), four (4), five (5).

So that corresponds with my Xs. I had eight (8) Xs. You have eight (8) Xs.

I had twenty-four (24) in agreement, which I think differs from yours somewhat. But I don't -- I don't want to concentrate too much on the twenty-four (24).

I want to ask you about the eight (8). But I think you answered my question partly.

The twenty-four (24) that you were in agreement with -- or at least had no concerns raised in the report, did you do a model of your own?

MR. RAJESH SAHASRABUDDHE: No, not -- not in all cases.

MR. STEVE SCARFONE: In some cases?

MR. RAJESH SAHASRABUDDHE: In some cases, we did. Yes.

MR. STEVE SCARFONE: But didn't include those -- those analyses here in -- in the report, correct?

MR. RAJESH SAHASRABUDDHE: Right. If -- if we did a model -- so the eye test may have been inclusive. So then we moved our model, and that might have proven that we didn't have a material issue. And those were -- we didn't submit.

And -- and -- so, I guess the checkmark or -- is -- is, sort of, the implicit submission that -- that we reviewed it and -- and are not raising a concern, whether that be through a model or just through the eye test.

MR. STEVE SCARFONE: But certainly, I would have expected to make a recommendation of one model over another; whether it be yours or MPI's. You would have had to have compared the two (2) models.

MR. RAJESH SAHASRABUDDHE: When -- when, after the eye test, we thought that there was a potential -- that -- that there was an issue to investigate, that would be correct.

But if we looked at it and -- and just recognized immediately that -- that the results look reasonable, we didn't proceed to that step that you just -- that you just described.

MR. STEVE SCARFONE: Okay. So let's deal, if we can -- and again, Mr. Guerra will -- will deal with these in more detail. I just want to go through quickly the eight (8) that -- that your firm took issue with.

One of which, as we see, was weekly indemnity on the frequency side. Correct?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. STEVE SCARFONE: And you would have a lower frequency per one thousand (1,000) units.

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. STEVE SCARFONE: For the two (2) accident years.

MR. RAJESH SAHASRABUDDHE: Yes. So our -- yes. The two (2) accident years that -- in -- that form the basis for the '23/'24 rate level. Yes.

MR. STEVE SCARFONE: And -- and by having lower frequency per one thousand (1,000) units, the effect of that would be that there would be less claims with respect to that and so, therefore, less revenue required.

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. STEVE SCARFONE: And also, sir, for collision, you looked at both frequency and severity. And found that, at least for total losses, both frequency and severity were modelled differently by your firm.

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. STEVE SCARFONE: And for frequency, you would have that lower. Correct?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. STEVE SCARFONE: And for severity, also lower?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. STEVE SCARFONE: Thereby requiring less revenue from the customer. Correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. STEVE SCARFONE: And for comprehensive, sir, again, frequency and severity. For hail -- looking at hail now -- you were fine with on the repair side, but on the total loss side, for frequency, you would have it lower again. Correct?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. STEVE SCARFONE: And thereby requiring less revenue for MPI.

MR. RAJESH SAHASRABUDDHE: Yes.

MR. STEVE SCARFONE: And on the -- on the theft side, you were good on the frequency -- on the frequency area, but for severity, when repairing vehicles, so -- just following along, so the cost of repairing a vehicle that's stolen, but ultimately recovered, you would have those costs lower as well.

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. STEVE SCARFONE: And for vandalism, frequency and severity again, looked at. For severity, your firm was good, but on the frequency side, you weren't happy with the total loss modelling that MPIC did, and again, you would have that lowered, correct?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. STEVE SCARFONE: And so there we're speaking about how often a vandalized vehicle is written off.

MR. RAJESH SAHASRABUDDHE: That's correct. Yes.

MR. STEVE SCARFONE: On property damage, you looked at third-party deductible transfer. You were good with frequency, but on severity you would have that amount lowered as well.

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. STEVE SCARFONE: Thereby, collecting less revenue from the customers again.

MR. RAJESH SAHASRABUDDHE: Yes.

MR. STEVE SCARFONE: On third-party loss of use, frequency and severity, you were good with frequency, but on severity you would have that lower as well and less revenue collected from the customers.

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. STEVE SCARFONE: And so with those eight (8), sir, you'd agree with me that not one of your models had suggested that MPIC had understated and needed to collect more revenue.

MR. RAJESH SAHASRABUDDHE: Yes. We did -- we did not identify coverage where we felt MPI needed to collect more revenue, that's correct.

MR. STEVE SCARFONE: And that would include all the twenty-four (24) with which you're in agreement, none of those modelling, if you did do modelling, didn't identify areas where the Corporation was understating its revenue requirements.

MR. RAJESH SAHASRABUDDHE: Not in a

material way. So we -- so we could have had differences where -- where we thought the Corporation could have been higher, just as some of these we could have had differences where we felt the Corporation could have been a little bit lower. But we didn't think they were material.

MR. STEVE SCARFONE: Okay. So no material changes of the thirty-two (32) coverages and perils that were analyzed would have resulted in the Corporation understating its revenue requirements?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. STEVE SCARFONE: And as it concerns property damage, and the recommendation on the severity front, you'll recognize there, sir, that the 'P' value that your firm used was .29.

MR. RAJESH SAHASRABUDDHE: Yes, I do recall.

MR. STEVE SCARFONE: But a zero trend wasn't used as was last year, where your statistically significant 'P' value was above the threshold.

MR. RAJESH SAHASRABUDDHE: Yes, and as I stated at the beginning that we do think that it's important to understand the 'P' value, to visualize the data and also to -- to recognize the -- the -- the reasons for achieving that 'P' value and what some more recent trends were, though, again, in that sense our analysis this year is -- is -- is more nuance than we had last year.

MR. STEVE SCARFONE: Yes, because last year, as I understood your report, any time the 'P' value was above 5 percent, your firm reverted to zero growth trend.

MR. RAJESH SAHASRABUDDHE: In that context. Yes.

MR. STEVE SCARFONE: But that wasn't the case for the severity recommendation for property damage this year.

MR. RAJESH SAHASRABUDDHE: Yes, I -- I believe that was because the more recent data points were indicating a pretty significant decrease, so this is in third-party loss of use -- I -- I'm sorry, that's --

MR. STEVE SCARFONE: It's the third-party deductible transfer.

MR. RAJESH SAHASRABUDDHE: Oh, deductible transfer, sorry. Okay so third-party deductible transfer on severity -- no, I -- I don't -- yes, yeah, we -- we could -- yes, let -- let's go to the -- the slide, if -- if that's okay. It's slide

39.

So, some -- some of this again gets into nuance and the eye test and understanding why we get low 'P' values and that's really related to the volatility of that one (1) outlying point that -- that you see that's, you know, roughly -- it's the 2018 point.

So -- so while -- so we are proposing an increase, we're just proposing a smaller increase. And so I -- I think earlier you had talked about the Corporation collecting, you know, less revenue. It's not -- it's not less revenue than -- than they collected last year. It's less revenue than we feel they should collect.

And we can look at this data and sort of understand why we're getting that 'P' value and then that we -- we can use that as a basis for our final conclusion.

MR. STEVE SCARFONE: Kristen, if you could go to Raj's report at 34 and -- and it's the same data and same coverage and peril that we looked at on the slide deck. And at page 34 of the report. Thank you. If you scroll down. And, of course, this is for property damage third-party deductible.

There we see the 'P' value of .2941.

Correct?

MR. RAJESH SAHASRABUDDHE: Yes. And -- and I failed to mention there's another factor that we do look at when evaluating 'P' value.

So, as -- as we discussed, the 'P' value is the -- a test to the null (phonetic) hypothesis that the trend is zero (0) and in this case the implied trend is -- is actually very, very small. That .001816, that's under the estimate for accident year, implies a .2 percent trend.

So the -- the threshold for -- for it not being zero (0), becomes harder to meet because it's close to zero (0) to begin with, so that's, again, one of the factors that we would look at and sort of understanding how -- you know, why we get a 'P' value of .30.

So, again, sometimes when the -- when the trend is sort of real close to zero (0) anyway, yet, you can get -- you can get results like this.

MR. STEVE SCARFONE: So, is your -- is your evidence then here, sir, that this trend -- a trend, can be discerned notwithstanding the 'P' value?

MR. RAJESH SAHASRABUDDHE: Yeah. Our focus, consistent with the MPI approach, was to model the future claims incurred values, not explicitly to -

- to pick a trend.

Now, we do -- a trend is an output of that approach, but we're -- we're again, we're trying to be very consistent with what MPI does which is project future claims incurred, not like a trend and -- and that again brings into -- into the discussion, the context in which the model is used.

MR. STEVE SCARFONE: Okay. And -- and similarly, if you go to page 8, of the report, Ms. Schubert.

And it's not as significant, sir, but there was a -- a 'P' value above 5 percent for weekly indemnity, as well. Correct?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct. Just slightly above 5 percent. Yes, at 8 percent.

MR. STEVE SCARFONE: And -- and notwithstanding that the -- your firm is recommending to this Board that it rely on the trending and decrease the frequency per one thousand (1,000) units for frequency? Or weekly indemnity claims, I mean.

MR. RAJESH SAHASRABUDDHE: Yeah, what we're suggesting is that the Board adopt this model to project future claims incurred, not -- not pick a future trend rate.

MR. STEVE SCARFONE: Okay. Now, I -- I want to bring you back. You -- you indicated of the twenty-four (24) with which your firm was in agreement with MPIC's modelling, while there may have been some indication that MPIC was, perhaps, overstating or -- or under collecting based on its modelling, those weren't material in your view, so they weren't included in the report?

DR. BYRON WILLIAMS: I'm just going to interrupt for one second. And we do object to the premise of that question because the witness has stated on a few times, it's not necessarily that they were in agreement with the modelling.

So my learned friend is welcome to rephrase the question but that -- that premise has been contested a number of times in -- in the direct evidence of this witness.

CONTINUED BY MR. STEVE SCARFONE:

MR. STEVE SCARFONE: Okay. So recognizing then, Raj, that the modelling with which your firm doesn't take issue with, you're not necessarily in agreement with the -- the process that may have been used.

But, to the extent that you identified

some perils where the Corporation may have been understating or not collecting enough revenue, those didn't find their way into your report. Correct?

MR. RAJESH SAHASRABUDDHE: I don't think you can take the notwithstanding part into that.

So, yes, they're -- they're not in our report. They're not in our report for the reason that -- that we didn't think it was a material understatement of -- of required revenue.

MR. STEVE SCARFONE: Okay. And you didn't consider that the materiality decision would have been better left with this Board than your firm?

MR. RAJESH SAHASRABUDDHE: We -- so, we didn't want to -- so, when we prepared our report, we wanted to bring to the Board's attention the items that were material. We could, certainly, spend time reviewing all thirty-four hundred (3,400) pages of the document. It's not -- it's not practical for us to do that. We wanted to offer a practical approach to the Board to address items of concern, as opposed to reviewing every item that wa -- wasn't of concern.

MR. STEVE SCARFONE: Okay. Thank you for that. Those are my questions. I think Mr. Guerra had some questions for you as well.

CROSS-EXAMINATION BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Good afternoon and thank you very much for your participation this afternoon, Mr. Sahasrabuddhe, and I hope I pronounced your last name correct. I'm certainly going to do my best.

MR. RAJESH SAHASRABUDDHE: Thank you.

MR. ANTHONY GUERRA: And I'm not going to go over topics already covered by my friend, Mr. Scarfone, but I do want to address more contemporary comments made in your -- your report.

And I'm going to refer, I think, mostly, to the report from your firm dated October 7th, 2022 but feel free, if -- if there is any updates that were addressed in your presentation to -- to bring me to a better figure or whatever the case might be.

Before we get there, though, I'd just like to turn to, Ms. Schubert, if I could ask you to bring up the Oliver Wyman Report from October 7th. So, that would be CAC, Exhibit Number 4, please. And if we can just go to page 41.

Right under the heading here, 'Uncertainty Inherent in Projections'. Your -- your report says:

"Users of this analysis should recognize that our projections involve estimates of future events and are subject to economic and statistical variations from expected values. We have not anticipated any extraordinary changes into the legal, social, or economic environment that might affect the frequency or severity of claims. For these reasons, we do not guarantee the emergence of actual losses or -- will correspond to the projections in this analysis."

Do you see that statement, sir?

MR. RAJESH SAHASRABUDDHE: Yes. I do.

MR. ANTHONY GUERRA: And that is an accurate statement, on behalf of your -- your firm?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And -- and, so, what we should glean from this is that, although your -- your firm, like MPI, does its best to try to figure out what the future might hold in terms of claim losses for the Corporation, there's always going to be some level of uncertainty in that proj -- in -- in that -- that -- that project?

MR. RAJESH SAHASRABUDDHE: Yes. As we discussed before, I called it an estimate. Mr. Scarfone called it a guess but it's an estimation exercise and estimates are -- are bound to be not exactly agree to what the -- the actual emergence of claims.

MR. ANTHONY GUERRA: Right. Would you agree with me, sir, that -- that your job, in estimating future events, including claims, is -- is -- become much harder in -- in the wake of the COVID-19 pandemic?

MR. RAJESH SAHASRABUDDHE: Yes. I would agree with that.

MR. ANTHONY GUERRA: And you'll agree with me, sir, that, to the extent that there -- there still may be some unresolved issues with the pandemic, there -- there still is some of that uncertainty there?

MR. RAJESH SAHASRABUDDHE: Yes. I agree with that.

MR. ANTHONY GUERRA: And, then, I think you spoke about it earlier in your presentation, when you talked about even the -- the work from home situation, that, not having reached, I think, what you said, was an equilibrium.

Do you recall that?

MR. RAJESH SAHASRABUDDHE: Yes. That's a -- that's a personal view, more anecdotal than based on any sort of study, but -- but, yes, that's -- that's my view.

MR. ANTHONY GUERRA: Thank you. One of the main criticisms of -- of MPI's modelling system by -- by your firm has been the -- its use or choice of the linear form modelling as opposed to a log linear form modelling. Is that correct?

MR. RAJESH SAHASRABUDDHE: Yes, which is not to say that they always use a linear form but -- but, at times, they use a linear form, yes, and we -- we've argued that that's not appropriate.

MR. ANTHONY GUERRA: Right. So, for example, in determining weekly indemnity forecasts for frequencies and severities, MPI does already use a log linear modelling form, correct?

MR. RAJESH SAHASRABUDDHE: For frequency, weekly indemnity frequency, I -- I don't have every single model memorized, but I -- I think weekly indemnity frequency they may use a linear model instead of log linear. For weekly indemnity severity, I -- I'm not -- I'm not certain what -- what type of model they use.

MR. ANTHONY GUERRA: Thank you. But your point is that they're not always using a linear modelling form, correct?

MR. RAJESH SAHASRABUDDHE: That's correct. I -- I do know that there are coverages and perils where they do have a log linear model.

MR. ANTHONY GUERRA: But when they do use the linear form of modelling, Oliver Wyman takes issue with that because it's -- it's a less robust way of -- of predicting a future event. Correct?

MR. RAJESH SAHASRABUDDHE: I wouldn't use the word "robust." Robust is a reference to how sensitive it is to -- to -- to outlying arguments. I'd use the word -- I'd use the word "appropriate" because, again, we feel that -- that changes occur on a percentage basis rather than an absolute basis.

MR. ANTHONY GUERRA: Okay. I'm going to ask Ms. Schubert if you can bring up the responses to MPI's Information Requests. Thank you. And, if we can turn to MPI-CAC Number 1, please.

And in this IR, Question A, MPI -- sorry, CAC was asked about the use of linear form modelling and whether or not the use of that type of modelling was accepted actuarial practice.

And if we can go to the response to Question A and it says:

"Accepted actual prac -- actuarial practice is defined by the Standards of Practice of the Canadian Institute of Actuaries. The standards do not specify methodology for trend analysis."

Do you see that?

MR. RAJESH SAHASRABUDDHE: Yes, I do.

MR. ANTHONY GUERRA: And would that be -- would that be consistent with your understanding as well?

MR. RAJESH SAHASRABUDDHE: Yes. I wrote that response. So, yes.

MR. ANTHONY GUERRA: Thank you. I appreciate that.

And I'm also interested in -- in the statement that follows this because I think you've mentioned it -- this -- this quote in your direct evidence. You say:

"In our review of rate filings, we rarely observe the use of linear models for loss extrapolation."

And, then, you say:

"As stated, by Barclay's, since the
inflationary spiral of the 1970s,
the exponential curve has replaced
the straight line as the regression
model of choice. The exponential
model is now commonly accepted, even
by regulators. By fitting an
exponential curve, we actuaries can
avoid the underestimation of losses
that often results from the
decreasing rate of change that is
characteristic of the linear
regression model."

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And that was the quote that you were referring to in your direct evidence, as well. Correct?

MR. RAJESH SAHASRABUDDHE: Yes, it is.

MR. ANTHONY GUERRA: And -- and you'll agree with me, sir, that what this Barclay's quote is -- is trying to address is the problem of underestimating losses that would otherwise result from the use of the linear regression model. Correct?

MR. RAJESH SAHASRABUDDHE: In -- in an

environment in which costs are increasing, a linear model would understate -- understate changes.

In a model where costs are decreasing, a linear model would overstate changes. So, if I can may -- maybe just give a simple example.

If you start at a thousand dollars ($1,000), if you increase by 10 percent a year, you would go to -- in a linear model, it would go a thousand (1,000), eleven hundred (1,100), twelve hundred (1,200). In an exponential model, it would go a thousand (1,000), eleven hundred (1,100), and -- and, then, twelve twenty-one (1,221), I believe, is the number.

So -- so, that's how it would increase and you can sort of -- if you can sort of view that that process is sort of being curved in a straight line. If -- if you sort of mirror that, on the underside, the curve bends down, and it'll -- if you have a 10 percent decrease, so you would go a thousand (1,000), nine hundred (900), and, then, eight -- eight -- eight-o-nine (809), I think, is the number, if I have that right, whereas, you would go a thousand (1,000), nine hundred (900), eight hundred (800). So, it -- it's -- it -- the -- the -- directionally, it's different.

MR. ANTHONY GUERRA: And I -- I actually liked the example that, I believe, you give in another Information Request response. That would be at the PUB's Information Request responses at PUB-CAC-1.

And just to confirm, you also wrote the responses to those Information Requests, as well?

MR. RAJESH SAHASRABUDDHE: (NO AUDIBLE RESPONSE).

MR. ANTHONY GUERRA: You were asked at question A there:

"Can Oliver Wyman quote any studies
that demonstrate that frequency
changes tend to occur on a
percentage basis rather than an
amount basis."

MR. RAJESH SAHASRABUDDHE: Yes, I -- I did.

MR. ANTHONY GUERRA: So, you provide an example in -- in response to question A:

"This analogous between compound
interest and simple interest, for
example, over a three (3) year
period under the linear simple
interest model, one hundred dollars

($100) would grow to a hundred and
thirty (130) with a ten dollar ($10)
growth factor, under a log linear
model, one hundred (100) would grow
to a hundred and thirty-three (133)
with a 10 percent growth factor.
The -- the term "log linear" is a
reference to such models appearing
as a line when the axis is on the
logarithmic -- excuse me,
logarithmic scale."

Is that correct?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. ANTHONY GUERRA: And so, in that example of the simple interest versus the compound interest, what we see is that the amount of interest that one would gather using simple interest is -- is certainly not as much as it would be using the compound interest option, correct?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. ANTHONY GUERRA: And so, in that Barklay's quote, that's the underestimation that they're trying to address by not using the liner regression modelling, correct?

MR. RAJESH SAHASRABUDDHE: Yes, that -- that's correct. In -- in that increasing inflationary environment that he's referring to, yes.

MR. ANTHONY GUERRA: And just to confirm, Oliver Wyman is not of the opinion that there is a requirement for MPI to use the same model for each coverage and for determining frequency or severity of that coverage, correct?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct. In fact, it would be -- it would generally be inappropriate to use the same model every single time. And we actually appreciate the fact that the MPI analysis does appear to look at each coverage separately and on its own.

So, yeah, so we would agree it is not appropriate to use the same model every time.

MR. ANTHONY GUERRA: And also there's an importance here. I believe you talked about the value of internal insights.

Do you recall that?

MR. RAJESH SAHASRABUDDHE: I do. I think it was on my -- on my last slide. I don't think we have that in -- in the -- in the evidence that we submitted.

MR. ANTHONY GUERRA: But in terms of the -- the value of internal insights, what you're talking about there is -- is you're -- you're saying it's important that one knows when predicting future -- excuse me, predicting future events to know one's business, correct?

MR. RAJESH SAHASRABUDDHE: To know one's business and also to -- to have more insi -- the word "insight" in that sense was intended to refer to insights into the past data and why that might not be predictive of the future, but it ultimately gets to the same end, I believe.

MR. ANTHONY GUERRA: Thank you. If we can go to the -- the first coverage -- or first model that's in question in this report and that's the weekly indemnity frequency model.

I believe that it -- this is touched upon at pages 5 -- page 5, rather, of CAC Exhibit Number 4, the report, please.

And so table 3 here, I understand that this shows what MPI estimated for the frequency of weekly indemnity claims and in -- in particular for the red areas there for the years 2023 to '24 and 2024 to '25, correct?

MR. RAJESH SAHASRABUDDHE: Yes, I

believe it's within rounding. I -- I think that's what the -- the footnote refers to, but -- but I'll accept that, that we weren't -- obviously we were looking at PDFs and rounded values, so we can't always get to the exact same value, but -- but it's within rounding tolerance, yes.

MR. ANTHONY GUERRA: Okay. And so, when we have the numbers here, and we're looking in the red area, so we're going to look the third column over, the frequency per 1,000 HTA units.

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And so what we're saying here in this -- in this table is that for every 1,000 HTA units 1.88 of those will have a weekly indemnity claim, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And the severity of that claim, so the amount that MPI would have to pay to resolve that claim, would be fifty-five thousand four hundred and seventy dollars ($55,475), correct?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. ANTHONY GUERRA: Okay. And then

for the next year, 2024/2025, it would be one point eight six (1.86) weekly indemnity claims per 1,000 HTA units, correct?

MR. RAJESH SAHASRABUDDHE: That's correct, yes.

MR. ANTHONY GUERRA: With the severity being the fifty-seven thousand eight hundred and ninety-two dollars ($57,892)?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And Oliver Wyman's response to that, its own alternative modelling would have that one eight eight (188) number go down to one seven eight (178). And I can take you there to the reference if you'd like, but I --

MR. RAJESH SAHASRABUDDHE: Yeah. No, that's my recollection. I agree.

MR. ANTHONY GUERRA: Okay. And -- and then that one eight six (186) number, Oliver Wyman would suggest it go down to one point seven four (1.74)?

MR. RAJESH SAHASRABUDDHE: Yes, that is correct.

MR. ANTHONY GUERRA: In other words, and -- and I've done some math and -- and hopefully you can follow me there, but if -- if we want we can also go through it.

But I think what the effect of this is saying is that when My Friend Scarf -- Mr. Scarfone talked about there being a desire on the part of MPI to maybe over-collect from ratepayers, the amount of that over-collection for Oliver Wyman would be approximately $5.3 million, in the 2023/2024 year?

MR. RAJESH SAHASRABUDDHE: Well, we didn't attribute a motive, when you say desire for MPI to -- to over collect. We didn't attribute a motive to -- nor do we attribute a motive to -- to MPI's approach here.

Our -- our estimate -- our analysis indicates that we -- we believe that the claims incurred will be less than they do. But there's no -- there's no -- there's no -- there's no attribution of a motive for that.

MR. ANTHONY GUERRA: And fair enough. And I -- I appreciate that and -- but it -- but at the end of the day, the amount that would be over collected if MPI -- or could potentially be over collected if MPI's numbers were selected by the PUB would be to the tune of $5.3 million in the 2023/'24 year, correct?

MR. RAJESH SAHASRABUDDHE: That sounds

approximately correct. I -- I don't have the calculation in front of me, but --

MR. ANTHONY GUERRA: Okay. But subject to check?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: Thank you. And if I can ask, Ms. Schubert, if you can turn to the claims incurred chapter of the rate application.

One (1) of the concerns I -- I believe, Mr. Sahasrabuddhe, that your firm has with some of the presentation by MPI is that it's difficult to understand why it's predicted a -- a certain trend, correct?

MR. RAJESH SAHASRABUDDHE: No, in general, at least be -- at least through the IR -- adding the IR process to the GRA and -- and understanding that -- that it's subject to an IR process, I think you can get to an understanding.

It's not always apparent in the original GRA and recognizing that -- that maybe the Board is sort of focussed on just the GRA, or at least that's initially what they get to receive. It may be difficult in that sense, but -- but allowing for an IR process, I -- I believe you can get there.

MR. ANTHONY GUERRA: Okay. If I could

ask -- Ms. Schubert, if you could turn to page 23, please. Page 23 at line 7. MPI does provide a -- its explanation as to why it chose data from the years 2015 to 2019. And it says at -- starting at line number 8 there:

"The 2015 to 2019 trend was used to forecast claims freq -- frequency, rather. This was to align with the collision frequency assumption."

Do you see that, sir?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And if we can turn to page 44, please, and go to line number 1 after this figure, please. In terms of the collision repair frequency MPI says:

"Some of the reduction in frequency from the past eight (8) years is related to mild winters. However, there's also been a reduction in summer collision frequency over the past eight (8) years during the 2021/20 -- sorry, 2020/2021 and 2021/2022. MPI experienced significant decreases in frequency due to COVID-19. MPI removed the impacts of COVID-19 to forecast the frequency for the 2023/2024 rating year. As such, MPI trended the 2015 to 2019 frequencies in to the forecast years."

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do see that, yes.

MR. ANTHONY GUERRA: Is it your position, Mr. Sahasrabuddhe, that this is not a sufficient explanation for excluding the years that MPI did and simply focussing on the 2015 to 2019 years?

MR. RAJESH SAHASRABUDDHE: So, it's -- it's an explanation, but it's an explanation without -- without an easy way to understand the -- the data. So, there's -- you know, there's -- there's a discussion as to -- as to the basis, but how is that basis supported by the data is -- is difficult to see.

So, for example, '15 through '19, you know, visually -- again, I don't -- I don't have it in front of me, collision repair frequency. I don't know if that's... Let's see if I have that.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: Yeah. I'm sorry. I don't have -- just in -- in terms of process, again, this was not -- this was not an area that -- that we -- we disagreed with. And as I said, it's not every single coverage in peril where we feel that there's not a sufficient explanation.

Sometimes there is a sufficient explanation. But we do believe that having a visualization of this data showing why '15 through '19 are consistent and appropriate for projection -- projecting into the future is much more valuable. I could read this all day and still have no idea whether '15 through '19 are -- if there's something else that's unusual in those years.

MR. ANTHONY GUERRA: Okay. Fair enough. And so what your firm did was to include the years 2012 to 2014, so basically adding a few -- three (3) more years prior to the 2015 start of the -- MPI's period, correct?

MR. RAJESH SAHASRABUDDHE: Yes. I believe in general, MPI starts with 2012; not with every single coverage, and sometimes those data points weren't included. But -- but I do believe that -- that many, if not most, of the models are -- that are in the claims incurred section include data all the way back to 2012. I don't recall what the table in the CI section for -- for collision repair frequency included.

MR. ANTHONY GUERRA: Okay. So I'm going to suggest to you again that MPI used 2015 to 2019, but whereas Oliver Wyman included also the years 2012 to 2014. And I can take you there to the reference if you'd like, but that's the suggestion.

DR. BYRON WILLIAMS: Just for clarity, and I'm not -- but you're referring to the weekly indemnity frequency. You're not referring to --

MR. RAJESH SAHASRABUDDHE: Oh, I'm sorry.

DR. BYRON WILLIAMS: -- collision repair and I'm sorry to interrupt --

MR. ANTHONY GUERRA: That's right. No, no, no, that's right. Yeah. Yeah, and my apologies if that was confusing.

MR. RAJESH SAHASRABUDDHE: Yeah. Thank you. Okay. No, no, that's -- okay. I apologize. I -- I thought we were referring to collision frequency here, the -- because the '15 through '19 -- the -- the reference of '15 through '19 is in the collision section.

So -- so I guess returning to weekly

indemnity where the logic is that we want to align weekly indemnity frequency with collision repair frequency. And that's -- that's the stated logic.

And while we recognize that collisions are going to be correlated with -- with weekly indemnity claims, I would say that potentially there's less correlation bet -- and we -- and -- and I will say, we didn't study the correlation between coverages. So this is just my view of understanding coverages that are offered in the auto insurance product.

So weekly indemnity claim is going to result from a more serious accident, more likely to be a total loss -- not always -- more likely to be a total loss, and that may not align with the fender benders that you might get in the repair coverage.

CONTINUED BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: It may also result from example of a pedestrian being hit, correct?

MR. RAJESH SAHASRABUDDHE: That's correct, yes.

MR. ANTHONY GUERRA: And so if there were, for example, an increase in pedestrian collisions, that could -- that could change this number?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And in response to an Information Request, I'm going to ask Ms. Schubert if you can turn to MPI-CAC number 2, please.

At Question B, MPI asked for the rationale for using the 2012 to 2014 data. The response that was received there was that they are data basically to be used and so it was put into the model. Is that fair to say?

MR. RAJESH SAHASRABUDDHE: Yeah, could we look at the question again?

MR. ANTHONY GUERRA: Yes, of course. Sorry.

MR. RAJESH SAHASRABUDDHE: Yeah. So -- okay. So the -- we -- we -- you know, perhaps too literally, we interpreted the question very literally: "Why did you include the data in your figure?" And the response was:

> "We included it in the figure because it's data that underlies the model."

I don't know if that was too literal -- literal an interpretation of what the question was intended to ask.

MR. ANTHONY GUERRA: Okay. And in response to a question put to your office by the PUB -- and if we can go to PUB-CAC question number 3, please. Question 3(a), please:

"In reviewing that Figure CI-14, would Oliver Wyman agree that the 2012 accident year is a relatively high point for claims counts and hence likely to generate a higher trend in R-2 than the use of less data points?"

Do you see that question, sir?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And the response, if we can go down to it, Ms. Schubert.

"The inclusion of the high 2012 value on the left side of the regression line with result in a lower, more negative trend."

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do, yes.

MR. ANTHONY GUERRA: So in other words, when we talked about the rationale for using the 2012, 2014 data whereas MPI excluded that, you would agree that one (1) of the results of selecting at least the 2012 value was to drive down the negative trend.

MR. RAJESH SAHASRABUDDHE: Yes, including the 2012 value will produce a more negative trend. We agree with that, yes.

MR. ANTHONY GUERRA: Thank you. If I can move on now to the -- I'm just being mindful of the time here, so I'm not going to take up too much more time on this.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: If we can turn to the collision total loss frequency model, which is at section 4 -- of page 10 of the Exhibit 4, CAC Exhibit 4, please.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: And so I understand that this sets out the -- excuse me -- the frequency -- yeah, the frequency of claims incurred with respect to both repair and total losses, correct?

MR. RAJESH SAHASRABUDDHE: That's

correct, yes.

MR. ANTHONY GUERRA: And what is your understanding, sir, of what a total loss is?

MR. RAJESH SAHASRABUDDHE: It's, I think as we discussed earlier, when a vehicle needs to be written off; when essentially the cost of repair exceeds the value of the vehicle.

MR. ANTHONY GUERRA: Could it also occur, sir, when a vehicle can't be repaired?

MR. RAJESH SAHASRABUDDHE: Yes. I would -- I would assume so. I'm not a -- I'm not a claims expert, but that would seem to make sense that, if -- if a vehicle can't be repaired, it has to be written off.

MR. ANTHONY GUERRA: That could be things like due to the nature of the damage; some damage just can't be repaired. Would you agree with that?

MR. RAJESH SAHASRABUDDHE: Again, I'm not an expert in auto body repair, so, yeah.

MR. ANTHONY GUERRA: Right. It could also result from things like the availability of parts to repair the vehicle, correct?

MR. RAJESH SAHASRABUDDHE: I -- I don't know about that. If -- if it's a time element, would an insurer write off the vehicle? That's a -- that's a question that I can't answer. If it's that the parts will never be available, that -- that's a -- that's a different question.

But if it's just a matter of it will take an extra two (2) months for us to get these parts, I don't know what the insurer decision would be in that case.

MR. ANTHONY GUERRA: Sir, would you agree with me that, in the event that parts are not readily available for a vehicle that -- and it may require significant repairs, it may be on the cusp of being a vehicle that would be deemed a total loss, that you might have a -- a ratepayer or a claimant advocate stronger for an insurer to determine that the vehicle is a total loss?

MR. RAJESH SAHASRABUDDHE: Again, that's not an area of my expertise, behavioural economics, on -- on something like that, so I -- I wouldn't really know.

MR. ANTHONY GUERRA: Okay, thank you. And what we see here on Table 5 -- sorry, if we can go to the next page here -- is that MPI is estimating its collision total loss frequencies for the 2023/2024 and 2024'2025 year, correct?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. ANTHONY GUERRA: And for the frequencies, we see the twenty five point five five (25.55) per one thousand (1,000) HTA units as the frequency?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MR. ANTHONY GUERRA: And for the severity, eight thousand five seventeen (8,517)?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: Thank you. And just to confirm again, the Oliver Wyman alternative estimates would have that twenty-five point five five (25.55) number go down to twenty-four point six seven (24.67), subject to check?

MR. RAJESH SAHASRABUDDHE: Subject to check, I'll agree with that, yes.

MR. ANTHONY GUERRA: And in-- in doing the math, in terms of the difference and what that would mean practically for MPI, is that if this -- this Board were to accept the Oliver Wyman alternative methodology, that would -- that would reduce the amount that MPI would need to collect from ratepayers by approximately twenty-five point seven million dollars ($25.7).

MR. RAJESH SAHASRABUDDHE: By how much, I'm sorry?

MR. ANTHONY GUERRA: Twenty-five point seven (25.7) million.

MR. RAJESH SAHASRABUDDHE: Twenty-five point seven million. Yes. Again, the reason I'm sort of just hesitating in answering that question is I'm looking at the results in the claims incurred column. So it would move the two-o-five (205) down to one eighty (180), which would be a record high relative to all the prior years.

But -- but, yes, that -- that -- it would be a reduction relative to the two-o-five (205).

MR. ANTHONY GUERRA: Okay. And one (1) of the issues that -- that your office took with the frequency model used by MPI in this case is that there was a belief that maybe there was a potential larger impact of the work-from-home adjustment on collision.

Do you understand -- or agree with that?

MR. RAJESH SAHASRABUDDHE: Yes, but potentially, we -- we've seen a little bit of that in other provinces. And we have a -- a working theory.

But, again, it's areas that we had not studied or analyzed.

MR. ANTHONY GUERRA: How can we reconcile that statement with the statement that begins the report by saying that -- that Oliver Wyman is not necessarily challenging the 5 percent work-from-home adjustment that has been presented by MPI in this case?

MR. RAJESH SAHASRABUDDHE: Given the uncertainty, we believe that the 5 percent is a reasonable provision. It -- it could vary. The -- it -- as with all estimates, as we discussed earlier, the actual results are going to differ from 5 percent, and they are likely going to differ by coverage.

But -- but we think 5 percent is -- given -- given the uncertainty and how much work from home will reduce driving and -- or miles driven and claim frequency, that we think 5 percent is a reasonable estimate at this point in time, you know, subject to change as the experience emerges.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: And just to confirm, it's -- it's the opinion of your office that post-pandemic challenges, if any, and that might include things like inflation, or availability of parts, that won't have any impact on whether or not there will be the -- the likelihood of a total loss claim will increase?

MR. RAJESH SAHASRABUDDHE: It's -- no, no, the -- the position that we're taking is that's -- that's an area outside our expertise, supply chains and economic issues, not that it won't have any effect.

MR. ANTHONY GUERRA: And I understand from the report that there was an observed recent trend from 2017/2018 of a decrease in frequency, correct?

MR. RAJESH SAHASRABUDDHE: Obser -- in -- for collision total loss?

MR. ANTHONY GUERRA: Yes. I don't know if table 5 still helps you, but...

MR. RAJESH SAHASRABUDDHE: No, I -- I can see it in -- in the data. Yes. Yes, there was a decreasing trend and -- yes. And you can -- you can see it in table 5, as well, where the -- actually, it's... Let me see here.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: Right. So it's the -- the decrease from twenty-eight point six eight (28.68) to twenty-seven-o-seven (2,707) to twenty-five twenty-one (2,521). That's the decrease that we were referring to.

The next point is obviously COVID affected. '21/'22 has some COVID effect, so -- so we don't know exactly how predictive that is. But, again, that's a decrease over that twenty-five twenty-one (2,521) level.

MR. ANTHONY GUERRA: But if you exclude the COVID years, sir, you'll agree with me that we're only talking about two (2) years of data for a decreasing trend, correct?

MR. RAJESH SAHASRABUDDHE: That's correct.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: Your office made some recommendations in terms of the use that -- that MPI should put of its actuarial team now that there are more staff available to work on projects.

Do you recall that line of questioning?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: Or statements, rather --

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: -- from your direct evidence.

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And if I can ask, Ms. Schubert, there was a reference to the presentation provided by MPI in respect of -- I think it was the ratemaking panel. Yes. And if we could go to slide number 6, I believe it is.

Mr. Sahasrabuddhe, you see here how MPI has four (4) actuaries -- a compliment of four (4) actuaries on its staff?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And I'm assuming your firm would take no issue with -- with a corporation the size of MPI having four (4) actuaries in its compliment?

MR. RAJESH SAHASRABUDDHE: Again, it's an -- it's an area that -- that we're not experts in. There are firms, mostly commercial lines writers, that focus on underwriting, less on actuarial, so -- so there are sort of mixes in there, but...

So, yeah, I don't know the day-to-day

responsibilities to see if -- if one (1) person could potentially do two (2) roles. But -- so I can't really comment in that -- in that sense.

MR. ANTHONY GUERRA: You, sir, have advocated though that MPI should be -- now with its resources should be able to provide better data for this Board, correct?

MR. RAJESH SAHASRABUDDHE: Yes. Yes.

MR. ANTHONY GUERRA: And so to that extent, this would be something you would support the ability for MPI to have more resources to be able to provide that data?

MR. RAJESH SAHASRABUDDHE: Yes, but I -- I don't -- I don't actually know what sort of resources it would take for MPI to -- to provide that data because outside of pricing, I don't know all of the other actuarial tasks that -- that MPI actuaries perform, so it's hard for me to gauge whether -- whether the staff size is sufficient to -- to do it.

We're just suggesting that MPI focus on those areas because that's what drives the -- the premium. The matter of the resources necessary to focus on the areas is -- is sort of a separate question that I'm not qualified to answer.

MR. ANTHONY GUERRA: Okay. Now, you

see here the -- the latest position here, the director of business inside the analytics?

MR. RAJESH SAHASRABUDDHE: I do see that, yes.

MR. ANTHONY GUERRA: And that would be something that you would support, as well, the creation of that specific role to look at that aspect of the business?

MR. RAJESH SAHASRABUDDHE: Again, it's not our position to tell MPI how to run their business. I would say it's not unusual to see that sort of a position at an insurer.

MR. ANTHONY GUERRA: And -- and this is obviously not the first insurance company that your firm has been working with, correct?

MR. RAJESH SAHASRABUDDHE: Oh, and to be -- to be clear, we never work with an insurance company. We're always on the public stakeholder side.

MR. ANTHONY GUERRA: And -- sorry. And I appreciate that. When I say, "working with them," I'm -- I'm saying broader speaking that -- to the extent that you're involved in either criticizing or supporting their operations through the lens of the -- the public stakeholder.

MR. RAJESH SAHASRABUDDHE: Yes, that's

correct.

MR. ANTHONY GUERRA: And in -- in your experience performing that function, you would agree with me, sir, that this would be something that would not be unreasonable or would be expected for a corporation the size of MPI?

MR. RAJESH SAHASRABUDDHE: When -- when we perform the activities, as you just described them, and we tend to work with very targeted teams, so it's the team that prepared the rate application or the team that's responsible for running a model. So it's hard for us to know what the overall staff size is.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: And one (1) last comment -- or one (1) last question, I should say. At page 8 of your presentation this morning -- or sorry, this afternoon, rather, you brought to the Board's attention the fact that the original GRA -- and I'm assuming you're referring to the GRA that was filed July 12th, 2022, correct?

MR. RAJESH SAHASRABUDDHE: Yes. Yes.

MR. ANTHONY GUERRA: You mentioned

that there were approximately thirty-four hundred (3400) pages with approximately three hundred (300) devoted to the claims incurred chapter, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: Is it your evidence or your recommendation for this Board that MPI focus more of its time on explaining in its rate application its decision on claims costs and less on other things like claims expenses or operating expenses?

MR. RAJESH SAHASRABUDDHE: I think the -- the effort -- it's more not around explanation, but more time to the modelling of claims costs and more effort. And to the extent that the page count is reflective of the modelling effort, that would be true.

But that's not to -- that's not to -- meant to reduce a -- that's not meant to reduce the amount of time that they're spending currently on any of the other categories. And, again, it's not meant to be about explaining; it's meant to be about modelling and estimating as submitting those claims costs.

MR. ANTHONY GUERRA: Okay. Thank you, sir. I have no further questions.

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

MS. KARA MOORE: Thank you, Madam Chair. And just for timing, I think I'll be about twenty (20) minutes.

CROSS-EXAMINATION BY MS. KARA MOORE:

MS. KARA MOORE: Good afternoon, Mr. Sahasrabuddhe.

MR. RAJESH SAHASRABUDDHE: Good afternoon.

MS. KARA MOORE: My name is Kara Moore and I'm one of Board counsel. And I'll just be asking you some questions today regarding the Oliver Wyman report, as well as the presentation that you made earlier this afternoon.

First, Oliver Wyman's findings and conclusions generally fall into two (2) categories: First being, differences in selected trends; and second, differences in trend methodology.

MR. RAJESH SAHASRABUDDHE: We -- I'd probably use the word "model," instead of "trends." But -- but other than that, that's an accurate statement, yes.

MS. KARA MOORE: Sure, thank you. If

I could refer now to table 2 of the Oliver Wyman report, which is for the record CAC Exhibit 4.

(BRIEF PAUSE)

MS. KARA MOORE: Thank you, Kristen. In this table, you presented distribution of discounted claims cost by coverage.

MR. RAJESH SAHASRABUDDHE: That's correct, yes.

MS. KARA MOORE: And collision claims cost made up 60.2 percent.

MR. RAJESH SAHASRABUDDHE: That's correct.

MS. KARA MOORE: Earlier in your presentation, you said that total loss collisions make up slightly above 40 percent of the collision costs?

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KARA MOORE: If collision, as a whole, makes up 60.2 percent, and we multiply that by the 40 percent just discussed, then total loss collisions would make up about 25 percent of the discounted claims cost by coverage.

MR. RAJESH SAHASRABUDDHE: Yes, I would agree with that. Yes.

MS. KARA MOORE: Still on table 2, comprehensive claims cost was 11.9 percent.

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KARA MOORE: Income replacement indemnity claims cost, which is also referred to in the Oliver Wyman report as weekly indemnity, made up 10.6 percent?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MS. KARA MOORE: All other claims costs made up a smaller portion of total claims cost.

MR. RAJESH SAHASRABUDDHE: Yes. Unless you combine the accident benefits, in which case that's about the same as those other coverage.

MS. KARA MOORE: Thank you. I'm now going to ask some questions regarding Oliver Wyman's finding and conclusions that relate to differences in selected trends.

I'll focus my questions on two (2) coverages, which may have the greatest potential impact on the current rate indication: Collision total loss and comprehensive hail.

I did have some questions about weekly indemnity, but Mr. Guerra asked all of them. So I won't be going over that.

So looking to collision total loss, Oliver Wyman recommended alternative models in both frequency and severity estimates.

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MS. KARA MOORE: If we could turn to MPI-CAC-3, please.

(BRIEF PAUSE)

MS. KARA MOORE: And I'm looking at response 'A'. Thank you.

Oliver Wyman recommended 179 million and 187 million for total claims incurred for collision total loss in 2023/'24 and 2024/'25 accident years, respectively.

MR. RAJESH SAHASRABUDDHE: Yes, that's the response. But could we just look at the original question, just -- just for the moment.

MS. KARA MOORE: Sure.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: Yeah. So the response is sort of framed in the way the question was posed, that the use of the word 'recommending', we sort of return that in the response.

Our view is that -- that we believe this is a more reasonable estimate and -- so you could take that as a recommendation, but I don't -- I guess, in -- in, sort of, my understanding of our remit to the Board, it's not necessarily to provide a recommendation per se but it's to review -- recommendation of specific amounts but, rather, to identify areas where we think a more reasonable estimate would be appropriate.

MS. KARA MOORE: Okay. Thank you. So just looking back at the numbers in this response, though, these are in comparison to MPI's calculation, which can be found on table 5 of the Oliver Wyman report. If we could go back to that table.

(BRIEF PAUSE)

MS. KARA MOORE: So there it is. So the numbers that you provided in the response that we just looked at are in comparison to the numbers that MPI provided, being 205 million and 219 million, respectively.

MR. RAJESH SAHASRABUDDHE: Yes.

Subject to check, I'll -- I'll agree with that, yes.
MS. KARA MOORE: Sure. And just for the record, I'm looking at the claims incurred column for years '23/'24, and '24/'25.
MR. RAJESH SAHASRABUDDHE: Yes.
MS. KARA MOORE: Another way to put this would be that Oliver Wyman's response was a reduction of about 26 million and 32 million, respectively.
MR. RAJESH SAHASRABUDDHE: Yes.
MS. KARA MOORE: Which is a 12 to 14 percent reduction.
MR. RAJESH SAHASRABUDDHE: Yes.
MS. KATHLEEN MCCANDLESS: Subject to check.
MR. RAJESH SAHASRABUDDHE: Yeah. Yeah.
MS. KARA MOORE: Looking at the differences in your frequency estimates, if we go to MPI-CAC-3 which I believe we were just at.

(BRIEF PAUSE)

MS. KARA MOORE: Looking at question 'A'. So the first part of this question was whether

Oliver Wyman is recommending that MPI use a frequency per one thousand (1,000) HTA units for its Collision total loss claims incurred of twenty-four-point-six-seven (24.67) for the 2023/'24 year and twenty-four-point-five (24.5) for the '24/'25 year.

And going down to the response, which we just looked at, Oliver Wyman -- the first part of Oliver Wyman's response was confirmed.

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MS. KARA MOORE: Okay. And if we could flip back to table 5 of the report. We can see that the frequencies that MPI projected for those respective years are twenty-five-point-five-five (25.55) and twenty-five-point-five-one (25.51).

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KARA MOORE: Which would be a 3 to 4 percent difference in frequency estimates in relative terms.

MR. RAJESH SAHASRABUDDHE: That sounds about -- about right, yes.

MS. KARA MOORE: Thank you. Would you agree that the main difference in trend is due to the exclusion of 2010 and 2011 from your model?

MR. RAJESH SAHASRABUDDHE: For

frequency modelling?

MS. KARA MOORE: Yes.

MR. RAJESH SAHASRABUDDHE: Yes, I generally agree that that's the primary driver of the -- of the difference between our estimate and the MPI estimate.

MS. KARA MOORE: Thank you. Both models have a negative adjusted R-square, which I understand to mean that neither of them does a very good job of explaining the changes in frequency over time. Is that accurate?

MR. RAJESH SAHASRABUDDHE: I don't have those statistics in front of me. It would -- it wouldn't surprise me, I guess. But -- but I don't have the adjusted R-squared and R-squared statistics in front of me.

MS. KARA MOORE: Okay. If I could now refer you to figure CI-34 from the -- MPI's CI section of the General Rate Application.

I would note it appears that the projected frequency for 2022/'23 was 2.6 percent for total loss.

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KARA MOORE: And if I could now refer to MPI Exhibit 119, Kristen.

(BRIEF PAUSE)

MS. KARA MOORE: So MPI recently filed this exhibit, which -- which is the updated total loss frequency. And it provides a frequency of 1.9 percent for 2022/'23. Do you see that?

MR. RAJESH SAHASRABUDDHE: 20 -- okay so for 20 -- okay. So that is an updated frequency comprised of four (4) months of actual and eight (8) months of projection is the way I would read this.

MS. KARA MOORE: Okay.

MR. RAJESH SAHASRABUDDHE: And that the -- that the grey areas are actuals through June 31. That the -- that the non-grey, the non-shaded areas, are projections.

I don't know how those projections were developed, but I -- but I do see, sort of, higher projections for November, December, January, February, you know, the winter months, lower projections in March and -- and that the totality of all of that experience averages out to that 1.9 percent. So, I would agree with that.

MS. KARA MOORE: Thank you. And what effect would that reduction have, if any, on the findings -- or on Oliver Wyman's findings that MPI's frequency projection is overstated for 2023/'24 and 2024/'25?

MR. RAJESH SAHASRABUDDHE: Could we look back at -- at our table for total loss frequency. I could probably just estimate it based on that.

So, here, so we are at, again, different, presumably a different normalizing factor here, but -- so the observed is around nineteen (19), right, that's the current projection for 2022/'23.

If -- if I -- if I convert the scale, I -- I -- I think that's how -- I think that's how that works. The 1.9 would convert to -- to nineteen (19) in this -- in this table. So, if I'm doing that correctly, I -- I think, again, it argues for the idea that observed frequency is -- is coming in, you know, less hot than -- than they had projected.

MS. KARA MOORE: Thank you. Now, I'd like to ask a few questions regarding the severity estimates for collision total loss.

Since the overall change in claims incurred was projected at 12 to 14 percent and the frequency change made up 3 to 4 percent, that would mean the severity change was about 9 to 10 percent?

MR. RAJESH SAHASRABUDDHE: Close enough. They're not additive but -- but I'll -- I'll accept that, yes.

MS. KARA MOORE: If we could look at figure 6 of the Oliver Wyman report, please. Thank you.

The severity amounts that you are projecting are seven thousand seven hundred and seventeen (7,717) and eight thousand sixteen (8,016), respectively.

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MS. KARA MOORE: Those numbers compare to the actual severity in 2021/'22 of seven thousand seven hundred and five (7,705).

MR. RAJESH SAHASRABUDDHE: In 2022, that -- just -- looking at the chart, that appears to be the right number.

MS. KARA MOORE: Another way to put this, is that it's an increase of only $12 from 2021/'22 to 2023/'24.

MR. RAJESH SAHASRABUDDHE: Oh, I'm sorry, so 2022 -- I -- I'm sorry, I got lost there. So, you are referring to the -- the updated projections that they just provided, that seventy-five hundred (7,500)? Is that -- where -- where did -- I -- I -- I'm lost as to where the seventy-five hundred

($7,500) is from.

(BRIEF PAUSE)

MS. KARA MOORE: Okay. We'll table that question for now.

MR. RAJESH SAHASRABUDDHE: Okay.

MS. KARA MOORE: If we could turn to MPI-CAC-3, at question F. So, in this Information Request, MPI asked whether Oliver Wyman believed that post-pandemic challenges, such as labour shortages and supply chain issues, will make it less or more likely that total loss claims will increase in the next two (2) to three (3) years.

MR. RAJESH SAHASRABUDDHE: I see that.

MS. KARA MOORE: And, if we could scroll down to the answer on the following page.

The answer was that Oliver Wyman expected that these challenges would have no impact on collision total loss frequency, but will put upward pressure on collision total loss severity.

MR. RAJESH SAHASRABUDDHE: Yes. That -- that was our response. We -- we probably should have qualified it. Or I should say, I should have probably qualified it and, you know, noted that these are areas that -- that were not -- we're not experts in supply chain and labour markets and -- and those sorts of issues.

And, I would -- I would mention, I think in preparing this response, I -- I think we were giving sort of, theoretically, what we think might happen, but -- but it's not an area that we're experts in, so I just want to be -- be clear about that.

MS. KARA MOORE: Sure. Thank you. And if we could go to MPI-CAC-4, at response B.

In response to a question that MPI asked regarding whether Oliver Wyman had made any specific adjustments to data over a very -- a variety of factors, Oliver Wyman did not make any specific -- answered that it did not make any specific adjustments to the data for the increase in MIV, new salvage management system, tradition -- transition rather to auto-techs (phonetic) or increase in the value of used vehicles.

MR. RAJESH SAHASRABUDDHE: That -- that's correct. We didn't have any -- if it is in the GRA, I -- I didn't see it, so we weren't able to identify what the effect of -- of those might be, whereas the CRP adjustment is included in the GRA.

MS. KARA MOORE: Thank you. So there

was no documentation provided by MPI that mentions specific adjustments to the data that they may have made for any of the items discussed.

MR. RAJESH SAHASRABUDDHE: Not that I recall.

MS. KARA MOORE: How many claims would you normally consider for full credibility for collection coverage?

MR. RAJESH SAHASRABUDDHE: So there's -- there's -- I guess, I'll call it, there's sort of a traditional answer to this, which is usually one thousand eighty-two (1,082).

But -- but -- but that standard was developed to estimate what the error -- an acceptable error in average severity and that standard sort of gets applied everywhere, and, you know, whether or not it's exactly that same use case.

So, the -- the idea is if you have a thousand eighty-two (1,082) claims, you can roughly predict what the average severity. If you take the average of that, that's going to be close enough to what the true average is. That the statistical variation will -- will sort of wash out over that many claims.

It's -- it wasn't a standard that was

developed to -- in -- in that context, it wasn't -- wouldn't necessarily apply exactly to projections of claims incurred values, but -- but it's something that's commonly used to say, we have a significant amount of data here.

MS. KARA MOORE: Thank you. And actual claim count for 2021/'22 was over twenty thousand (20,000) claims. Correct?

MR. RAJESH SAHASRABUDDHE: I -- I don't know the exact numbers, but that -- that sounds about right. Yes.

MS. KARA MOORE: Okay. Thank you. How do you reconcile the projected severity for 2023/'24 being about the same as 2021/'22?

MR. RAJESH SAHASRABUDDHE: The projected severity for 2020 -- sorry, could you repeat that?

MS. KARA MOORE: The projected severity for 2023/'24 being about the same as 2021/'22.

DR. BYRON WILLIAMS: And just -- just for clarification, are you referring to the Oliver Wyman's evidence or the MPI? Sorry, I was -- just for clarity, just whose projection?

(BRIEF PAUSE)

MS. KARA MOORE: It would be Oliver Wyman's projection.

DR. BYRON WILLIAMS: Could you just re-state the question, please. Could you restate, sorry, I'm not speaking --

CONTINUED BY MS. KARA MOORE:

MS. KARA MOORE: Yeah. No, that's no problem. So the question is: How do you reconcile the projected severity for 2023/'24 being about the same as 2021/'22, and that's referring to the Oliver Wyman projection.

MR. RAJESH SAHASRABUDDHE: Okay. Could we go -- Ms. Schubert, could we go to slide 22 of our -- so I think that's a reference here and, again, the -- the years in question are -- are which two (2) years?

I -- I -- I think it's the last blue dot there, right, that dot and then the first red -- filled red dot. I -- I think that's -- I think that's what the reference is to.

And -- and again, our view is that and -- and -- and I understand the line of questioning with, you know, how reliable is that one data point.

And remembering what credibility is, it's what's -- what's the chance that the -- the true severity is reflected in that data point, but there could be some unusual claims in that data point. That doesn't mean that it -- that that data point is fully credible as a predictive value. That just means that, within that data point, that -- that there are -- that -- that the claims volume within that data point provides an accurate prediction of the true value.

And our view is that we look at the totality of the data. For example, there's a much larger increase from 2020. So, there -- there's a dip and an increase and we try to look at -- at -- at all of the data in making our projection and your -- and, as we've discussed earlier, actual results are going to deviate from the projections.

This was a case where it deviated on the high side, the '21/'22 estimate. The 20 -- 2020/2021 estimate deviated on the low side. So -- so, we try not to think in terms of comparing one point to our projection. We try to think in terms of comparing our projection to the totality of the data. That's why we look at charts like this.

MS. KARA MOORE: Thank you. I am now

going to ask some questions regarding comprehensive hail total loss frequency. So, if we could turn to MPI-CAC-5. And, Kristen, perhaps, if you can stop at Question A, and Mr. Sahasrabuddhe, if you just want to review that question, because I am going to go over your answer.

MR. RAJESH SAHASRABUDDHE: Okay.

MS. KARA MOORE: And if we could scroll down to the answer, please. So we can see that the response from Oliver Wyman is a recommendation that MPI use about four point nine million (4.9) and five point one million (5.1) for total claims incurred for comprehensive hail total loss for the 2023/'24 and 2024/'25 accident years, respectively?

MR. RAJESH SAHASRABUDDHE: Yes. I see that.

MS. KARA MOORE: So, comparing that to MPI's number, by my math, and I'll ask you to bare with me here. So, we're first going to look at Table 5 from the Oliver Wyman Report.

So, looking at the HTA Units for 2023/'24, the number is nine hundred and forty-eight thousand nine hundred and eight (948,908)?

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KARA MOORE: And if we could, now,

go to -- keep that number in mind. If we could now go to Table 7.

So, if we multiply that number by the two point one four (2.14) frequency, divide by one thousand (1,000), then, multiply by the severity of three thousand seven hundred and sixty-seven (3,767), we get about seven point six million (7.6).

MR. RAJESH SAHASRABUDDHE: I'll accept that. Can -- can we look at Footnote 10? I -- I know comprehensive was one where we had more difficulty reconciling -- it should be at the bottom of that page. I just want...

Okay, I -- I just wanted to see what our disclosure was and rounding differences there because we did have more -- more of an issue tying out our total calculation on comprehensive.

MS. KARA MOORE: Okay, thank you. So, if you'll accept that calculation, subject to check, with that in mind -- and if we could stay on Table 7 -- Oliver Wyman's recommendation is compared to MPI's -- and, when I say Oliver Wyman's recommendation, I'm referring back to that response that we looked at --

MR. RAJESH SAHASRABUDDHE: Understood.

MS. KARA MOORE: -- is compared to MPI's numbers, as shown on Table 7, of seven point six million (7.6) and seven point eight million (7.8), respectively?

MR. RAJESH SAHASRABUDDHE: Yes. I do think those are comparable. Again, subject to check, I haven't calculated them, but they -- they -- they appear to be the comparable numbers. Yes.

MS. KARA MOORE: Thank you. Put another way, Oliver Wyman's recommendation would be a reduction of about two point seven million (2.7) in both years.

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KARA MOORE: Or about a 35 percent reduction?

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KARA MOORE: If we could go to MPI-CAC-5, at Question A, please.

In this question, MPI seeks to confirm whether Oliver Wyman is recommending that MPI use a frequency for its comprehensive hail total loss claims incurred of one point three eight (1.38) for both the 2023/'24 and 2024/'25 accident years.

And if we scroll down to the response, the first part of the response is Oliver Wyman's confirmation that this was accurate?

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KARA MOORE: If we could go back to Table 7 of the Oliver Wyman report, we see that MPI projected frequency, for those two (2) years that we discussed, which is in the red font, at two point one four (2.14) and two point one one (2.11)?

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KARA MOORE: And this is about a 35 -- so, the recommendation is about a 35 percent reduction?

MR. RAJESH SAHASRABUDDHE: That sounds about right. Yes.

MS. KARA MOORE: And, so, frequency would make up all of the difference, given that Oliver Wyman took no issues with MPI's severity model?

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KARA MOORE: And so, Oliver Wyman ended up fitting a log linear model on frequency per HTA over the 2012 to 2021 years but with only the intercept, is that correct?

MR. RAJESH SAHASRABUDDHE: So, it's a -- it's -- it's a process. That's where we ended up. The -- the initial model did look at changes over time but, between the visual inspection and the modelling statistics, the -- the decision was made to drop the -- the effective trend or time, and that only left in what's called the intercept. So -- so, we didn't directly proceed to that conclusion but -- but that's where we ended up. Yes.

MS. KARA MOORE: Thank you. Is it correct to say that a log linear model with only the intercept does not select the average claim severity observed over the last 10 years?

MR. RAJESH SAHASRABUDDHE: Yes. That's -- that's correct. It would -- it's the average of the log values as opposed to the log of the average and -- and that does create a difference. Yes.

MS. KARA MOORE: By trying to fit the log, I understand it -- it biases downward to reduce the error and selects a value substantially lower than the average claim severity over the last 10 years.

Is that accurate?

MR. RAJESH SAHASRABUDDHE: I -- I haven't -- it -- it -- I haven't done the calculations but I would expect so because, when you take logarithms, it suppresses the outliers, so it'll bring some of the higher points down.

So I -- I -- I think -- I think that's right but -- but I haven't -- I haven't actually looked at that calculation in -- in quite a while.

MS. KARA MOORE: Thank you. If we averaged the total loss frequency in Table 7 from the 2012/'13 year to the 2021/'22 year, we would get an average of two point three six (2.36).

Would you accept that?

MR. RAJESH SAHASRABUDDHE: I would accept that. Yes.

MS. KARA MOORE: So, your selection of one point three eight (1.38) is more than 40 percent lower than this?

MR. RAJESH SAHASRABUDDHE: Again, not -- not having calculated the percentages, I -- I -- I'll accept that that's true. I -- I would suggest that -- that -- that the recent experience is -- is significantly better than that long-term experience.

So -- and I would, just to get back to the question about the log -- just to clarify about -- what it would do is that the percentageness (sic) would be the same, even though the absoluteness would be different, so, you know, the understatement on -- the potential understatement would be on a percentage basis.

MS. KARA MOORE: Thank you. And the two -- the two point three six (2.36) that we just discussed, being the average, is higher than -- than the -- than that was -- that was selected by MPI?

MR. RAJESH SAHASRABUDDHE: Yes. I guess this -- this maybe returns to your question about credibility.

So, if it takes a thousand hun -- if it takes one thousand eighty-two (1,082) points to have full credibility, for an average, you know, what does that imply about ten (10) points having full credibility. It means that it doesn't really have a lot of credibility, so -- meaning that there's, you know, a pretty significant range of -- of uncertainty around that -- the predictive value of that ten (10) point average.

But -- but I take what you're saying, that just -- just on its -- on its face, the predictive value is less than the ten (10) point average but just -- just imagine if we, you know, dropped -- even just dropped the first two (2) points, how much that would move because we have two high points at the beginning.

MS. KARA MOORE: If we could look now at figure REV-4. Thank you.

MPI selected the average counts observed over the last ten (10) years which essent -- essentially implied a negative trend equal to the volume growth factor. Is that correct?

MR. RAJESH SAHASRABUDDHE: I'm sorry, could you repeat that question.

MS. KARA MOORE: Sure. So, my question was: MPI selected the average claim counts observed over the last ten (10) years which, essentially, implied a negative trend equal to the volume growth factor?

MR. RAJESH SAHASRABUDDHE: Yes, I'd agree with that.

MS. KARA MOORE: So, do you maintain the position that a model that selects a frequency that's over 40 percent lower than the average observed claims frequency over the last ten (10) years is the most appropriate?

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: I'm just trying to parse -- parse your question in my mind.

So, again, this is an estimation exercise. There's -- there's -- the -- the approach that was suggested about this taking of this ten (10) year average, there's -- there's certain underlying assumptions in that approach about normality and consistency and not having -- not having residuals in the same direction. And all of that stuff is generally not true with this data, as I look at it.

Though -- so, that's the basis on which I would suggest that our estimate is -- is reasonable.

MS. KARA MOORE: Thank you. I just have a few more questions specifically with respect to differences in methodology.

Is it a conclusion of Oliver Wyman that MPI should consider the use of log-linear models instead of linear models or the averages of several year-to-year trends?

MR. RAJESH SAHASRABUDDHE: Yes, we -- we would agree with both approaches.

MS. KARA MOORE: Given the potential bias downward of log-linear model where only the constant term remains, would your recommendation to use log-linear models still hold in the event of no observable trend?

MR. RAJESH SAHASRABUDDHE: Yes, if the data's log normally distributed, that -- that would be -- that would be consistent. So, you would have to make an assumption about the -- the distributional form of the data.

MS. KARA MOORE: Thank you. Is it

Oliver Wyman's position that MPI should be using a trend -- should be using trend periods, rather, with more than four (4) accident years?

MR. RAJESH SAHASRABUDDHE: In general, we believe they should review trends over -- longer than four (4) accident years. There may be particular circumstances where -- where there's a reason -- there's a basis for only looking at four (4) accident years. So I -- I wouldn't sort of go to that con -- go to that conclusion. Again, we would note that GISA distributes twenty (20) years of data.

Most insurers will look at GISA data, which is twenty (20) years of data and then they may -- they may have a final model that's only based on the last four (4) years and -- and that's fine, but -- but they've reviewed the data over all twenty (20) years.

MS. KARA MOORE: Do you have a recommendation for a minimum number of years?

MR. RAJESH SAHASRABUDDHE: So, if you have a log-linear model you have two (2) parameters in the model. So what happens is if you have the number of data points and the number of -- the relative num -- volume of data points to parameters tells you how -- how predictive the model is likely to be in what's called 'out-of-sample', so the future prediction. So how well it fits the data versus how well -- how predictive it's likely to be in the future.

And I would say just as a rule of thumb, I would like to see eight (8) data points, but it's -- it's a very loose rule and there's another way to get there which is to look at data by half year. So we could go with four (4) years, but we look at half years and understand seasonality.

So, it's -- it's not -- it's -- it's a -- it's a review and a decision that has to be made in every single circumstance. I would -- I would say that, in general, we would view four (4) annual data -- we would fit a two (2) -- we would view a two (2) parameter model fit to four (4) data points as not being sufficiently robust.

MS. KARA MOORE: Thank you. Is it Oliver Wyman's position that MPI should not be projecting off the last data point, as it gives too much weight to any noise in that data point, where noise is the random fluctuation?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct.

MS. KARA MOORE: Does this depend on how many claims make up the last data point?

MR. RAJESH SAHASRABUDDHE: It -- yes,

it -- it can, certainly.

MS. KARA MOORE: Do you have a recommendation for a minimum number of years to use as an average to start from or would you always recommend the result of the regression, which would essentially mean using all of the years?

MR. RAJESH SAHASRABUDDHE: So we would -- we would suggest generally using -- we would suggest using the results of the regression, but we wouldn't specify that all years would be necessary in the regression; that the -- the regression model -- the model should be fit to -- to the data but there may be reasons for not using some of the older periods.

You know, for example, right now we have a situation where we don't want to use two (2) of the more recent data points because they were affected by the COVID-19 pandemic.

So, it's not always to use all the data points. It is to fit a regression model, but it's not always to use all of the data points.

MS. KARA MOORE: Thank you. And I'll just circle back to that question that we tabled earlier and that'll be my last question.

So, if we could go back to Figure 6 of

the Oliver Wyman report.

(BRIEF PAUSE)

MS. KARA MOORE: Thank you. So, prior to the question that I had asked, we had just looked at these numbers, eight thousand and sixteen (8,016) and seven thousand and seventeen (7,017).

You recall that?

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KATHLEEN MCCANDLESS: And so, my question had been that those numbers compare to the actual severity in 2021/'22 of seven thousand seven hundred and five (7,705). And the reference for that number is table 5 in this report which is page 11, Kristen, if we could go there.

MR. RAJESH SAHASRABUDDHE: Yeah, I don't think you actually have to go there. Again, I think that's the -- the filled blue dot. You can see that it's sort of -- if we could just go back to where we were.

This is the same data that's -- that you're referring to. That -- that point that you're pointing to is -- you know, I'm guessing that number that -- that you described. And again, there are --

are -- that's one (1) data point in -- in a series. We don't believe in ever using one (1) -- just one (1) data point.

What if we had -- you know, what if -- why wouldn't MPI decide to start with the 2020/2021 data point, which shows that dip? This is severity, it's not frequency, so it's not quite as COVID affected.

So, you could see how -- how different the answers would be based on -- on where that starting point is which is why we suggest that you never just rely on one (1) data point.

Now, we don't know why that -- that point is so much higher than the history, just as we don't know why 2020/2021 is so much lower than the history, but -- but the regression model sort of teases that out. It says, this is what the history would say, and you know, these data points, we have, you know, one (1) lower, one (1) higher, and -- and they sort of have an offsetting effect or they slightly move it -- move it up and -- and that's why we believe in sort of a model-based approach.

So, the reason is that -- that you have an unusual -- the reason -- there's a direct answer to your question as to why the numbers are so close, is you have an unusual data point in that one (1) year. Is it unusual and predictive or is it unusual and not-predictive? That's the -- that's the judgment to make.

MS. KARA MOORE: Thank you. And so those are all my questions. Thank you, Mr. Sahasrabuddhe. And I apologize to the Board for going quite a bit over my twenty (20) minute estimate.

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

MS. JENNIFER SOKAL: No questions.

THE PANEL CHAIRPERSON: Mr. Gabor...?

BOARD CHAIR GABOR: I have two (2) questions. Sir, for your eight (8) coverages or perils that didn't pass the eye test, were there differences between your approach or methodology and MPI.

Do you have a total of what the revenue difference would be?

MR. RAJESH SAHASRABUDDHE: We estimated it at 5 percent of incurred claim costs. It would be a pretty daunting exercise for us to replicate the entire MPI model, but -- but that was our estimate: five (5) -- approximately 5 percent of claim costs.

BOARD CHAIR GABOR: And Mr. Guerra may need to help me with this. I just want to make sure I got this correctly. He -- he talked about using 2012 values and -- and driving down the trend, and I just want to make sure I understand the answer.

Is it -- is it that you used 2012 in order to drive down the trend or is it that the result of using 2012 drove down the trend?

MR. RAJESH SAHASRABUDDHE: Yes. And --

BOARD CHAIR GABOR: Because I didn't know by your answer which it was and I'm -- I was a little concerned I maybe misinterpreted.

MR. RAJESH SAHASRABUDDHE: Yeah. So thank you for -- for allowing me to clarify.

No, the -- that was -- we don't go into it to achieve a particular result. We -- we looked at the data and that was the -- the end result.

BOARD CHAIR GABOR: Okay. Thank you, sir.

THE PANEL CHAIRPERSON: Ms. Nemec...?

BOARD MEMBER NEMEC: My question is a little more on the linear versus log linear model, and that is looking at -- your recommendation is the log linear model. And I'm just wondering, with your history of work across Canada? Are organizations using the log linear model? And part B to that question is is that something that is an industry practice? Is that something that is -- we see in -- in industry now?

MR. RAJESH SAHASRABUDDHE: Yes, I would say that again it's -- it's not -- not that we track it, but it's very rare that we see it --

BOARD MEMBER NEMEC: I didn't mean to choke you up.

MR. RAJESH SAHASRABUDDHE: No. It's the -- I think it's the pollen. I'm not sure what it is, but...

BOARD MEMBER NEMEC: It's too cold for pollen.

MR. RAJESH SAHASRABUDDHE: Yeah. Yeah. Maybe it's dust. I'm not sure.

But, yes, we very rarely see a linear model. We almost exclusively see log linear models. I can't say that I've never seen it, but it would be a very, very small percentage of times. And, you know, whether it's -- I guess in that sense I would call it an industry standard, but it's not as if there's a part of the standard of practice that says that you should do it this way.

BOARD MEMBER NEMEC: Okay, thank you.

Also, one (1) of the things I think you mentioned was, in choosing -- you did mention this, an estimate, that there's judgment involved, but I think you also mentioned, and I just wanted to get your comments on it, that when you -- you do do an estimation, that there should be documentation for the reasons for your choices and to ensure transparency and -- and proper disclosure. Is that -- is that what you said?

MR. RAJESH SAHASRABUDDHE: Yes, that -- that's correct. Yes.

BOARD MEMBER NEMEC: So -- and that is kind of what you see is that documentation and disclosure as you're reviewing --

MR. RAJESH SAHASRABUDDHE: Yes.

BOARD MEMBER NEMEC: -- other --

MR. RAJESH SAHASRABUDDHE: Because we often work direct -- and I'm sorry, I didn't mean to cut you off. But -- but we -- we're often working directly for the rate regulator, and -- and that's really -- it's inquiries that we make of the filer so that the rate regulator can understand the basis for -- you know, the basis for the decisions that are made.

As you may be aware, there's sort of different regulatory approaches, you know, throughout the country. You have FSRA in Ontario that's using more of a principles-based approach, so they rely very heavily on that. Where some other provinces are a little bit more prescriptive.

And so particularly in a prin -- principles-based approach that -- that they have in Ontario, they -- they do -- they do, you know, consider the -- the judgments of the filer very heavily as long as they're well supported. And that's really what -- what we're looking for.

BOARD MEMBER NEMEC: Okay. Just my second question, very quickly, was: The first time I looked at it was on -- or I marked it down in my notes was on page 21 of your document that you presented today, and it was about the -- the most recent data point, and that was on collision total loss.

Has -- was that most recent data point used in various models or the various different coverages or was that sort of one (1) singular area?

MR. RAJESH SAHASRABUDDHE: Yeah. I know it wasn't only one (1), but I don't recall how many.

It's possible that it might have been the only one. There were -- yeah, there was one where they used the last two (2) data points and averaged them, so it's not as if it was never done. But I don't recall if there were any other coverages where there was -- where they leveraged off just the current data point.

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

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

Mr. Williams, any re-direct?

MR. BYRON WILLIAMS: I don't believe so but if you'll just give me a second.

Thank you. We're good and we appreciate the opportunity.

THE PANEL CHAIRPERSON: Thank you very much. Thank you very much, Mr. Sahasrabuddhe, for participating here today and Mr. Schneider, your back row.

We'd like to adjourn for the day, but would ask counsel to stay, please, so we can have a discussion about the order on Monday when we reconvene.

MR. STEVE SCARFONE: And, Madam Chair, just while we're still on the record because we won't appear again until closing, we have two (2) more exhibits I'd like to read in and an answer to Mr. Gabor's question on the Treasury Board, if I can do that.

THE PANEL CHAIRPERSON: Sure, please do.

MR. STEVE SCARFONE: Okay. So Exhibit number 121 is the estimated broker commissions, an eleven (11) year comparison, an update of IBAM-2-2, Figure 1.

--- EXHIBIT NO. MPI-121: Estimated broker commissions, eleven (11) year comparison, update of IBAM-2-2, Figure 1

MR. STEVE SCARFONE: And Exhibit number 123, is an estimated broker commissions, eleven (11) year comparison, updated Undertaking of number 12, Figure 1.

--- EXHIBIT NO. MPI-123: Estimated broker commissions, eleven (11) year comparison, updated Undertaking 12, Figure 1

MR. STEVE SCARFONE: So both of those represent undertakings given under the undertaking panel.

And I'm told by Mr. Guerra that there's -- that just leaves one (1) undertaking outstanding, and it's Undertaking number 38, which we hope to get filed and circulated tomorrow.

And then as it concerns a question by Mr. Gabor, regarding PwC and Project Nova, the Treasury Board was provided with PwC reports number 16 and 17, so those were the ones in June and August of 2021.

And those were the reports that made the suggestion that an independent review -- review was required. So I don't know if that answers your questions concerning that.

BOARD CHAIR GABOR: It does but it contradicts some other information, so we'll talk about it after the hearing.

MR. STEVE SCARFONE: Okay.

DR. BYRON WILLIAMS: Madam -- Madam Chair, I'll just --

THE PANEL CHAIRPERSON: Mr. Williams...?

DR. BYRON WILLIAMS: -- ask your permission. I know you want counsel to stay in the room. I -- I would like to be permitted just a couple of minutes with our witness before we --

THE PANEL CHAIRPERSON: Certainly, yeah. Thank you.

--- Upon adjourning at 4:48 p.m.

Certified Correct,

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Wendy Woodworth, Ms.