MANITOBA PUBLIC UTILITIES BOARD

Re: MANITOBA PUBLIC INSURANCE CORPORATION (MPI)

2024/2025 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

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APPEARANCES

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--- Upon commencing at 9:00 a.m.

PANEL CHAIRPERSON: Good morning, everyone. Mr. Guerra, do you have some exhibits to enter?

MR. ANTHONY GUERRA: Morning, Madam Chair. Yes, I do. MPI Exhibit number 110 is -- is its response to Undertaking number 21; MPI Exhibit number 111 is its response to Undertaking number 22; MPI Exhibit number 112 is its response to Undertaking number 3; and MPI Exhibit number 113 is its response to Undertaking number 9.

--- EXHIBIT NO. MPI-110: MPI response to Undertaking 21

--- EXHIBIT NO. MPI-111: MPI response to Undertaking 22

--- EXHIBIT NO. MPI-112: MPI response to Undertaking 3

--- EXHIBIT NO. MPI-113: MPI response to Undertaking 9

PANEL CHAIRPERSON: Thank you. Ms. Dilay...?

MS. KATRINE DILAY: Madam Chair, Mr. Klassen will actually do the direct for this witness.

PANEL CHAIRPERSON: Thank you. Mr. Klassen...?

MR. CHRIS KLASSEN: Good morning, Madam Chair. CAC (Manitoba) would like to welcome Mr. Rajesh Sahasrabuddhe of Oliver Wyman to the MPI GRA hearing room, and we thank the Board for the opportunity to present the witness this morning.

Mr. Sahasrabuddhe has not been pre-qualified in this proceeding, and so CAC (Manitoba) will seek to have him qualified as an expert witness this morning on the same terms as in each of the past two (2) General Rate Applications.

Subject to the Board's direction, we're prepared to walk Mr. Sahasrabuddhe through his qualifications. We note, however, that MPI has indicated that the Corporation does not oppose the qualification of the witness and that his CV is on the record as an attachment to CAC Exhibit 1-3.

And so if the Board wishes, it may be more efficient to move direct ahead with the direct evidence, but again we're prepared to walk through the qualifications if the Panel wishes.

PANEL CHAIRPERSON: Thank you, Mr. Klassen. No, if MPI is prepared to proceed on the basis of going right to direct evidence, I think that's the appropriate thing to do. Thank you.

MR. CHRIS KLASSEN: Thank you, Madam Chair. And so then, on the basis of the materials filed, CAC (Manitoba) will propose to have the witness qualified to give evidence on actuarial analysis with a particular focus on pricing, ratemaking, and risk related to automobile insurers generally. And we'll invite the witness to be affirmed before he begins. Thank you.

CAC (Manitoba) Panel:

RAJESH SAHASRABUDDHE, Affirmed

EXAMINATION-IN-CHIEF BY MR. CHRIS KLASSEN:

MR. CHRIS KLASSEN: Mr. Sahasrabuddhe, you'll confirm that you've prepared a report that's filed on the record of this proceeding?

MR. RAJESH SAHASRABUDDHE: Yes, I have.

MR. CHRIS KLASSEN: And it's your understanding that that's on the record as Exhibit

CAC-5?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. CHRIS KLASSEN: And, sir, you also have prepared this presentation before us today?

MR. RAJESH SAHASRABUDDHE: I have.

MR. CHRIS KLASSEN: And we have entered this on the -- on the record as Exhibit CAC-11.

And, sir, you'll confirm as well that on the -- in response to your report, you received and responded to Information Requests from both the Public Utilities Board and Manitoba Public Insurance?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. CHRIS KLASSEN: And all the documents that you've just referenced, sir, were prepared by yourself and your team under your care and control, correct?

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

MR. CHRIS KLASSEN: And, sir, lastly, you'll confirm that on the basis of your retainer with CAC (Manitoba), you have a duty to the Public Utilities Board to be fair, objective, and non-partisan?

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

MR. CHRIS KLASSEN: And that you've prepared your evidence in a manner consistent with that duty?

MR. RAJESH SAHASRABUDDHE: I have.

MR. CHRIS KLASSEN: Thank you, sir. With that, we'll invite you to begin your presentation.

MR. RAJESH SAHASRABUDDHE: Okay. Thank you. If we could move forward one (1) more slide.

So you may notice that it's a -- it's a ninety (90) -- ninety (90) page slide deck, so we'll try to go through it relatively quickly and, you know, get through it as expediently as possible.

So this is the agenda slide which again presents the -- which -- which sort of reviews the sections that -- that I'm going to review this morning. We'll -- we'll have a summary section.

Our first most material item which is the -- the issue of accident year weights, so we'll be focussing on that item and the second item which relates to loss trends.

And then finally, we have 3 -- sections

3 and 4, which are largely commentary and informational related to merit rating and an issue related to the run-off of prior periods.

So, again, in -- in summary, as you -- as you know, MPI submitted their General Rate Application in June of 2023. You're obviously very familiar with the PUB mandate.

And, as Ms. Klassen reviewed, our -- our view and our duty and our understanding of our duty in preparing this evidence that I'm going to present today is -- is described there but, most importantly, to be fair and objective and nonpartisan and provide assistance to the PUB. Go to the next slide, please.

So our goal -- or my goal this morning is to provide our view on -- based on our review of the General Rate Application to support the assessment of -- of various matters.

We're going to focus on the first and last bullet point, the idea that the forecasts are reasonably reliable and that the rates are just and reasonable.

Some of the other areas we felt were, I think, better served by some of the other Interveners in this -- in this Application.

In execu -- in providing that information, we focussed on the overall claims forecast, so the overall amount of -- of loss included -- loss and expenses included to support the -- the required premium and the merit rating in DSR -- DSR programs.

So -- and then the other -- the other areas, again, the class ratemaking, there are Interveners, again, representing the motorcycles and taxis. And the classification ratemaking we felt was -- was better -- better addressed by them, so it's more of an issue fo those Interveners.

The appropriateness of expenses, including unallocated claims adjustment expenses, we'll talk about that at a high level, but our -- the scope of our review didn't include an evaluation as to whether the expenses themselves were appropriate, but rather whether the premium reflected the expenses that were reported.

So I'll -- I'll talk more about that when we get to the third section.

And investment policy, again, a significant part of the rate application relates to the amount of investment income that MPI will be able to collect. I think, as -- as you're aware, the

October update changed the indicated rate by almost a percent and a half, not quite, but about, I think, 1.35 percentage points which is, again, a fairly significantly change.

So, you'll understand the -- the materiality of the investment assumptions but, again, that's not an area that we're -- that -- that we're going to provide evidence on, nor are we qualified to provide evidence on that item.

So as we organized our review, we reviewed Order 64/'23. And we essentially grouped the items that we felt were within the scope of our expertise into -- into three (3) areas.

The first item is -- is the overall rate level change, and there were three (3) issues in -- in that area, the projection of claims and expenses and vehicle counts.

So that -- that's where -- that's where we'll spend actually most of our time, or that's where -- that's the -- the focus of the presentation today.

Item number -- issue number 2 relates to the large loss loading, and that was based on Order 4-'23 and Directive 2. And again, that's an area that -- that has a larger affect on the classification rates because the -- the crux of the issue is -- is how -- how you spread the large loss load to the different classifications.

So, initially, we thought that that was an area that we might focus on but -- but, ultimately, we are leaving that to the other -- other Interveners in this proceeding.

And then claims forecasting is -- is actually very -- very closely aligned with -- with issue number 1.

There's -- we also looked at the -- the second group relates to merit rating, so how you reward or penalize good or bad driving respectively. And -- and we have a -- we have some commentary on the MPI approach towards that.

And then, the final set of issues which we grouped together were a five (5) and sixteen (16) which was -- which really just related to how well prior -- prior period estimates are -- are -- are preforming, given the experience to date.

So, as we -- as we -- as we review the loss components today, we just wanted to sort of provide the -- provide the -- the -- the Board with the sense of -- of the composition of the overall -- overall premium, including items that are -- are -- are offsets result in additional revenue.

So, the -- the items that I'll be reviewing today are principally related to that longest bar, that claim cost including allocated loss adjustment expenses, which represents seven hundred and ten dollars ($710) of the rate or approximately 76 percent of the overall rate.

We'll also have some commentary on the unallocated loss adjustment expenses, so that's the -- the second longest bar there. And -- and -- and then the other items, which are sort of the -- the smaller bars, are really the expenses and we'll review those in -- at a sort of an aggregate level and -- and really just sort of define, you know, how we reviewed those and -- and what we looked at.

But, again, the focus is really going to be where we think it should be, which is where the 76 percent of the rate is and relates to the claim costs including allocated expenses.

Now, within claim costs, there -- there -- there are various coverages that we're going to review and -- and so we'll just ask you to sort of keep this in mind.

The collision coverage represents the -- the bulk of the claim costs, well over half of the claim costs and so, when we think about materiality of the alternative -- alternatives that we're going to propose, it's -- it's important to understand that -- that sometimes that -- that -- that adjustments for certain coverages are going to be more material than adjustments for other -- others, and sort of on the extreme end, a -- a small adjustment for collision could be -- or is likely to be much more important than a -- a large adjustment for bodily injury.

So, just -- just to sort of keep -- keep the perspective as to the -- the distribution of claim costs.

So, as we reviewed the 2024 General Rate Application, we did observe several changes from the 2023 Rate Application. And the -- the first four (4) are, in particular, are quite important and really -- they're really consistent with our view of best practices for developing the rate.

So, we -- you know -- we -- we look very favourably on those changes that -- that MPI has -- has instituted. So, number 1 is the increased use of statistical analysis. I think we discussed this last year about how that's a better approach to separate signal and noise from -- from the claims data.

Revised coverage groupings, we -- we

believe that the approach where there was a little bit -- there was more aggregation of coverage groupings provides more credibility to the data, rather than reviewing some of the costs as -- as finely as -- as MPI used to.

The use of accident year weighting in estimating loss costs, we believe that provides a more robust starting point for the projection of future losses. And, obviously, accident year weightings are -- are really one of the areas where -- or actually the -- the area we have the -- the biggest difference or the most material difference and what we believe is a -- a reasonable estimate of loss costs from those proposed by MPI.

The application of a COVID-19 work-from-home adjustment, again, these are -- the -- this -- the experience period underlying the rates is -- is obviously, as we know, quite unusual. We had a once -- hopefully, a once in a lifetime event in the COVID-19 pandemic and recognizing that and incorporating the -- incorporating the unusual nature of the event, we think is -- is important in -- in developing -- developing an -- an estimate of the rates.

The other items, again, we -- we also think are improvements, but the starting point is the

2022 appointed Actuary Report for Frequency and Severity. We will talk about that a little bit in -- in -- in the review of -- in the review of trend rates.

Tail loading is important as well. In -- in many -- in many ways, this is sort of very similar to the issues on actuarial weights and COVID where, when you have unusual events that there -- there's generally an appropriate way for dealing with those unusual events and -- and we believe that the way that MPI now loads for the hail events is an improvement over -- over the previous approach and then, finally, the -- the PIPP indexation.

BOARD MEMBER GABOR: Sir, I'm sorry to -- to interrupt.

MR. RAJESH SAHASRABUDDHE: No. It's fine.

BOARD CHAIR GABOR: Kristen, can you go back to the previous Screen 9? There are people who are watching this live stream --

MR. RAJESH SAHASRABUDDHE: Yes.

BOARD CHAIR GABOR: -- and I'm just wondering if you could go across the bottom for the acronyms of what the letters --

MR. RAJESH SAHASRABUDDHE: Sure.

BOARD CHAIR GABOR: -- because I -- I'm concerned they're -- they're looking at these charts not having the foggiest notion what the -- what the letters mean.

MR. RAJESH SAHASRABUDDHE: Sure. I'm happy to do that and -- and -- and please let me know if I speak too fast I -- I note for the record as well.

So, just reading left to right, the -- the -- the first one is 'Accident Benefits Other Indexed', so it's the -- the accident benefits coverage. It's subject to indexation.

The next one is 'Accident Benefits Other Non-Indexed'. So, that, again, is accident benefits coverage that's not subject to indexation.

Bodily Injury. CL is Collision. CM is Comprehensive. The next item is 'Income Replacement Indemnity', sometimes, also referred to as Weekly Indemnity, in -- in some of the other -- or Accident Benefits Weekly Indemnity, in some of our other slides. And, then, the last item is Property Damage. So, again, those are the various coverages that the auto insurance product provides to insureds in Manitoba. Okay?

CROSS-EXAMINATION BY MS. KATRINE DILAY:

MS. KATRINE DILAY: And, sir, I -- I also have one (1) question for you, relating to Slide 10 which, I think, you referred to are changes from the 2023 GRA, and I believe you've referred to looking favourably upon these changes, and were some of these changes recommended by the Oliver Wyman team last year?

MR. RAJESH SAHASRABUDDHE: Yes. I think, in particular, One and Two were important changes that we recommended last year, and they're also consistent. As -- as -- as the Board may be aware, we -- we provide analyses for reg -- public stakeholders in automobile rate regulation.

It's not always the -- the regulator directly and -- and, really, every single border province, except for Quebec and PEI and, in particular, we provide reports that are in the public record in Ontario, Alberta, Newfoundland, and Nova Scotia, and the approaches that MPI adopted are -- are very consistent with the approaches that we use in providing information to regulators in -- in those provinces.

Okay. So, I'd like to move forward, just at -- at a high level. I have a -- a few slides that really sort of try to outline the methodology that MPI employs in estimating -- estimating claim costs.

So, the first item is -- or the first -- I'll call it the first step is there's a development of trend and mobility factors. So, this is an analysis to -- to support the adjustment of past experience to the current levels and, again, we'll -- we'll talk about trend factors because that's an area that -- or the estimation of trend factors because that is an area of -- of difference that we've presented in our evidence.

Those trend factors are, then, applied to the historical experience to -- to -- to adjust all of the -- all of the experience to a common cost level, in this case, a -- a 2022 cost level.

Then, the -- the -- the adjusted experience which, again, is now on the common cost level is -- there's a review of -- of -- of the estimates for the various years and a weighted average is -- is -- is then used to move forward, essentially, from -- from that point -- from the 2022 point and that -- the -- the -- the -- this -- the series of years that are included in the weighted average is typically referred to as an experience period so -- so

I may use that term going forward.

And -- and in this case, again MPI looks at 2017 through 2022, and -- and we'll -- we'll talk about that. That's the -- the six (6) years as noted in the last bullet point, the '17/'18 through '22/'23 years.

Then to project forward, MPI applied a -- a work-from-home adjustment that -- that recognizes the -- the change in -- essentially, the change in driving and commuting patterns post-2020, or the expected change in driving and commuting patterns after 2022.

And then they also include an -- an adjustment referred to as future trend which captures the changes in -- in cost levels.

So one is really -- the work-from- adjustment is more about exposure, so insureds are driving more, and then the second adjustment is really about increasing cost levels or increasing frequency and severity -- or changing cost levels I guess is -- I'm -- I'm sorry -- is a better way to say it 'cause it's not always increasing -- to project forward to accident year '24 and forward all the way for the -- for the -- for purposes of the financial forecast.

But for purposes of ratemaking, it's

really the '24/'25 and '25/'26 accident years that are -- that support the overall development of the rate level.

This slide is -- is sort of generally quite similar to the -- to the last slide. It -- it just really provides the -- the components in more of a stepwise fashion. So again, the -- the underlying data that's used, which is the October '22 Appointed Actuary Report.

But I think what's important here is that the frequent -- what we -- that the -- the data's comprised -- the trend data is comprised of frequency or the -- the number of claims per unit exposure and the severity or the average cost of claims.

But they're not independent. So what happens is the starting point is the October 2022 Appointed Actuary Report, so there's sort of the -- the whole, and then that's split into frequency and severity. And the split is performed based on the -- the MPI analysis of ultimate claim counts.

So, for example, if you had a hundred dollars ($100) of claim costs and -- and there was an analysis that said there would be five (5) claims a year, then the average value would be twenty dollars ($20) per claim. But if the analysis yielded four (4) claims a year, then it would be twenty-five dollars ($25) per claim.

So again, I think what -- what I want to sort of emphasize in that process is that frequency and severity are not independent because that's going to -- that's going to be -- that's the basis of -- of our proposals on the trend models that -- that MPI employs.

So MPI -- that -- MPI fits regression models or statistical models to -- to that data which, again, we think is a -- is an improvement relative to the 2023 GRA.

And then, in that process, MPI also develops estimates of -- of sort of the future trend or how that's going to change in the future because, at times, there are conditions in which future changes are not going to be equal to the changes in the past. So we'll -- we'll review those as well.

The regression models include what's called a mobility parameter to identify the effects of reduced traffic volumes during the COVID-19 pandemic. We won't spend a lot of time on that.

We -- we don't really have an issue with the way MPI included that, and -- and we certainly think it's appropriate to include a mobility parameter or include a parameter that does recognize that -- that there was -- that 2020 and 2021 were unusual times. So -- so we again have no issue with that -- with that recognition.

The selections of -- selection of loss costs. So those -- those adjustment factors from sections 1 and 2 are then used to adjust the March 2023 Appointed Actuary Report for factors such as the change in the product, the -- the CERP change, work-from-home adjustments, cost adjustments, and future mobility adjustments which I didn't list there, but that's obviously the -- that's -- that's the item in -- in part -- in number 4.

Then the -- the starting point is a -- is a weighted average, and again, that's the weighted average of -- of years within the experience period. And -- and again, we'll -- we'll talk about that on the next slide, but the MPI approach is to consider estimates for -- for six (6) years, from '17/'18 through '22/'23.

And -- and we'll review that on -- on the next slide -- or, I'm sorry, within -- within this report because that -- that is one (1) of our -- our -- one (1) of the issues that -- that we have with the MPI approach. Move to the next slide, please.

So all that is, essentially, background to -- to review our -- the alternative assumptions that we think are more appropriate in -- in -- and more reasonable to estimate the -- the total costs the ratepayers would have to -- the total costs to the ratepayer for providing automobile insurance.

There's, essentially, three (3) groupings of issues. So the accident year weights is -- is the -- is the most material of the issues, so we'll spend a bit more time on that. And then we also have suggestions related to past trend and -- and future trends.

And so we -- we try to replicate MPI's models as -- as best as we can to estimate the effect of -- of the rate change. And the requested rate change is -- is, as you know, no rate change or -- or zero percent.

And we estimate that the indicated loss cost change -- so again, the -- the premiums comprised of loss costs and expenses, so -- that our analysis is really focussed on the loss piece.

And our indication is that that loss piece should be four point -- that -- that the appropriate loss cost is 4.9 -- 19 percent below the -- the 2023 levels, and that that would result in an indicated premium change of minus 3.58 percent.

And again, this is prior to the October revision, so this is relative to the minus .13 percent indication that -- that MPI is putting forward for the -- the rate. So at a high level, you know, we have about a three -- three point four (3.4) point delta between what we believe is appropriate and where MPI -- the 2024 GRA is.

And I -- I read the press release and I -- I understand that most of the October increase is due to a change in -- in the investment income expectation.

And so I would -- what we -- we haven't sort of run that -- we didn't -- we weren't able to run that through our model. We would assume that the same delta would still apply, so -- which would -- assuming that same delta would still apply, that would mean that we think that the appropriate rate level was approximately 5 percent below 2023 levels.

MS. KATRINE DILAY: And, sir, just to clarify, that 5 percent would be the minus one point four eight (1.48) in the October update plus the minus three point five eight (3.58) -- or three point four (3.4) approximately delta that you just spoke of that your evidence results in?

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

MS. KATRINE DILAY: And, sir, one (1) -- one (1) more follow-up question. That three (3) -- minus three point five eight (-3.58) that we see on this slide, is -- the way I understand it is it's the total of about eight (8) different alternative assumptions that you're going to go through in the rest of your presentation, correct?

MR. RAJESH SAHASRABUDDHE: Yes, it is. Those are the issues listed to the left.

And I -- we'll acknowledge that -- that this is just immaterially so, but slightly different than what is in our actuarial report. And part of that -- or that is, essentially, largely through issues that were identified either by MPI in the -- I think it's Exhibit 50, the one where the collision -- you know, the replication of the -- or their analysis of the correct collision trend was incorrect. And then also, from our perspect -- on our side, I think we had a property damage model that was just slightly off.

So not that it's material. I think we had three point six one (3.61) versus three point five eight (3.58), so it's not -- not materially different.

But -- but again, these are -- these are estimates. And -- and again, we do our best to replicate the MPI model, but it's -- at times we can only work with some rounded numbers, so we don't get the exact same results.

MS. KATRINE DILAY: Thank you, sir.

MR. RAJESH SAHASRABUDDHE: Okay. So the most material item -- and at the very end I'll -- I'll review sort of the impact of each of the individual -- individual alternatives that we're going to propose -- or that we have proposed. But the most material of those alternatives relates to accident year weights.

And what we have in this slide is a presentation, again, the -- the coverages that -- that we reviewed going across the top and the -- the weights that -- that MPI includes in -- in calculating this -- that weighted average, so the -- you know, how the experience period, which, in MPI's case, are those six (6) years, '17 through -- through '22, how the weights are applied to the various values observed in that experience period.

And really, the issue that we have that we'll -- we'll review is we're the -- is the zero percent weight applied to 2020 and the -- the fact that there's essentially full weight or -- or no -- no reduction in weight associated with 2021.

So I'll talk about -- that's the -- essentially, the crux of the issue is that this application of zero percent weight in -- for 2020 while not reducing weight for 2021. We could move to the next slide.

So this is -- this slide essentially reviews the -- the three (3) primary issues that we have with -- with this 2020 versus 2021 weighting of the experience period.

So I'll go through each of these. So snowfall. So, as -- as we reviewed the initial General Rate Application, what we noticed was that the regression models generally over predicted 2020 observations and under predicted 2021 observations.

So what does that mean? That means that if we look at the trend of claims data over time, if the model under predicts the actual data, that means the actual experience was worse than -- than you might expect based on sort of the long-term signal in the data. And if the model over predicts, that means that the actual experience was better.

So the -- so when we say here that 2020 is over predicted, that means 2020 had a better outcome than you would generally expect. And when I -- when we say that 2021 was under predicted, that -- that that means that 2021 was a worse than average year than you would expect based on the -- on the long-term trends.

So we -- we asked MPI about this in -- in the Information Request process, and -- and the response indicated that the unexplained variance was really due to snowfall levels, so that the -- that the explanation was -- 2021 was, essentially, a good snowfall year.

Again, we have the COVID pandemic, too, that we'll talk about obviously affecting these years. And then 2021 was a -- was an adverse snowfall year. So, again, essentially two (2) I guess maybe what would be termed unusual levels of snowfall, one -- one to the good in terms of loss experience and one to the -- to the bad or to the -- that would support a higher rate level in terms of long-term trends.

However, as we talked about, only one (1) of those years is incorporated in the experience grid, only the adverse year, not the favourable year which is, again, the -- sort of the crux of the issue that we have with the -- the accident year weights.

And somewhat related to that is -- is

this -- again, this gets -- this aligns with the MPI approach on hail loading. So if you have an unusual hail year, what they did was they took out the hail, and then added it back on an average level.

And -- and the reason you would do that is because you have -- if you have a five (5) year experience period, you assume that each of the years is -- has a 20 percent chance of occurring, a one in five chance of occurring.

And -- and if it's -- if it's not a one-in-five chance, then you have to make an adjustment for that because that means that the -- the hail experience, for example, or the snowfall experience is over represented in the experience period.

So, as we looked at the data, and we'll review this when we -- when we go through the tend charts, our view was that 2021 is not a one-in-five year outcome, that it's -- it's -- so it -- so an adverse snowfall year is over represented in the accident year experience.

So, again, we're trying to predict the '24/'25 rating year, and so we want -- we have no predictions for snowfall in '24/'25, so we want that to be -- we want the underlying loss cost to represent sort of an average year, not a -- not an unusually good year or an unusually bad year.

That -- the unusual good year and the unusual bad year is -- is, essentially, why you buy insurance, so that -- so that the insured is protected, particularly against the unusually bad year, where there's -- where they're more likely to have accidents, but we want that protection to be equitable.

So, again, that -- that's the snowfall issue that -- that we'll review with the -- with the trend models.

The experience period issue. So, in general, again, we review rate filings for public stakeholders, you know, throughout Canada, and including the Crown corporations in Saskatchewan and -- and BC, and now Manitoba, as well.

And, in general, when you have -- we'll call it either Crown corporations or very large insurers that have a lot of data and have a lot of -- that -- that have a significant volume of data, generally, the convention that we see is that the experience period should -- is based on the most recent three (3) or five (5) years.

When you have smaller insurers writing

in smaller provinces, then you see longer experience period because they need a longer period of time to collect data to support the average rate level.

Obviously, MPI should -- I don't know the statistic, but I would assume that MPI's one (1) of the largest insurers of automobiles in -- in the country sort of, in aggregate, maybe just -- maybe just behind BCUC -- or ICBC, sorry.

BCUC's our client in -- in the review of the British Columbia rates.

Okay. So -- so, typically, we see three (3) to five (5) year experience periods with large insurers. And -- and one (1) of the reasons why you want to try to use experience as recent as possible is because the more recent the experience is, the less you have to adjust it to get to '22 rate level.

So, if you imagine you have to adjust the 2017 levels or a longer period of change than the '21 rate experience, so.

And -- and, also, as you get more remote in time, there could be -- there are factors that -- that will change over time that may not be always captured through -- through trend models. Sometimes they're -- they're small -- small changes related to management actions that -- that don't sort of fully show up in the loss experience, so they sort of become noise in the data.

And what MPI's chosen to do is -- in the accident year weights is that, for -- for the coverages that -- that we identify as being problematic, there is a 20 percent weight applied to 2017 and a zero percent weight applied to 2020.

And that effectively creates a six (6) year experience period with uneven weights, again, just for those coverages. There are coverages for which there is a 20 percent weight applied to the four (4) years.

But for certain coverages, it's uneven in -- again, in that there's 20 percent on '17 and -- and zero percent on 2020. And again, our view is that 2017 may be less -- less reflective of -- of the emerging data.

And then, obviously, the -- the final item here that we think is quite important to consider in -- in understanding appropriate accident year weights is the effect of the COVID-19 pandemic.

So, you know, we all recognize that it was an unusual time, an unusual year, and -- and we think that there -- and we think that needs to be recognized in the accident year weights. So we'll talk about how we -- how we did that or -- in our proposal.

We do note that both 2020 and 2021, the experience is adjusted for the effect of the pandemic, so -- so they're both adjusted; it's not that just one (1) year's adjusted. However, the 2020 year is adjusted and not used and the 2021 year is adjusted and is used by MPI in this experience period. Okay.

MS. KATRINE DILAY: And, sir, just -- just for the Board's reference, would I be correct to say that, you know, as -- as the Board is reviewing your slide 16, they can look back to slide 15 for those weights that MPI has applied and that you then go on to talk about being problematic?

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

MS. KATRINE DILAY: Thank you.

MR. RAJESH SAHASRABUDDHE: Yes. Thank you. Okay. I -- I'm -- are -- here are our suggestion -- in -- in this slide we present our suggestions for accident year weights.

So, 2017, we exclude from our experience period, again, mostly because it -- it's -- it's outside the -- the five (5) year period that --

that we review.

And then the -- the other critical difference is the 2020 and 2021 alternative accident year weights that -- that we're proposing.

So, let me just -- maybe just start with '18, '19 and '22. So, our view there, is that those years are -- I -- I guess I'll say for -- for lack of better words, cleaner than 2020 and 2021. So, we are in favour of giving those years slightly more weight, again, at 25 percent for -- for each year.

2020 and 2021, you know, we acknowledge have -- there -- there's more uncertainty with the predictive value of those estimates. And -- and so we try to develop an approach that recognizes that higher level of uncertainty.

And -- and I'll talk for a minute -- I'll talk in a -- in a minute about what that approach focuses on, but you'll see that in aggregate, the 2020 and 2021 weights add up to 25 percent, you know, within rounding, the -- the property damage number is 26 percent because the -- the two (2) values are rounded.

But the -- and -- the -- the idea there is that there is higher uncertainty there. We want to, essentially, give less weight to those years, to recognize that uncertainty, but we don't want to exclude one year in favour of giving more weight to the other year.

And, in particular, we don't want to exclude a favourable year to give weight to a year that had more adverse experience -- and, again, as -- as MPI explains due -- largely due to snowfall issues.

So, given the unusual nature of the pandemic and -- and perhaps loss experience, we -- we tried to find a way to reflect that in our suggested accident year weights.

So, what we did was, without sort of getting into the technical details, we tried to understand how unusual the results were for 2020 and 2021.

And if the result is more unusual, it gets less weight; if it's more closer to expected, it gets more weight. And that's just a distribution between 2020 and 2021. It's not -- it's not on an absolute basis across the five (5) year period.

So, just how that 25 percent weight gets split between the -- between those two (2) particular years and -- and again we don't think that that's all that unusual. We don't think it's -- it's really inconsistent with approaches that are taken, again, for example, when -- when there's an unusual level of hail storms or if there were to be an unusual level of -- of -- of snowfall in a year that created a -- a much worse year than -- than you might expect on average going forward.

So, I'll sort of describe in chart sort of how that -- that plays out. But that -- that's the general idea there.

MS. KATRINE DILAY: And, sir, just to clarify, two (2) columns here where the weights are 20 percent from 2018 to 2022, so under Accident Benefit Other Non-indexed, and then Comprehensive.

You'll agree those are where you agree with MPI in terms of the 20 percent weighting from 2018 to 2022?

MR. RAJESH SAHASRABUDDHE: Yes, so we were comfortable because, again, there's no exclusion there of -- of a good -- of -- of one year in favour of the other year.

So -- so, again, we -- we're not suggesting any alternatives there, it's a five (5) year period, not a six (6) year period and -- and all years are used, so -- so we -- we really don't have any issues with -- with that approach.

MS. KATRINE DILAY: Thank you.

MR. RAJESH SAHASRABUDDHE: Okay, so, as I go through these charts and again I'll -- I'll go through them relatively quickly, in the interest of time.

We -- we did put blocks off to the right that sort of indicate the -- the percentage of the overall loss costs. Again just to help -- help with materiality and -- and we did -- and so the first item is accident benefits weekly indemnity, again, sometimes referred -- referred to as IRI or Income Replacement Indemnity. Smaller coverage at eight point five six (8.56).

The -- the next coverage is -- for Accident Benefits Other Indexed. Again, there you'll actually see an unusually high value for -- for 2020. That's a 9.93 percent value. Again, it's a -- somewhat of a smaller coverage relative to collision, certainly. So, if we could advance to the next slide, please.

Then -- and then we have collision which, again, what we see there which is, again, the most material coverage is that 2021 -- I'm sorry, 2020, was quite a good year and it's getting no weight. It's the -- and -- and it essentially follows a trend of -- of -- of generally good experience.

In 2021, it was a higher year and, in fact, it -- you -- you may notice, it's -- it's the highest year, going all the way back to 2009.

And so the -- the question is, you know, how much weight should we give to that year and -- and why is the 2020 year being sacrificed for that.

We're not generally surprised at the 2022 year because it's -- it's somewhat immature. It's going to be closer to the long-term averages. Those estimates will change over time and it may -- may move in future appointed actuary reports. But we recognize that that's a -- a pretty common approach to estimating ultimates for an immature year.

Again, and then there's similar charts for property damage. If you could move forward.

Okay, and then -- now we have a set of slides, essentially, it's the -- the -- the same slides but what we've done is we've provided our estimates of the weights and -- and it's -- it's really the -- the same data, but this will hopefully better illustrate this idea of how we distributed that 25 percent weight.

So, the income replacement indemnity, the 2020 and 2021 years are -- are essentially, you know, they're -- they're quite close and -- and they're quite close, you know, so, relative to the long-term average they're going to be viewed as being similarly unusual, I guess I'll call it. And -- and so the weights are pretty similar at 13 and 12 percent.

In comparison, 2020 is actually quite an unusual year for Accident Benefits Other Index. It's the highest year in the experience period and, therefore, it gets the least weight.

The -- the two (2) -- it gets 2 percent weight, because it's viewed as an unusual data point. And an unusual data point sort of wouldn't be predictive of the future, right, as you wouldn't want to predict that 2024/'25 would be at that elevated level, when you don't have other years that are also, you know, quite as elevated. Move to the next slide.

Again, on collision, which is again the most material of -- of the coverages, you see that although 2020 is -- is sort of lower, it's -- it -- it's sort of, you know, closer to the other data points. In -- in fact, the -- the -- yeah, 2009 data point which is, again, a -- a little bit dated, but is -- is -- is, I believe, slightly lower than the 2020 data point. Whereas, the 2021 data point is the -- the highest of all the data points, so -- so we give less weight to that. And then there is a similar effect on -- on property damage as well.

So, those -- that -- that's -- is essentially, that -- that, essentially, is -- is our presentation of the most material issue here which is the accident -- accident year weights issue.

That we just don't -- we believe that we shouldn't just exclude a favourable year and include an adverse year. Again, particularly, as it comes to the -- the largest coverage, which is collision.

And -- and we tried to provide an -- an alternative approach to -- to creating the accident year weights that we -- that we recommend or -- or we believe are more appropriate. They -- they consider all of the experience.

Yeah, accident year weights is -- is an issue that really isn't typically discussed in the actuarial literature. The -- it -- it's a matter of -- of appropriate judgment to understand the predictive value of each year within the accident year period.

So, the underlying judgment of MPI, for those -- for those years, is that the 2020 year has no predictive value. That's essentially what a zero percent weight implies.

And the 2021 year has full predictive value and -- and, moreover, the 2017 year has full predictive value.

And the crux of our -- of our recommendation is that 2017 is outside of a five (5) year period and -- and, you know, therefore, it should essentially roll out of the experience period this year.

And that for 2020 and 2021, that those years have more uncertainty to them. So, we're comfortable with -- with giving them less weight. We -- we think that that's an appropriate exercise of judgment to understand the elevated levels of predictive -- of predictive uncertainty, for those two (2) years, given, again, the pandemic and potentially unusual snowfall levels, but that a zero percent weight to 2020 and a -- and a full weight to 2021, to us, does not seem fair.

Okay. So, those are the issues on -- on -- on accident year weights. I'm -- I'm going to try to go through the issues for trend a little bit more quickly, more in terms of -- for both reasons of -- of time and, then, also, for materiality. As we get to the end, you'll see that -- that these -- these -- these issues have less of an impact on -- on the overall rate level indication and, as I go through them, I'm just going to sort of identify a -- a -- a few high level -- a few items that sort of occur, so that I don't have to -- so that I don't restate them with every coverage, so that we can get through this a little bit more efficiently.

So, one of the items that -- that we're going to -- that -- that will come up with -- that'll arise with several coverages is the use of the same time periods for frequency and severity.

And, again the rationale for that relates back to my earlier example of the -- of the hundred dollars ($100) in total loss and how and split that into frequency and severity.

So that -- that they're not independent metrics, that they're sort of part of a total and, so, it's important that the -- to the -- there could be good reasons for not having the same time period, but the default should be to have the same time period for the frequency and severity methodology.

There -- there are conditions where you can look at the data and -- and -- and understand that there was something unusual about frequency or something unusual about severity in -- in that year that didn't affect the other coverage and -- and, in that case, we -- we think it's okay but the default, again, we believe should be to use the same time period.

The -- and, then, the other item is to try to use a -- a single model, which picks up a change in trend that's associated with a higher inflation, rather than two (2) separate models.

So, these are, again, two (2) issues that are going to come out -- that are going to arise with several of the coverages. So, I just want to sort of review them now, so that I don't have to review them in -- in detail with every time they arise.

But, again, at a high level, as I noted earlier, that -- that -- that we view the current approach as a -- as a -- as an improvement over the 2023 GRA. It's -- it's consistent with our view of -- of the best practices and -- and consistent with the approach that we use in -- in -- in advising regulators and other public stakeholders in other provinces.

The -- and, again, this is compared to the prior analysis, which is more -- more, you know, more reliant on judgment. The -- the one difficulty is -- and this relates both to the coverage groupings and the change in approach, it makes comparison to the prior analysis a bit more difficult.

And, again, as we talk about trend, there's, essentially, two (2) components to trend. There's past trend, which adjusts prior experience to 2022 levels, and future trends for changes beyond 2022.

Okay. I'm going to go through this at a -- relatively quickly, because we -- we really have no issue with the work-from-home adjustment. You'll note that, on the very right, the findings and conclusions are -- are that -- that we -- we consider reasonable.

Again, the idea here is that prior years have to be adjusted for changes in commuting patterns. The years prior to 2020 -- prior to 20 -- pre-pandemic years are adjusted down, to get to 2022 levels, which is a pan -- you know, has a pandemic effect to it and, then, the years in the future, where we expect will return closer to those pre-pandemic levels, have to be adjusted upward.

The magnitude of the adjustment is, you know, hard to estimate, but we believe that MPI's done -- taken a reasonable approach towards that and a 5.56 percent adjustment in terms of magnitude, to us, seems reasonable but, again, highly uncertain, but -- but -- but we do -- and it's probably a reasonable estimate of -- of -- of the effect of future driving behaviours.

Okay. So, now, we'll review the -- the trend models for the various coverages. Each of the -- each of the coverages have sort of a common observa -- common organization. There will be a slide, where we present MPI's approach to both past trends and future trends. There will be a slide to sort of show how those -- how those estimates are combined and weighted and adjusted to -- to -- to show future -- to -- to -- to show the future projections and -- and, then, there'll be a slide that -- that -- that describes our concerns with the approach and -- and our recommendations as to -- as to a more reasonable alternative.

So, what I'm going to focus on -- I'm -- I won't -- I won't go through the -- each slide in detail, but I'll -- I'll focus on the areas of difference, as I describe the MPI slides, so that -- that you'll be aware of that, as I go through our slides.

So, here, what you'll notice is that the -- the severity models end in 2012. So, that's why that line doesn't extend backward past 2012, whereas the frequency model, the top panel does extend back to -- all the way to 2009.

You'll also see that the -- the severity -- the frequency data -- if you're able to just look at those points on the left, is -- is a little bit flatter on the left side and there's, again, a -- a little bit more variability in the severity model on the -- on the left side there.

But, in general, if you look at that Lost Cost chart, at the very bottom, you'll -- you'll sort of see this wave-like effect, right, and, if you were to imagine extending that -- that line backward, you -- you would see it's sort of no longer sort of going through the wave but, rather, it's sort of going below the wave.

So, you can see sort of this up and down and up and down which, you know, again, isn't terribly unusual. That's sort of the noise in the data and what the line is doing is it's trying to capture the signal in the data. So, if we could go to the next slide, please.

So, again, I -- I won't go through these in -- in a lot of detail but this, essentially, is the MPI approach of what happens with the -- the prior periods. The '17 period gets, you know, adjusted down and gets 20 percent weight. The -- the -- the other pre-pandemic years get adjusted down to pandemic levels. The po -- the in-pandemic years get -- get -- get adjusted up for the -- for the un -- underlying trend.

They -- they get weighted together, at that 20 percent, to form that red line, which is the -- that weighted average. There's a work-from-home adjustment applied to sort of lift that by 5.56 percent and, then, it's trended forward. So, it's -- it's, again, I won't spend too much time on this, but it just sort of provides a schematic of the -- of the MPI approach towards estimating future costs. Go to the next slide, please.

So, here's our recommendation and so, we'll have a slide like this for each model as well and, then, at the top, it'll have the recommendation.

In -- in the middle, there's sort of the rationale related to the recommendation and, at the bottom, the -- the -- the sensitivity of the estimate.

So, again, our recommendation is that the frequency and severity model should be fit to the same time periods and -- and -- and we, you know, I'll talk about why in -- in a second, but that same time period is -- is, again, important because the -- the two (2) metrics aren't related and -- I'm sorry, the two (2) metrics are related. I'm sorry about that and the result is that the lost cost trend would reduce by almost a full percentage point from 1.9 -- plus 1.97 to plus .99.

MS. KATRINE DILAY: Sir, can I just ask one question on this slide? You put it:

"It is our view that absent compelling reasons, frequency and severity models should be fit to the same time period."

And so, in your view, are you saying that MPI has not provided compelling reasons?

MR. RAJESH SAHASRABUDDHE: Right. Yes. We agree that there's not -- there's not a compelling reason and -- and, in fact, as we review -- as I review our model, in the next slide, you will -- you will actually sort of see where we think that there's compelling reason to include the -- the earlier years in the severity model. So, if we could move to the next slide, please.

And, again, what you'll see here is that we extended our severity model all the way back to 2009, just as, you might remember, on the MPI slide, it -- it ended at 2012 but, now, we're capturing those old -- older data points.

And, very importantly, what you see is our -- our projected model sort of runs through the wave now in the bottom slide, as opposed to running underneath the wave.

And if you think about -- or -- or I think I might have made this analogy last year, but these trend models are sort of like see-saws. So, if it's lower on the -- on the left side, that means it needs to have a higher slope or higher trend rate coming out to the right, and that means that there's a higher -- higher forecasted rate of change.

If it's -- if it's lower on the left, it has to be higher on the right because it's like, as I said, sort of a seesaw in the process. So again, that's income replacement indemnity.

The next coverage is Accident Benefits, Other Index, and here sort of very similarly, this -- again, the -- the time periods don't -- don't align.

And -- but -- but here there is a -- there's a slight difference that -- that we note here where in -- in the -- in the prior coverage, the income replacement and indemnity, the -- the severity was sort of variable and sort of following on the same -- there was little signal in those older years for severity.

Here, actually what we see -- again, and this is what we think is -- is some of the items that -- of judgment in the -- that should be considered in selecting the period to which trend -- trend models are fit -- is 2009 through 2011 are sort of flattish for severity and for frequency.

We didn't see that for -- for severity for the earlier coverage, but here they are flat. So we actually think that that should be recognized, and in this case, that the model should be fit to '12 and subsequent rather than '09 and subsequent because it does appear that the pattern has -- has changed there, or there's certainly evidence that the -- in our view that the pattern has changed.

And you'll see there's sort of -- that wave feature doesn't exist in -- in this -- in the lowest panel of this chart where, you know, it sort of drops down at the back end.

So good. Again, I won't go through this slide in detail. Similar construct to show you sort of how the -- how the experience period is weighted together and then forecast forward.

Very similar recommendation is -- like I said, you know, just so we don't repeat this each time, but that we believe that they should be fit to the same time periods.

Slight difference here is that we do recognize there's a changing pattern before and after 2012 so that our recommendation is to fit to '12 through '22. And that would result in a reduction of just under, you know, nine-tenths of a percentage point from 2.29 percent to 1.42 percent for the trend rate.

Okay. For Accident Benefits Other Indexed, so again, here we -- we have the -- we -- we have the MPI -- the MPI models. If we could go to the next slide. Oh, yeah. I'm -- I'm sorry. I think I might have gone through the slide too quickly.

So this slide is our suggested model for -- that fits to '12 and subsequent. Sorry, I looked at it very quickly. I thought we'd already advanced to the next coverage.

But again, essentially what -- what you'll see there is we're suggesting that it's fit to both -- it's fit to 2012 and subsequent. And you see the comparison of the data and our fitted -- our fitted models for this coverage here.

So for the -- for the non-indexed, so here we actually are -- our issue is with the -- with the future frequency trends, and we'll sort of describe what the issue -- I'll -- I'll maybe take a second to describe what the issue is here which is a different issue than -- than what we've talked about.

You'll see that the experience periods do align here. They both use all years, and so -- so, you know, we're not taking issue with that.

But what you'll notice is that MPI has observed that there's sort of a flattening of frequency, so these are the points that are on the -- on the right side of the chart. And for that reason, there's a sort of a tempering of what the future trend rate is for frequency.

But what we believe that they didn't recognize is that there's also a flattening of severity that, yes, frequency may be flattening, but -- but so is severity, and that only one (1) of those factors was recognized to temper the negative trend on frequency but not temper the positive trend on severity.

So again, it gets at this issue where, you know, these are related statistics. So you see this flattening of frequency and flattening of -- and

-- and that sort of results in a -- in a bit of flattening of severity as well.

And if you look at the loss cost chart, other than the -- the one (1) data point for '22/'23, the -- in the -- in the long term, I think we can see there's a pretty evident negative -- negative trend with -- again, there's variability around the -- the negative trend, but -- but we view it as -- as, you know, pretty compelling evidence that -- that costs for this coverage are actually decreasing. Move to the next slide, please.

Again, the -- the forward forecast here. And the next slide.

So -- so our recommendation here is that the MPI -- MPI tempers the -- the change between past and future frequency trend so that there's a reduction in the frequency trend from -- they -- they -- the indicated trend was minus four point nine (4.9) which we -- which we take no issue with.

But then the forward forecast is at zero percent, so we find that to be too significant a change to go from minus four nine (4.9) to -- to zero. But we do accept that there is some flattening in the frequency. However, we also recognize that there's some flattening in the severity, and it's our view that -- that a little bit more modest tempering is more appropriate.

Now, this is -- this is certainly a view that's informed very heavily by judgment. There's no statistical analysis around this, but we do view going from minus five (5) to zero as -- as just being too extreme.

And, you know, generally, our other view is that -- that the costs in this coverage are decreasing. They are not -- they are not increasing. So -- so to not recognize that and -- and assume that -- that they -- that they've started increasing is -- you know, we believe doesn't result in a fair -- fair and reasonable premium.

Bodily injury. So I won't spend any time on this. You might remember this is the smallest of the coverages I reviewed, and -- and we have no material issues with this coverage. If you could move to the next slide, please -- or two (2) slides.

Again, part -- part of -- part here is the -- the use of the word "material." It's small coverage, so you'd need a very large change to make a material -- material difference, and -- and we weren't able to identify any recommended changes that -- that would do so.

Okay. Collision. So collision again, as we might remember, is -- is the largest coverage, representing almost 60 percent of the loss cost. So -- so again, this is where the small differences are -- are somewhat more material.

So here, we -- we don't have an issue with the -- the commonality of the experience periods that I'll see -- that -- that I'll mention, but we have this other issue which I mentioned at the outset about this disjoint model on the severity side.

So you'll see what MPI did was they, essentially, fit two (2) different models, one through 2020 and then one that recognizes the higher level of inflation, the -- the model in red in the middle panel that has a higher trend rate for the post-2020 experience.

And -- and we believe that there should be a single model that sort of recognizes that, and I'll -- I'll describe how we get there as -- as we look at our alternative model.

So again, we won't go through this in detail, just again a schematic of a -- of -- of the forward forecast. Okay. So again, we have no issue with the collision frequency model. I'm going to spend a little bit more time on this than I did with the over coverages, again just recognizing the materiality of the coverage.

But there's a -- the severity model for post-2020 essentially just captures the change over three (3) data points, and -- and again, those are data points that are observations and -- and have some uncertainty to them, and so that the -- the predictive value of the underlying model that's fit to it is -- is relatively low because there's no separation of data into sort of signal and noise and that, again, we -- we asked MPI about -- you know, about this -- about this issue, and -- and they provided, you know, their rationale for why it's a more reasonable approach.

We -- one (1) of the issues that -- that we didn't identify but I believe it was in the -- the PUB IRs on our evidence was the -- the idea that the model produces a disjoint -- the -- the trends are disjoint between that -- if we -- if we could go back -- I'm sorry -- two (2) slides. Yes.

So in that middle panel, the -- the blue line and the red line don't intersect, so it's not -- it's not a continuous model, and so -- so you get this -- this disjoint value for 2020.

So that was actually identified in the -- in -- in the Board's Information Request. I think we -- I think we recognized it but just didn't -- didn't call it out as a weakness in -- in the approach, so. I'm sorry, if we could move back.

So what we're suggesting is that there should be a separate time parameter. So this is the -- the fourth bullet here. And the resulting trend rate would be 9.38 percent. I think that was a value that was corrected in the -- in MPI Exhibit 50. And -- and I'll -- it's a model that we suggest and that we'll -- I'll review on the next slide.

And that we -- we think MPI's approach to future inflation is reasonable. So that's actually, you know, quite an important assumption because, as we know, inflation is sort of generally coming down and, you know, how quickly is -- is quite important to recognize.

And if we were to implement our model, there's a very slight reduction in the past trend rate of, you know, just -- just from 3.92 to 3.91 but a somewhat more significant reduction of over a point in the post 2020 trend rate.

And again, if you image that that's compounding for two (2) years, that's a few percentage points on a large coverage. So, again, that's probably the -- creates a little bit more materiality than -- than you might have for a change to bodily injury, for example. So if we could move to the next slide.

So here you see that model. Again, I won't go through the technical details, and I'm sure the Board's actuary sort of described that sufficiently. But our severity model is sort of one (1) continuous model that's not disjointed, 2020, and sort of has an approach to capture the higher levels of -- of trends starting with 2020.

So we acknowledge that there's a higher level of inflation for 2020. It's more how you model that and how you capture the signal out of the -- the data related to -- you know, to the higher levels of inflation.

And again, I'll -- I'll just sort of mention again just because this is the most -- the -- the largest coverage. In the very lowest panel you'll -- you'll see that the 2020 loss cost is better than long-term fitted experience and 2021 is worse.

Again, that gets back to our -- our friend, the accident year weights issue, where the 2020 experience is excluded, but the 2021 experience is included.

Okay, comprehensive. Yes?

MS. KATRINE DILAY: I think you referred to MPI Exhibit 50 as being the corrected numbers --

MR. RAJESH SAHASRABUDDHE: Seventy?

MS. KATRINE DILAY: -- I believe. Yeah.

MR. RAJESH SAHASRABUDDHE: Sorry.

MS. KATRINE DILAY: Thank you. So I think that it was MPI Exhibit 70 --

MR. RAJESH SAHASRABUDDHE: Okay.

MS. KATRINE DILAY: -- for the record and for reference.

MR. RAJESH SAHASRABUDDHE: Okay. No, thank you for that. I -- I confuse -- I confuse those -- I think the -- on the exhibit title. Okay.

So comprehensive. So, again, here MPI actually does use sort of a common model to pick up 20 -- the time period's common for frequency and severity, and so -- so we don't have that issue.

But -- but the issue that we do have is that the model is picking up that -- that inflation that's on the right side and sort of creating a heavier trend rate than -- than we think is appropriate.

And we understand why MPI did that.

They didn't want to include the pre-2016 and prior data because it was -- you know, it reflects a CERP and a management change on -- on the severity.

But -- but we think there's other -- better ways of -- of sort of understanding that there's a change in inflation rates sort of starting in 2020 and this change in management approach starting in '16/'17. So I'll review sort of our -- our recommendation on how to do that when we get to our slide. Move forward one (1) more slide.

So -- so our recommendation is to recognize the longer term severity trend using a model with a 2017 scalar. I'll explain what that means when we -- when we review the -- the trend chart on the next -- on -- on the next sheet.

And that the result is that the pre-2020 loss cost trend reduces from plus 79 to plus 4.46, but the post-2020 increases from plus 79 to 13.61, so we think it's a -- so it's not -- it is actually going to create a higher loss cost trend, but -- but we think that that's appropriate to pick up the higher level of inflation for 2020 and subsequent. So if we could move to the next slide.

And you -- you can see that in the middle panel, our recommended approach. So what the scalar does is it creates that drop between 2016 and 2017. So that's what the reference to the 2017 scalar is.

So what we, essentially, see is that severity is -- is generally flat, you know, subject to some variability, really -- yes, from 2009 to 2020, with the exception of a -- of a onetime adjustment that -- that results from the noted management and CERP changes.

And then in 2020 the inflation is higher -- or the trend is higher as underlying inflation increased.

So we think this is a better approach. And again, it produces a lower estimate of loss cost trend which, again, is the combination of frequency and severity, for pre-2020 but actually produces a higher estimate of -- of inflation for 2020 and subsequent.

Okay. So there's various third-party -- third-party -- I'm sorry -- property damage sub-coverages, so I'm going to try to go through those quickly. And again, there's -- in general, they're not new issues here, they're repeats of issues, so I won't try to dwell on them too much.

Here the experience period is common,

but you have this here, that disjoint nature of the blue and red line in the middle panel is a little bit more evident.

MS. KATRINE DILAY: And, sir, that was the same issue that we saw earlier but where that disjoint was maybe a little bit harder to see on the screen before us?

MR. RAJESH SAHASRABUDDHE: Correct. Yes. Thank you. Okay. So the next slide, again, sort of how the -- the projection works. Again, you'll note the quite good experience for 2020 here.

So -- and, in our -- our -- you know, our suggested approach is, again, to use a single model with a common experience period that is for 2013 and subsequent.

So, while we are recommending a common experience period, it does differ from the experience period that -- that MPI -- that MPI adopted, which goes all the way back to 2009.

So here, again, this -- this idea of compelling evidence to use something different, we reflect that in the fourth bullet point where we believe that there's a change in trend beginning in 2013 and, in particular, a more negative trend emerging between '13 and '20 for both frequency and severity, and we'll show those graphically on the next slide.

But just to sort of conclude on this slide, the -- the result is that the pre-'20 past loss cost trend reduces from minus 29 to minus .7 -- minus 7.04. The post-2020 past loss cost trend is -- is essentially unchanged but -- but a slight reduction.

And then there is a reduction in the future loss cost trend, as well, from .74 to .06 percent. If we could move forward.

So here's -- here's where we see sort of the -- if you see what's happening on severity and, again, remembering these aren't independent statistics, severity was going up, but now there's sort of a pretty compelling negative trend until you get to the inflationary period.

And then for frequency, again, that -- when -- when severity was rising frequency was, you know, somewhat flatter, but both trends have sort -- sort of somewhat changed at 2013, and we believe that should be recognized through the -- through the selection of the experience period.

Okay, third-party deductible transfer. So here the -- the one (1) item that I will comment on is that what you see in the severity model, again, the

-- the experience periods are -- are not exactly the same here, 9 through 22 versus 10 through 22.

But what you see on -- on the severity model is that the -- the data points to the left are all below the line and most of the data points to the right are above the line until you get to 2018.

So, this is what we call, sort of a -- a pattern of residuals, meaning that it -- the model is consistently over predicting or under predicting in a certain region. So, that's something that we generally try to avoid.

So, again, the -- the -- the forward forecast and then the -- the trend findings and conclusions is, again, we suggest that a common experience period of '14 and subsequent and this actually results in a -- a slight increase in the loss costs trend of 1.72 percentage points from minus one point seven two (-1.72) to -- to zero (0) and, again, that's largely because we see a -- a sort of a flatter trend for '14 and -- '14 through 2020. So, we can go to the next slide please.

You know -- the -- you -- we -- we see sort of, again, as -- as it was with the prior slide, we see sort of the new pattern for '14 through '20 and -- and that's why we believe that's the appropriate experience period, even though it does result in slightly higher trend rates than MPI is proposing.

The Property Damage Other, again, we -- we present the MPI models. The -- the experience periods aren't -- aren't the same here. If we could move forward here, one more.

So, we're suggesting here to use a common experience period of 2009 through 2022 for both frequency and severity and -- and as a result the loss cost trend would reduce from -- I'm sorry, would increase from -- from point -- plus 2.22 percent to plus 2.94 percent. Go to the next slide, please.

And -- and here's the graphical representation of -- of using -- of using all those data points.

Okay, so that was really the -- the bulk of the issues, so -- I know I took a -- a bit longer than I had hoped to on that. I'm going to try to get through the -- the rest of the issues relatively quickly because we don't really have significant issues with what MPI has done here.

So, vehicle counts is a projection of -- of future vehicle -- of future growth in the -- in the -- the number of insured vehicles. Again, where -- there is some -- we have some concerns about the

2021 observation of 2.8 percent change, that's a little bit unusual and -- and there -- there is some concern that potentially higher levels of immigration will drive a different forecast on that.

But, our only recommendation here is that this is something to be monitored. We have no issue with -- with what -- with what MPI has done. Move to the next slide, please.

So, expenses -- I'm going to go through these relatively quickly too. So, it's important to recognize that we're not suggesting that the expenses are appropriate.

So, we're not saying that MPI is spending money appropriately. All we're trying to evaluate is whether the amounts that they are spending are reflected in the rate level.

So, the -- so I want to make sure that those two (2) issues are -- are kept separate. There's -- I -- I know other experts that have talked about the appropriateness of the expenses themselves.

And -- and I'm going to talk about just -- just one issue on expenses because I -- I know it's of the Board's interest, which is the unallocated expense provision of 18 percent.

While we recognize that this is

somewhat higher than we see with other commercial rate filers and with -- and other Crown corporations, I -- I will note that -- that companies classify unallocated and allocated expenses differently.

So, it's hard to have a really good benchmark around that. And all we've -- all we've sort of observed is that the -- what -- what is in the rate for unallocated expenses is -- is consistent with what's being spent. Again, not -- not a commentary on whether -- what's being spent is -- is appropriate or not.

So, I'm not going to spend too much time on these. You -- you can go through them but, again, the conclusion is that we have no material issues and that the expense provisions are reasonable.

Okay. So, just at -- at a high level, the alternative assumptions we -- we sort of list them here and -- and then as -- as a result, you know, we're suggesting that the alternative rate level indication is at minus three point five eight (-3.58), again, prior to the October revision.

So, you know, it might be closer to minus 5 percent with the -- with the October revision and -- and -- and you'll see that our estimates -- our -- our replication of the MPI model would result in an estimated required premium of -- of, you know, eight hundred and eight dollars ($880) versus the nine hundred and ten dollars ($910) or, you know, roughly a thirty dollar ($30) difference on average for a rate payer.

And here are the components. You'll -- you'll note again that the accident year weights is -- is by far the most material issue. The others are -- are sort of, you know, much smaller but -- but we did want to, you know, provide our views as to where we thought alternative assumptions were more appropriate, including coverages were -- for which we thought, the alternatives -- assumptions would actually produce a slight increase in the rate.

MS. KATRINE DILAY: And, sir, just to confirm what you're referring to here, it would be the -- the bottom two (2) alternative assumptions are -- are positive and then the rest are negative.

And then the -- the total of that is your overall rate recommendation.

MR. RAJESH SAHASRABUDDHE: Correct. Correct. Thank you.

Okay. So, merit rating and the -- the DSR program. So, here we describe -- yeah, I'm not going to go through this in -- in a lot of detail, but

I -- I really just want to identify one feature of MPI's modeling which is sort of a -- a concern for us going forward. It's not a concern in the cart piling because they haven't moved all the way to -- to the actuarial indications.

But, the way MPI sort of fits this model, is they view -- they view the DSR level as -- as what's referred to a continuous variable. Where -- view -- we view it as a categorical variable.

And you might recall we have a -- some -- an analogy in our -- in our report which is categoric -- an ordered categorical variable -- it might be something like level of education, so, completion of a high school education versus undergraduate college versus, you know, postgraduate college. Where each step doesn't imply a -- the same level of change in income or, you know, other measures, you know, health -- well, however, you may look at it.

These are -- they're ordered in the -- the one level of education implies more education than the other but -- but they're not -- but they're not equivalent steps.

And, in comparison, you might think of kilometers driven as a continuous variable, where --

if you drive 10 percent more, you might be 10 percent more likely to have an accident that year.

So, the two (2) sort of correspond, essentially, one to one, where on -- on -- on DSR -- on a -- on an ordered categorical variable, that's not the case. So, if we could just move to the next slide.

So, again, we have some suggestions as to -- as to how MPI might be -- might consider that, but really our focus on this one was we just confirmed that MPI did follow the Board's direction and moving between the current and indicated relativities and, again, we're identifying an issue for the -- for potentially for the future when they're able to move all the way to the -- to the relativities.

But, again, we also understand there's a transition to a GLM model that might address this issue as well.

And then, just on the next slide, we sort of present graphically what the issue is. So MPI presents their chart and I -- I do forget what the reference is -- maybe I -- gee, I don't have it -- out of the GRA, which is the chart on the left, which we replicated.

And, essentially, what you see is that

-- you know, there's this -- there's a fitted line, but it's also on what's called the -- a linear scale and I talked about this last year about linear scales and -- and log scales.

But, what happens is if -- if you look on the left, for example, when you -- if -- if you were to miss by half a point and the -- the scale is -- is around three (3), then it's more than a 10 percent miss, where if you -- if you were not -- not that this is happening, but if you were to miss by a half a point on the right, where it's around point seven five (.75) it becomes a -- a -- you know, more significant miss of -- yeah -- 65 or 66 percent, 67 percent.

So, we prefer sort of charting these on a log scale where the differences are -- are -- are more equivalent in percentage terms and really our concern here -- that we wanted to -- to raise to MPI, was that if you follow through on the indicated -- on -- on their approach to smoothing the relativities, the indicated relativities on the right side, which is where most of the drivers are, the -- at the -- at the higher DSR levels, higher positive DSR levels, the model will under predict -- will under -- under predict the required premiums.

So, there's, again, a concern that potentially those drivers will pay too little at the expense of -- of other drivers paying too much and, again, it -- what we're trying to show is that through the use of the log scale is that the -- that the -- that the differences actually on the right side are -- are in reality, actually bigger than the differences on the left side, but -- but you don't sort of appreciate that when -- when you have it on the linear scale.

And, again, they're sort of consistent where all of the -- you know, the higher rated drivers would actually, in theory, pay -- pay too little.

And the final item, again, that I'll try to go through quickly is just prior period run-off. We -- we don't have any significant issues here, but one of the Board's issue -- issues was to try to review how the prior period estimates of run-off, you know, the -- the -- they're, obviously, not perfect, you know. There's going to be actual experience, whether it comes to weather or just random -- other random noise, in terms of frequency and severity.

So, they're not exactly the same, but -- but we didn't identify any glaring issues on this and -- and that brings me to the end.

I think I went about half an hour longer than I had hoped, but we do have our biographies. Again, there's a team of three (3) of us that are sort of the senior team. We have a total team of about seven (7) people that -- that work on Canadian regulatory work, but the -- the three (3) more senior are -- are my colleagues, Paul Elliot and -- and Chris Schneider and -- and -- and myself and -- and, you know, we're responsible for developing this report and -- and, as I said, we provide services to public stakeholders and rate regulation in every province -- every border province, except for Quebec and PEI and -- and, in many of those provinces, we work directly for the regulator. For example, Alberta, Ontario, Newfoundland, and Nova Scotia.

So, you know, we -- we -- we review about -- we try to estimate it because, again, it's hard to -- you can count filings differently because one -- one company may provide a filing that includes several classes: commercial, personal, and they -- they, generally, provide those as separate filings in other provinces and one insurer group may have several underwriting companies.

So, it's -- it's a little bit hard to - - to count on a consistent basis but -- but we believe

-- our estimate is we review about seventy-five (75) filings a year, between the three (3) of us and -- and supporting team, and, so, the observations that we've provided today are -- are really based on -- on that experience and, as well as, certainly, a detailed review of the items within our scope of the MPI filing.

PANEL CHAIRPERSON: Thank you very much, Mr. Sahasrabuddhe. Ms. Dilay, I think we might take the morning break now and give your witness an opportunity --

MR. RAJESH SAHASRABUDDHE: Thank you.

PANEL CHAIRPERSON: -- have a drink of water and come back at quarter to 11:00, please.

--- Upon recessing at 10:33 a.m.

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

PANEL CHAIRPERSON: Thank you. Ms. Dilay...?

MS. KATRINE DILAY: I don't have any further questions for Mr. Sahasrabuddhe.

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

MR. ANTHONY GUERRA: Thank you, Madam

Chair.

CROSS-EXAMINATION BY MR. ANTHONY GUERRA:

MR. ANTHONY GUERRA: Good morning, Mr. Sahasrabuddhe. Hopefully I pronounced your name right.

MR. RAJESH SAHASRABUDDHE: Close enough, thank you.

MR. ANTHONY GUERRA: I will try my best again, and thank you again for participating in this Rate Application hearing and for your evidence this morning.

And if you recall, we had a similar conversation this time last year, and I understand that, in the context of the 2023 GRA, you prepared a report and presentation. Do you recall that?

MR. RAJESH SAHASRABUDDHE: On the 2023 GRA?

MR. ANTHONY GUERRA: Yeah.

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And that would have been a report dated October 7th, 2022, filed in the Rate Application of 2023, correct?

MR. RAJESH SAHASRABUDDHE: I don't recall the exact -- exact date, but -- but I'll accept that, certainly.

MR. ANTHONY GUERRA: And actually, Ms. Schubert has anticipated my line of questioning and has put that -- that report onto the screen.

Do you see that there, sir?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And this would have been your -- your presentation from last year -- or your -- your report from last year, I should say?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And in addition to your report, just like this year, we also received a presentation from you in the 2023 GRA dated November 3rd, 2022. Is that correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And Ms. Schubert has again put up there CAC Exhibit number 6, the presentation from last year's GRA.

And -- and do you see that there, sir?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And if we can go to slide number 9 of the presentation, please. And in that context, Oliver Wyman had reviewed MPI's forecast -- claims forecast, rather -- for coverage and peril to determine whether its forecasts were potentially too conservative or too optimistic.

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And if we can go to the next slide, slide 10 there, yeah.

We see that over the last two (2) slides I've just shown you there were twenty (20) different coverages that were examined by Oliver Wyman last year, correct?

MR. RAJESH SAHASRABUDDHE: So on -- on slide 10, I guess ten (10) has the comprehensive by peril. Is that -- is that what the reference to twenty (20) is?

MR. ANTHONY GUERRA: Yeah. So it'd be the total of the -- and subject to check --

MR. RAJESH SAHASRABUDDHE: Oh, I see.

MR. ANTHONY GUERRA: -- right? So it'd be the total of the slides 9 and 10.

MR. RAJESH SAHASRABUDDHE: Okay. Yeah, I'll accept that.

MR. ANTHONY GUERRA: And it -- and it reviewed each coverage in terms of both the frequency trend and the severity trend, correct?

MR. RAJESH SAHASRABUDDHE: Correct, yes.

MR. ANTHONY GUERRA: And using the two (2) slides, the -- the table that we see where Oliver Wyman had a material issue with MPI's forecasts, it marked an 'X' to indicate its -- its concern, correct?

MR. RAJESH SAHASRABUDDHE: Yeah. I don't recall it specifically, but -- but I -- I'll accept that, certainly.

MR. ANTHONY GUERRA: Okay. And when it found there to be a concern, the concern was that the forecast was either too conservative or -- or too optimistic. Would you agree with that?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And would you agree at a high level that a conservative forecast means that MPI is predicting that the frequency or severity of the claim for a particular coverage or peril will be worse than what Oliver Wyman believes is reasonable, based upon its own analysis?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And so forecasting with too much conservatism could result in MPI over-collecting from ratepayers.

Would you agree with that?

MR. RAJESH SAHASRABUDDHE: I would, yes.

MR. ANTHONY GUERRA: And conversely then, forecasting with too much optimism could result in MPI under-collecting from ratepayers.

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: So in 2002 (sic) -- so last year, with respect to the 2023 GRA -- you'd agree with me, sir, that Oliver Wyman's evidence was not that MPI was being too optimistic with any of its forecasts, correct?

MR. RAJESH SAHASRABUDDHE: That's my recollection, yes.

MR. ANTHONY GUERRA: In other words, Oliver Wyman's concern was -- was not that MPI was in danger of under-collecting from its ratepayers based on its forecasts, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: You'd agree with me, sir, that no forecast that we -- we talk about in -- in this hearing is likely to be 100 percent accurate, correct?

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

MR. ANTHONY GUERRA: And in fact, forecasting is almost guaranteed to be inaccurate, correct?

MR. RAJESH SAHASRABUDDHE: Right. It's an estimate of -- of the future, and the future will necessarily differ from -- from that estimate.

MR. ANTHONY GUERRA: Right. And so the question that we have to wrestle with is: By how much will the forecasts be accurate, and will it be inaccurate above or below the actual figure, correct?

MR. RAJESH SAHASRABUDDHE: If you're referring -- if you're referring to one forecast versus another, I guess that's correct, not -- one (1) forecast in isolation I guess would be viewed as being -- you know, in the view of -- of that forecaster as being the -- the best estimate, not -- not an idea of above or below.

MR. ANTHONY GUERRA: And that's probably a good point to -- to discuss at this stage now.

So when we have these individual forecasts, you'll agree that, in some cases, the -- the estimate for frequency or severity of a particular coverage might be too conservative, correct? It's a possibility.

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And in other cases, it might be too optimistic, another forecast for another coverage?

MR. RAJESH SAHASRABUDDHE: I guess I just want to understand. Are you referring to in hindsight or -- so in hindsight, is it too optimistic or conservative, or at that time was the estimate too optimistic or conservative?

MR. ANTHONY GUERRA: In -- in hindsight. When you're reviewing it afterwards, you would realize only at that time of the conservative or optimistic nature of the -- the forecast, correct?

MR. RAJESH SAHASRABUDDHE: Correct.

MR. ANTHONY GUERRA: And so individually, you may have a forecast that's optimistic or conservative in hindsight.

But you would agree with me, sir, that it's important to look at all of the -- the forecasts for all of the coverages in its totality to determine whether or not the overall forecast is either optimistic or conservative, in -- in too much either of those directions, correct?

MR. RAJESH SAHASRABUDDHE: Yes, I -- I would agree with that, yes.

MR. ANTHONY GUERRA: And -- and so appreciating that no forecast is likely to be 100 percent accurate, you would agree with me, sir, that the Public Utilities Board should -- should look at, and be mindful of, all of the forecasts that -- that MPI issues in terms of its ratemaking, correct?

MR. RAJESH SAHASRABUDDHE: By that, you mean the forecasts for each coverage? Is that -- is that the --

MR. ANTHONY GUERRA: Correct.

MR. RAJESH SAHASRABUDDHE: Yeah. So -- yes. We -- we -- as -- as we did last year and as we have done this year, we've provided commentary on each component of the -- the forecast.

It was easier to do because there weren't twenty (20) of them this year, but -- which we again believe is an improvement. But -- but, yes, it should be viewed in totality.

MR. ANTHONY GUERRA: And, Ms. Schubert, if you can pull up the Oliver Wyman presentation from this morning, and if we can go to -- oh, sorry, I'll just give you a moment there -- slide number 78, please.

My Friend had mentioned this earlier in -- in response to some of your evidence, but the -- the last two (2) lines there for comprehensive trend and property damage trend, the -- the alternative assumptions would result in an increase in the overall rate level indication based on the evidence of Oliver Wyman, correct?

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

MR. ANTHONY GUERRA: And so in looking at all of the -- the different trends forecasted by MPI, there were some instances where Oliver Wyman would say that the forecast used by MPI was -- was too optimistic.

MR. RAJESH SAHASRABUDDHE: Yes, by -- by a small amount, but yes.

MR. ANTHONY GUERRA: And so you would agree with me, sir, that one way to determine whether a forecast is reasonable is to employ various statistical tests to compare the results to those proposed by MPI, and then to conduct an 'eye test' to determine if the modelling looks like an accurate prediction of past and future, correct?

MR. RAJESH SAHASRABUDDHE: I'm sorry. Could -- could you restate that? There were a couple of parts to that question, so --

MR. ANTHONY GUERRA: Sure. I can break it down for you. My apologies, and I'll try not to talk over you as well.

So one (1) way to determine if a

forecast is reasonable is to employ various statistical tests and to compare the results of those tests to an 'eye test' to determine if the modelling looks like an accurate prediction of the past and future, correct?

MR. RAJESH SAHASRABUDDHE: Yes, I would agree with that.

MR. ANTHONY GUERRA: And where Oliver Wyman proposes an alternative forecast, is it fair to suggest that what Oliver Wyman is actually saying is that MPI's forecasts are not reasonable?

MR. RAJESH SAHASRABUDDHE: What we're saying is we believe that our forecast is a more reasonable estimate than that's -- than that put forward by MPI.

MR. ANTHONY GUERRA: So not necessarily that MPI's forecast is not reasonable, but that there's a better alternative.

Is that fair to say?

MR. RAJESH SAHASRABUDDHE: Correct, because ultimately the ratepayer pays a single rate, so what's the more -- most appropriate rate is what we're trying to put forward.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: And so if we can bring CAC Exhibit number 5, please, the Oliver Wyman report from September. Thank you. And if we can go to page 36, at the very bottom of page 36, we see the line at the bottom there:

"Following MPI's general methodology in determining the average rate levels -- rate level, rather -- needed -- needs, but with alternative assumptions, judgments, and calculations that we believe are more appropriate, we estimate the total 2024/'25 rating year loss cost [if you can go down to page 37, please] provision of six hundred and seventy-nine point nine five ($679.95), 4.26 percent less than MPI's estimate -- estimate rather of seven hundred and ten dollars and eighteen ($710.18) cents."

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And so the seven hundred and ten dollars and eighteen (710.18) cents, that's the total pure premium, correct?

MR. RAJESH SAHASRABUDDHE: Yes. That's often referred to as a pure premium.

MR. ANTHONY GUERRA: And if we can go to the 2024 GRA, the rate indication chapter, please, at page 9. Perfect. Figure RI-1.

So this shows the MPI total pure premium of seven hundred and ten (710). Actually, if you can go down to line 4 underneath this figure, please. That's right.

So that shows how that pure premium is calculated, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And so what we see here is we see this large figure of $909 million divided by another large figure of 1.2 million to equal the seven hundred and ten and eighteen ($710.10), correct?

MR. RAJESH SAHASRABUDDHE: Correct. Yes.

MR. ANTHONY GUERRA: And that 1.28 million number, that's the total insured units for 2024/'25, correct?

MR. RAJESH SAHASRABUDDHE: The forecast insured units, yes.

MR. ANTHONY GUERRA: Yes. I

appreciate that clarification. And the 909 million at line 4, we also see it above in the figure at line 17.

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And so that's the total claims incurred amount that MPI is estimating, correct?

MR. RAJESH SAHASRABUDDHE: Yes, the -- yes, the -- again, the forecast claim amount, yes.

MR. ANTHONY GUERRA: So, if we took Oliver Wyman's total pure premium and multiplied it by the 1.28 million at line 2 there, what we would see is that we would get a sum of $871 million, roughly speaking?

MR. RAJESH SAHASRABUDDHE: Yeah, I'll -- I'll accept that. I haven't done the math, but -- but I'll accept that.

MR. ANTHONY GUERRA: And so the difference between the Oliver Wyman incurred claims estimate and the MPI incurred claims estimate would be approximately $38 million subject to check, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And so, based upon just that -- that calculation, I appreciate some of the -- the numbers are changing based upon the

October update, but Oliver Iman -- Wyman rather is -- is saying there is its opinion is MPI needs approximately $38 million less than MPI believes to cover the cost of claims for the 2024/'25 rating period?

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

MR. ANTHONY GUERRA: And if we can go to rate indication, Appendix 3, please. So page 9 should be Table 1. Thank you, Ms. Schubert.

And so what we see here at this table is a summary of all of the coverages that are identified in -- in your report, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And so the far right column under the "total" line there we see that $909 million that we talked about from figure RI-1, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And if we look along the bottom line, what we see here are the calculations that get us from the undiscounted ultimate claims by accident year in column 1 to the final column 12, the 909 million, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And so the starting point, the undiscounted ultimate claims by accident for 2024/'25, is -- that's the $896.5 million, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And then for 2025/'26, the undiscounted ultimate claims by accident year is the 920 -- 930 rounded up --

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: Thank you. Ms. Schubert, if I can ask you to pull up MPI Exhibit number 64, the claims forecasting presentation.

And just to confirm before we go through this, Mr. Sahasrabuddhe, have you had a chance to review this?

MR. RAJESH SAHASRABUDDHE: I have not, no.

MR. ANTHONY GUERRA: Okay. I'm going to ask Ms. Schubert, can you turn to slide 16, please.

So MPI witnesses presented earlier last week on this particular issue, which is the Basic ultimate claims. And just confirm, we talked about the 96.5 and the 930 being the -- the ultimate claims discount for the accident years.

And you see those two (2) numbers there

for 2024/'25 and '25/26, correct?

MR. RAJESH SAHASRABUDDHE: Yes. I -- I don't recall the numbers from the other exhibit, but I'll accept that they're -- they're the same as --

MR. ANTHONY GUERRA: Okay. Thank you. And if we can go to MPI Exhibit number 50 now, please, and page 3, which is RM-10. Thank you.

So this is the October 4th, 2023, update. And I appreciate this was filed after the Oliver Wyman report from September. But if you'll look at line 2, line 2 has the number seven hundred and three fifty-five (703.55).

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And so that would be the pure premium per unit based on the October update, correct?

MR. RAJESH SAHASRABUDDHE: I'm not a hundred percent sure about that, and -- and mostly because I -- the -- the split between the -- the claims and the claims expense. So that would get to eight twenty-one (821).

And my understanding is that the October update is -- is, roughly speaking, a 1 1/2 percent decrease versus the .13 percent indication.

So that difference is a little bit more than I'd expect, but I haven't had a chance to reconcile this exhibit with those changes.

MR. ANTHONY GUERRA: Okay. I appreciate that. If -- if you were to, subject to check, accept that this figure represents a drop between the seven ten eighteen (710.18) that we talked about earlier for pure premium and the new pure premium from October, you'd agree with me, sir, that that would represent a drop between the difference -- in -- and the difference between Oliver Wyman and MPI from 38 million to $30 million?

MR. RAJESH SAHASRABUDDHE: Yes. I'll -- I'll accept that subject to check, yes.

MR. ANTHONY GUERRA: Okay. Thank you. If we can go to rate indication, Appendix 3, please.

And we saw this figure earlier. And we talked about the different coverages. And we looked at the numbers 896.5 million at the bottom, and 930 million at the bottom, as well.

Do you recall that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And so I'm going to suggest to you, sir, that those two (2) figures are the common -- are the sum of the coverages immediately above, so starting with income replacement indemnity normal and going all the way down to comprehensive.

MR. RAJESH SAHASRABUDDHE: Yes. I'm going to write the numbers down so I -- I can remember them.

MR. ANTHONY GUERRA: Subject to check, yes.

MR. RAJESH SAHASRABUDDHE: Okay.

MR. ANTHONY GUERRA: Thank you.

(BRIEF PAUSE)

MR. ANTHONY GUERRA: And so just going back. So income replacement indemnity normal, you see there that for 2024/2025, the -- the amount shown is the 94 -- 94 million?

MR. RAJESH SAHASRABUDDHE: Yes, I see that.

MR. ANTHONY GUERRA: And then for '25/'26 it's 90 -- 98 million -- 97 million?

MR. RAJESH SAHASRABUDDHE: Yes. Yes. The comparables in that -- the ninety-six seven four three (96,743), I think, right?

MR. ANTHONY GUERRA: Yes.

MR. RAJESH SAHASRABUDDHE: Okay.

MR. ANTHONY GUERRA: Thank you. So if we can go now to claims forecasting figure 20, page 42. Yeah. Thank you.

And so what we see at lines -- so column 3, for 2024/'25 we see the -- sorry -- column 4, we see the same 94 million and the same 96 million for 2024/'25, as we looked at in the last figure, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And the ultimate loss costs are shown in column 2. And so the ultimate loss costs resulting into the ultimate total losses for 2024/'25, you agree with me, sir, is the ninety-nine dollars and ninety-nine ($99.99) cents for 2024?

MR. RAJESH SAHASRABUDDHE: Yes, I see that.

MR. ANTHONY GUERRA: And the one hundred and one dollars and ninety-six ($101.96) for 2025, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And if we look at footnote number -- number 2 there under line 23, it says for the 2024 GRA forecasts are from Appendix 4A, Table 4. You see that?

MR. RAJESH SAHASRABUDDHE: Yeah.

There's two (2) footnote 2s, but -- but I assume --

MR. ANTHONY GUERRA: The line 23.

MR. RAJESH SAHASRABUDDHE: Line 23, yes.

MR. ANTHONY GUERRA: Thank you. Okay. So that's -- what that's telling us is that's where we're going to go to -- to figure out how we get that calculation, and so let's go there now. Thank you, Ms. Schubert.

And so you'll see there that for column 6 for the 2024 year we see the calculation of the ninety-nine dollars and ninety-nine ($99.99) cents, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And then for 2025 we see the calculation of the hundred and one dollars ninety-six ($101.96) cents, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And then for 2025 we see the calculation of the hundred and one dollars and ninety-six cents ($101.96). Correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And so, if we go -- go now to footnote 3, it says that the future loss cost trend was determined by appendix 4A, table 1.

Do you see that?

MR. RAJESH SAHASRABUDDHE: I'm sorry, which footnote?

MR. ANTHONY GUERRA: Footnote number 3.

MR. RAJESH SAHASRABUDDHE: Footnote number 3, so appendix 4A, table 1 and three (3) relates to future loss cost trend -- yes.

MR. ANTHONY GUERRA: Thank you. So, if we can go to appendix 4A, table 1, please. Thank you.

So, we see here that the -- the loss cost trend of 1.97 percent was determined by a formula at the bottom, which considers the selected frequency and severity trends. Correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And, so, in this case, the frequency MPI selected was one point nine (1.9), sorry, a negative one point nine two (-1.92) and for severity it was 3.96 percent.

MR. RAJESH SAHASRABUDDHE: Yeah, frequency trends.

MR. ANTHONY GUERRA: Right.

MR. RAJESH SAHASRABUDDHE: Frequency trend was minus one point nine two (-1.92).

MR. ANTHONY GUERRA: Correct. Thank you. And, so, MPI's frequency model considers years 2009 to 2022 and selects a trend in that instance, where -- we're talking about accident benefits, weekly indemnity from the 2009 period.

And, if you want a reference, we can go to Claims Forecasting, Appendix 3A.

MR. RAJESH SAHASRABUDDHE: Here's the one point nine two (1.92) -- yes, I see that.

MR. ANTHONY GUERRA: Okay. And so for, you agree with me, sir, for the 2009 period, the R-squared value is zero point eight four (0.84)?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And the R -- the adjusted R-squared value is zero point eight two (0.82).

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And, for the -- well, let's back up here.

What are we talking about when we talk about the R-squared and the adjusted R-square values?

MR. RAJESH SAHASRABUDDHE: Okay, so -- so the R-squared value is a measure of how much variation in the data is captured by the model, or explained by the model.

And the adjusted R-squared, penalizes, or adjusts that explanation, based on a number of parameters in the model.

So, it's a situation where, if you had the same number of parameters as you have data points, you would -- you could effectively replicate the results exactly and you would have a hundred (100) percent R-squared, so to -- to include a penalty for doing that, and then that wouldn't separate any signal and noise.

So, the adjusted R-squared metric is used to -- to compare models with different numbers of parameters, in terms of their explanatory power.

MR. ANTHONY GUERRA: And what is the -- what is the range for R-squared and adjusted R-squared values?

MR. RAJESH SAHASRABUDDHE: Adjusted R-squared's can go negative, but R-squared values are zero (0) to one (1).

MR. ANTHONY GUERRA: Zero (0) to one (1). And what's the significance of a zero (0) in that range?

MR. RAJESH SAHASRABUDDHE: That means none of the variation in the data is explained by the model.

MR. ANTHONY GUERRA: And what would be the significance of a one (1) within that range?

MR. RAJESH SAHASRABUDDHE: It -- it means a hundred (100) percent of the data is explained by the model. Both -- both of those outcomes are very unusual. You would -- you would never almost get that, but -- but that's -- that's the -- that's how they would be interpreted.

MR. ANTHONY GUERRA: So, is it fair to say then, sir, that when you're looking at the R-squared values, you -- you want to see something as close to one (1) as possible.

MR. RAJESH SAHASRABUDDHE: Higher is better, yes.

MR. ANTHONY GUERRA: And, would you agree with me, sir, that anything above a zero point eight (0.8) would be considered a good fit?

MR. RAJESH SAHASRABUDDHE: It -- it would mean that the -- that the variation in the data is -- is largely explained by the model.

And the term "good fit" is a -- is a -- there -- there's other aspects of the fit that we would consider to characterize it as good.

But -- but it would mean that a high percentage of the variation in the data is explained by the model.

MR. ANTHONY GUERRA: Okay. And -- and, the further below then, the zero point eight (0.8) that you would go, you're -- you're less and less explaining the model. Correct? The model is less explaining the trend.

MR. RAJESH SAHASRABUDDHE: Yes. Yes.

MR. ANTHONY GUERRA: And so for 2009, sir, you'll agree with me that the R-squared and the adjusted R-squared values, being zero point eight four (0.84) and zero point eight two (0.82) respectively, those are good explanations for the trend. Correct?

MR. RAJESH SAHASRABUDDHE: Yes, from the variation in the data. Yes.

MR. ANTHONY GUERRA: And then if we go over to the next column to the right, we see the -- the time 'P' values. Do you see that, sir?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And, in this case, the time 'P' value -- value is zero point zero one (0.01). Do you see that?

MR. RAJESH SAHASRABUDDHE: I do. Yes.

MR. ANTHONY GUERRA: Can you help us understand the significance of the -- the 'P' value?

MR. RAJESH SAHASRABUDDHE: Sure. So, the 'P' value is a measure of the probability that a value -- that the measured value in -- in this case, the time parameter of -- the -- I'm sorry, in this case the -- the trend of minus one point nine two (-1.92), could be observed by chance, if the true value were zero (0).

So -- so the idea here is that there's only a 1 percent chance that you would have a negative trend, if the true value were zero (0).

MR. ANTHONY GUERRA: Okay. And, the 'P' value, as I understand, are also measured on a range. Correct?

MR. RAJESH SAHASRABUDDHE: Correct.

MR. ANTHONY GUERRA: And is the range also zero (0) to one (1)?

MR. RAJESH SAHASRABUDDHE: It is.

MR. ANTHONY GUERRA: And, this time I understand that in order to get a more significant result, you want to be closer to zero (0). Correct?

MR. RAJESH SAHASRABUDDHE: Correct. If -- if -- if you had a higher 'P' value that would say that there was a higher probability of observing that value just randomly or by chance, which is obviously not what you want to model, you want to model signal, not -- not randomness.

MR. ANTHONY GUERRA: And, you agree with me, sir, that anything that's below zero point zero five (0.05), in terms of the 'P' value would be considered significant?

MR. RAJESH SAHASRABUDDHE: I -- I guess I'll -- I'll say that that's a common threshold, it's not -- it's -- it's a rule of thumb. But -- but -- but different -- different modelers can have different thresholds for significance.

MR. ANTHONY GUERRA: If it's common in a rule of thumb, would you agree with me, sir, that it's also industry best practice?

MR. RAJESH SAHASRABUDDHE: I -- I think for purpose of this -- this discussion, yes. There are -- there are some debates in the statistical community about 'P' values that -- that -- probably I -- I won't get into here, but -- but I -- I think for this purpose, we can accept that. Yes.

MR. ANTHONY GUERRA: And, so if we looked at the combined assessment of looking at the R-squared, adjusted R-squared and the -- the time 'P' value for the selection of 2009, you agree with me, sir, that that would be both a good fit and have a variable for time that is significant. Correct?

MR. RAJESH SAHASRABUDDHE: Yes. That's correct.

MR. ANTHONY GUERRA: And, looking at all of the years on this chart, you agree with me, sir, that other than the years 2021, 2022, the -- the period for 2009 has the best combination of R-squared, adjusted R-squared and time 'P' values?

MR. RAJESH SAHASRABUDDHE: Yes. I'm just -- I'm just scanning them, but -- but yes, it generally, I -- I will accept that, yes.

MR. ANTHONY GUERRA: Okay. And MPI's severity model for this particular coverage accident benefits weekly indemnity, considers the time period 2012 and 2022 and then selects the trend from 2012. So, if I can ask you, Ms. Schubert, to pull up appendix 3A at page 3, so, I guess, just the next page down. There we go.

So, you'll see there, sir, MPI selected the -- the year 2012 in blue.

MR. RAJESH SAHASRABUDDHE: I do see that, yes.

MR. ANTHONY GUERRA: And you agree with me, sir, that the R-squared value for that year is zero point seven two (0.72).

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: The adjusted R-squared value is zero point six nine (0.69).

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And, so, the adjusted -- sorry, the R-squared value would be a -- a moderate fit. Would you agree with that?

MR. RAJESH SAHASRABUDDHE: Yes. I -- I think that's a reasonable characterization, yeah.

MR. ANTHONY GUERRA: Same -- same with adjusted R-squared value? Moderate?

MR. RAJESH SAHASRABUDDHE: Yeah. Again, the -- where you draw the line between moderate and good can -- can differ by -- by modelers and -- and, again, that's where some of the visual analysis would -- would come in.

If you have a lot of noise in the data you could get a low -- lower R-squared, but that doesn't necessarily mean it's a less appropriate fit.

MR. ANTHONY GUERRA: And that's the eye test. Correct?

MR. RAJESH SAHASRABUDDHE: Correct.

MR. ANTHONY GUERRA: And, excuse me, you agree with me, sir, for the -- the year 2012 the time 'P' value is the value of zero (0). Correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: That would be significant.

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And you agree with me, sir, that for 2012, that particular year on this list, has the best combination of R-squared, adjusted R-squared and 'P' values, except for 2021 and '22.

MR. RAJESH SAHASRABUDDHE: Yes. I'll accept that, yes.

MR. ANTHONY GUERRA: So, if we can go now to the Oliver Wyman Report; CAC/Exhibit 5. And if we can go to page 11 please.

So, this is the alternative severity trend selected by Oliver Wyman and the analysis on page 12.

MR. RAJESH SAHASRABUDDHE: Yes. So, on eleven (11), it's not the alternative, that -- that's the MPI --

MR. ANTHONY GUERRA: Sorry. Yes --

MR. RAJESH SAHASRABUDDHE: -- model -- yeah.

MR. ANTHONY GUERRA: -- my apologies. Yes. Thank you. Also, Figure 6, this is the alternatives proposed by Oliver Wyman. Correct?

MR. RAJESH SAHASRABUDDHE: Correct.

MR. ANTHONY GUERRA: And, so, for severity, the severity trend has an adjusted 'R' value of zero point six zero eight (0.608). Correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And that would be the less than the zero point eight zero (0.80) we talked about earlier. Correct?

MR. RAJESH SAHASRABUDDHE: Yes, but I -- I -- I guess I didn't -- I didn't appreciate, I guess, where you were going with this line of questioning and, so, I didn't make this comment earlier.

But, when you compare R-squared values between different data sets, they're not necessarily directly comparable, because you could have data points that still exhibit the same trend but there's just a little bit more volatility around them.

So, it -- it's -- you can't necessarily just -- it -- it -- as we were going through with the MPI models, where you compared one year to the next, you could get a model that's more appropriate but has a lower R-squared value. It's just because there's a little bit more volatility in the data.

Remember, you're not fitting

alternative models to the same data; that's where the R-squared comparative would, you know, would be more appropriate, and I'll just give you an example, because we can see that on the frequency chart.

That, if you didn't put the mobility parameter in there and fit to the same data, you would get a worse R-squared, because it wouldn't pick up the effect of the pandemic on the same data.

So, if you take the same data, fit it with mobility and without mobility, and you'll get different R-squared values and -- but, if you -- when -- when you change and you say, okay, I'm going to fit -- I'm going to compare fitting this one data set to this other data set, you can't compare the R-squared values, because the volatility in the underlying data changes as well.

So, I know that's a bit of a technical concept. Hopefully, I explained that reasonably well.

MR. ANTHONY GUERRA: No, thank you. I appreciate that. And the -- the 'P' value for time there is indicated for severity as the zero point zero zero one (0.001). Correct?

MR. RAJESH SAHASRABUDDHE: That's correct. Yes.

MR. ANTHONY GUERRA: Now, that would

be fairly significant. Correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: But, if we were to compare the two, so, the severity -- alternative severity trend proposed by Oliver Wyman and the alternate -- or -- and the one proposed by MPI, you would agree with me, sir, that the combination of the R-squared, adjusted R-squared and 'P' values would actually be better for the -- the MPI proposed trend.

Correct?

MR. RAJESH SAHASRABUDDHE: Again, subject to my prior comments that that the comparative isn't actually appropriate, 'cause you're -- you're looking at two (2) different data sets.

So, what -- I think what I could accept is that -- that the model fit to 2012 and subsequent fits the data for 2012 and subsequent better than the model that fits 2009 and subsequent fits the data for 2009 and subsequent, but that doesn't mean that that's the -- but that maybe because there's more volatility in the data, and that actually is what's happening, that there's just more volatility in that 2000 -- not that the pattern's changed.

MR. ANTHONY GUERRA: But you agree with me, sir, that, for this particular coverage, so

Accident Benefits Weekly Indemnity, that the -- the model that -- that Oliver Wyman is proposing does have worse regression analysis results compared to MPI's?

MR. RAJESH SAHASRABUDDHE: Again, my view is it's not comparable in -- in -- in that sense.

MR. ANTHONY GUERRA: Okay. And I don't want to put words in your mouth, sir, but I do you need to know what your position is.

Would you agree, then, sir, that your position would be that MPI's selection for severity, despite having a regression analysis that would have a good fit and a significant 'P' value, is not reasonable?

MR. RAJESH SAHASRABUDDHE: Our view is that it's more reasonable to use the same -- the same underlying points for the frequency and severity model. It -- it -- it's not -- not the conclusion that -- that -- that you just described.

MR. ANTHONY GUERRA: Okay. And -- and the rationale for the selection of the Oliver Wyman alternative approach would be to ensure that the frequency and severity models consider the same time periods. Correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: If we can go to

page 14, please. Okay. So, Oliver Wyman is reviewing the MPI frequency model -- sorry, frequency trend model for Accident Benefits Other Indexed, on page 14. Correct?

MR. RAJESH SAHASRABUDDHE: Yes, in this section, this -- this particular chart that's on the screen right now is not our review, but -- but that's what this section relates to.

MR. ANTHONY GUERRA: Right. And, then, your review would be on page 15. Correct?

MR. RAJESH SAHASRABUDDHE: Correct. I assume, yes.

MR. ANTHONY GUERRA: And, if we go to the frequency chart at the top there, we see that the adjusted R-squared value is zero point nine two five (0.925) and the 'P' value is a zero point zero eight (0.08). Correct?

MR. RAJESH SAHASRABUDDHE: Correct.

MR. ANTHONY GUERRA: So, in terms of the adjusted R 2 -- R-squared value, rather, you would agree that that's a good fit, but, in terms of the -- the 'P' value for time, there may be some significance issues?

MR. RAJESH SAHASRABUDDHE: No. So, zero point zero zero eight (0.008). So, it's -- it's not point -- so, it's slightly under 1 percent. It's not 8 percent. I just want to be clear about that.

MR. ANTHONY GUERRA: Okay. And, if we compare that to the MPI trend selection, if we can go to Claims Forecasting, Appendix 3B, page 6, please. Thank you.

We see that MPI selected the 2009 year and that the R-squared value is nine -- zero point nine three (0.93) and the adjust -- adjusted R-squared value is zero point nine two (0.92). Correct?

MR. RAJESH SAHASRABUDDHE: Yes, I see that.

MR. ANTHONY GUERRA: This will be comparable to the adjusted R 2 value of zero point nine two five (0.925) in the Oliver Wyman alternative trend. Correct?

MR. RAJESH SAHASRABUDDHE: Yes, other than the fact that the nine -- point nine two five (.925) may round to -- actually, the -- yes, our point nine two five (.925) is comparable to the point nine two here (.92) here, not at the point nine three (.93).

Again, it's not a meaningful difference, in -- in my view, but -- and -- and the MPI estimates are expressed to two decimal places. We expressed to three. So -- so, that -- that's also going to create some differences.

MR. ANTHONY GUERRA: Absolutely. Fair comments and that's why I used the word "comparable."

You would agree that they're comparable?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: Thank you, and the 'P' value at zero point zero zero (0.00). I'm appreciating there's probably a number in there somewhere?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: You would also agree that that's comparable to the Oliver Wyman alternative trend?

MR. RAJESH SAHASRABUDDHE: Yes. The -- the point zero zero eight (.008), I believe, that we reviewed.

MR. ANTHONY GUERRA: So, the -- the Oliver Wyman -- it would be fair to say that the Oliver Wyman alternative trend selection and the MPI trend selection have almost the same regression analysis results?

MR. RAJESH SAHASRABUDDHE: Again, sub -- subject to my commentary that -- that you can't compare when you're fitting to different time periods, I -- I would agree.

MR. ANTHONY GUERRA: And, again, for this particular coverage, sir, you would agree that the rationale for selecting the alternative trend for Oliver Wyman would be that the frequency and severity measures should consider the same time period?

MR. RAJESH SAHASRABUDDHE: That's correct. Yes.

MR. ANTHONY GUERRA: And I -- I think you've said this before but just, maybe, if we can clarify.

So, it's not required that we select different time periods for frequency and severity. Correct?

MR. RAJESH SAHASRABUDDHE: Correct. I mean, there's no formal requirements. Again, our view is the way that the frequency and severity were derived in this case, they're not independent measures, but you sort of take a -- a -- you take a whole and you split it into the two (2) pieces, that that is a compelling reason why you would -- you would -- you would want to keep the time periods consistent, absent -- absent compelling reason.

We do -- there are other filers that

will independently review frequency and severity and -- and -- and that's a little bit of a different case, where it might be a little bit more acceptable to have different time periods.

MR. ANTHONY GUERRA: It wouldn't be unreasonable to use different time periods for frequency and severity, depending on the circ -- circumstances.

I think you mentioned absent compelling reasons to do?

MR. RAJESH SAHASRABUDDHE: Correct. There would -- there would need to be a compelling reason to -- to -- to deviate.

MR. ANTHONY GUERRA: And Oliver Wyman has suggested using different time periods for frequency and severity measures in -- in -- in the past. Correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: Including in the 2023 GRA?

MR. RAJESH SAHASRABUDDHE: Again, the underlying frequency and severity there were derived differently. They weren't decompositions of a total, but they were separate analyses.

So, that's a -- a situation where we

find it more acceptable to do that. Yes.

MR. ANTHONY GUERRA: But, in practice, there was a different recommendation for time periods for frequency and severity trends and, in this case, I'm referring to the 2023 for total loss frequency, where 2012 to 2029 was used or recommended for frequency and 2015 to 2021 was recommended for severity?

MR. RAJESH SAHASRABUDDHE: I'll -- I'll -- again, I don't recall the specifics but, again, I'll -- I'll accept that because, as I said, the frequency and severity measures were derived differently last year.

MR. ANTHONY GUERRA: And including in this GRA, you'd agree with me, sir, that Oliver Wyman has -- there are instances where MPI -- sorry, where Oliver Wyman has not taken issue with MPI's use of different time periods, correct?

MR. RAJESH SAHASRABUDDHE: I think comprehensive may be one. I'm trying to recall whether -- whether there's others where we did that, but -- but I'm not 100 percent certain. I'd have to look at that.

MR. ANTHONY GUERRA: Thank you. And if we can go back to the Oliver Wyman report, please, at CAC Exhibit 5, page 17, please.

And this is reviewing for the coverage Accident Benefit Other Non-indexed?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And you'd agree with me, sir, that Oliver Wyman has no issues with MPI's frequency and severity trend selections?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: The issue here is the -- the tempering, right, the use of the zero percent temper as opposed to the 50 percent less tempering that is recommended by -- by Oliver Wyman.

Correct?

MR. RAJESH SAHASRABUDDHE: Yeah. So just to clarify my prior response, so we -- we have no issue with the past trend. It's how you temper to get from past trend to future trend that we took issue with.

MR. ANTHONY GUERRA: And so when we -- we use the word "tempering," are we saying that we're -- we're just flattening the recent frequency experience?

MR. RAJESH SAHASRABUDDHE: Yes, that -- that's the way we're using it in this context, yes. We're not flattening the experience, but we're reducing the projection to recognize that the recent experience is flatter. So we don't -- it's a slight -- slight semantic difference but -- but I -- but I believe that your -- that -- that the point was -- was -- is correct.

MR. ANTHONY GUERRA: And I appreciate you being fair with me. I'm doing my -- I'm doing my best to try to keep up here.

MR. RAJESH SAHASRABUDDHE: Sure.

MR. ANTHONY GUERRA: And -- and so you agree with me, sir, that MPI has said that -- that the year 2020 may have been impacted by COVID-19 and that 2020 may have been impacted by high snowfall, correct?

MR. RAJESH SAHASRABUDDHE: I -- I don't think it's a "may have." I -- I think -- I think the MPI position -- and we would certainly agree -- that weather is a factor and we agree that COVID is a factor. There is an adjustment for those two (2), so I -- I would just change "may have" to -- to "were."

MR. ANTHONY GUERRA: Okay. And you agree with me, sir, that Oliver Wyman's position is that the tempering to zero by MPI as proposed would not be reasonable, something less would -- would be the only reasonable outcome there?

MR. RAJESH SAHASRABUDDHE: Yes, less tempering towards zero we -- we believe is -- is more reasonable, yes.

MR. ANTHONY GUERRA: And if we can go to page 30, please, this is the coverage Property Damage Third-party Deductible Transfer.

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And then so in this case, MPI used the --

MR. RAJESH SAHASRABUDDHE: Sorry.

MR. ANTHONY GUERRA: -- no worries -- used the period 2010 to 2022 for the frequency trend, and then 2009 to 2022 for the severity trend.

Do you see that?

MR. RAJESH SAHASRABUDDHE: That -- it would be on the prior page, but -- but I'll accept that before I look it up here.

MR. ANTHONY GUERRA: Oh, it's actually the -- underneath the finding --

MR. RAJESH SAHASRABUDDHE: Oh, oh, I'm sorry. Yes. Okay. I -- I see it there.

MR. ANTHONY GUERRA: Okay. And -- and in response to that, Oliver Wyman used 2014 to 2020 for both the frequency and severity trends?

MR. RAJESH SAHASRABUDDHE: Property damage. It's Property Damage Other?

MR. ANTHONY GUERRA: It's also right in the response there, too.

MR. RAJESH SAHASRABUDDHE: Oh, yes. Okay.

MR. ANTHONY GUERRA: Sorry, I'm not --

MR. RAJESH SAHASRABUDDHE: No, it's okay. I -- I tend to look at the charts and -- and where the lines are drawn to identify the periods as opposed to the words, so --

MR. ANTHONY GUERRA: I appreciate it.

MR. RAJESH SAHASRABUDDHE: -- but -- but I'll accept that, yes.

MR. ANTHONY GUERRA: Thank you. And if we can go to page 31, please. And for the frequency alternative trend, you agree with me, sir, that the adjusted R-2 squared value is zero point eight five three (0.853) and the 'P' value is a zero point seven one five (0.751).

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And you agree with me, sir, that in -- in just progression analysis talk, that the R-squared value would be a -- would be a good fit, but the 'P' value would -- would have some significant -- significance issues, correct?

MR. RAJESH SAHASRABUDDHE: Not necessarily because remembering what the 'P' value is, it's the probability of observing that value if the true value were zero.

And in case -- in this case, our -- the value that we're talking about is very, very close to zero, so -- so we don't necessarily view it as problematic.

When there's a value very close to zero in the fit, it's -- the 'P' value becomes less relevant. So again, let me just give you an extreme case.

If the true value was zero, the chance of observing 10 percent, you know, it is unlikely. If the true value is zero, the chance of observing -- you know, this probably equates to, you know, roughly speaking, you know, .55 percent or .52 percent -- is actually not that unlikely.

So the 'P' value needs to be interpreted in that context. All it's saying is that time is not a significant explanatory variable, and that's actually consistent with what we see in the data where the data is sort of, you know, generally flat.

MR. ANTHONY GUERRA: And for the severity trend, the 'P' value is -- is even higher at zero point nine eight three (0.983).

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And the adjusted R-square value is a negative, and you talked the negative being within the realm of possibility in the -- in the range.

What does a negative adjusted R-squared value of zero point one four three (0.143) tell us?

MR. RAJESH SAHASRABUDDHE: That means the value of the penalty for the number of parameters is greater than the amount of -- again, the amount of variation in the data that's explained by the model.

And again, the -- the reason why the -- the variation in the data is, you know, relatively low here -- or the amount of explained variation is because you do have that -- that unusual point in 2018 and then the unusually low point in 2021 that again aren't -- aren't explained by the data.

We would -- but our view on this -- again, this gets to the visual test -- is that one is -- one's higher than average, one is lower than average, so they -- they sort of offset, even though the R-squared value's on an absolute scale.

So it looks at the -- the difference without sort of thinking about whether -- if you're missing consistently higher or missing consistently low, that's a lot worse than, okay, we just didn't explain one (1) data point's variation high and the other data point's variation low. So that's again part of the -- as we discussed earlier, the -- sort of the visual analysis of the fit.

MR. ANTHONY GUERRA: And would you agree with me, sir, that in instances where there's -- a regression analysis would suggest a good fit and a significant time value, there -- there may be times where it's -- it's more reasonable just to completely abandon that analysis and conduct the eye test?

MR. RAJESH SAHASRABUDDHE: Where the -- where it would indicate a good fit and a 'P' value to abandon the analysis; if both conditions were true -- I mean, I think you still want to conduct a visual analysis. If both conditions were true, it's unlikely that -- that that would be a poor outcome.

There are situations where -- where one (1) of those conditions could be true and the other not, where -- where you might get to a different conclusion with the eye test. But if both conditions are true, you're unlikely to get to a different conclusion with the eye test.

MR. ANTHONY GUERRA: Okay. So if we can go to claims forecasting Appendix 3H, please, and at page 38, please. Yeah. Thank you.

So this is what the property damage third-party deductible transfer frequency trend analysis shows us, and the selected trend for MPI was 2010. Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And then so for -- for frequency, we have an R-squared value of -- sorry, an adjusted R-squared value of zero point eight six (0.86). Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And a 'P' value of zero point zero three (0.03).

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: You agree with me, sir, that in that particular context, the regression analysis results in a good fit with a significant 'P' value?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And you agree with me, sir, that that would be a better result than the alternative models being suggested by Oliver Wyman?

MR. RAJESH SAHASRABUDDHE: One (1) second, please. Damage -- and this is for frequency.

(BRIEF PAUSE)

MR. RAJESH SAHASRABUDDHE: Right. So again, I think this is where -- there's two (2) factors here. Obviously, the alignment of the experience period is -- again, just going back to this idea that you can't make that comparison on -- on models with two (2) different data sets.

Our issue is really more related to the alignment of the experience periods on this one.

There is also just sort of on a -- on a visual test there's sort of a slight -- relatively slight, but a slight difference in -- in the pattern on the frequency side. I don't know if we can -- you might be able to see it on -- on the chart that's -- that's sort of just slightly below this though. Again, we prefer a log scale. I don't know if you can scroll down just a little bit, please.

Right. So you -- you sort of see what's happening on the -- the -- you can, again, see it similar on our chart, too, but you see sort of this noise that's going on.

And so why do we get the negative trend and why do we get the significance of -- the significant value for the time parameter? Well, what it's saying is, does time, the passage of time, explain the change. And this is where you have this sort of high points to the left and lower points to the right.

So -- so the idea is, okay, well, time is a significant explanatory variable, whereas if you were to just to look at that -- sort of that flatter period, you would get a much higher 'P' value. Again, I -- I know there's not an MPI model fit to -- I don't know, maybe there is.

2014 through 2019 on the prior chart; that's where you could have a high 'P' value, but that entirely makes sense because time isn't influencing the cost.

Here the -- the 'P' value is low because you have those higher points there. That's not indicative of the pattern that you see after those points, but you do get a higher 'P' value. Again, this -- I'm sorry, a lower 'P' value, more significant 'P' value.

And again, this is why we think the visual analysis is -- is important. But again, I'll just come back to the -- not directly comparable. And our -- the crux of our argument is the alignment of the experience periods.

MR. ANTHONY GUERRA: But you agree with me, sir, this is one of those instances where you would -- you would abandon the regression analysis in favour of the eye test?

MR. RAJESH SAHASRABUDDHE: Not necessarily abandon, but we try to understand. And I think the only way to -- the way to do that is to look at frequency and severity combined.

So I don't know. If it's -- if it's okay if we could go to our chart that you were maybe just referencing.

MR. ANTHONY GUERRA: For sure.

MR. RAJESH SAHASRABUDDHE: It's -- it's figure 25 in our report. It's -- I mean, either ours or the MPI chart, which is figure 23. Either of those is fine. But what you see here -- yeah, that -- okay. Either one is fine here because it has the same data.

But essentially, what you see is you -- you see from 9 to 13 you see these lower severities and higher frequencies, right. And that's -- that's essentially what MPI's picking up in -- in that 'P' value in the model, is sort of that drop from that higher frequency level down to the lower severity level.

And then similarly, in their -- in their severity model, or third-party deductible transfer -- and that's figure -- maybe we could go to the figure 23. Again, this is the exact same data.

But what the -- the influence of time is being picked up because you're going from the higher frequency to the lower frequency, and so it creates a significant 'P' -- 'P' value for frequency.

Similarly on severity, what's happening is the impact of time, it's -- it's going from that -- that period which exhibited higher frequency, lower severity, to -- to a period which has lower frequency and -- and higher severity, and that's essentially what that 'P' value's picking up in -- on the severity model.

And again, that's why the rationale -- our -- our basic rationale for the alignment of the periods is because you get this offsetting effect. And so you get significant 'P' values in both cases, but it's all just happening because the frequency and severity effects are offsetting.

MR. ANTHONY GUERRA: Okay. So, again, this is an instance where the eyeball test trumps all, correct?

MR. RAJESH SAHASRABUDDHE: No, not trumps all. I think we just -- we try to use it to understand, you know, why we might be getting a significant 'P' value.

And it doesn't mean that we would necessarily reject it, but it's -- it's part of -- part of our review as to -- it's part of our review as to whether it's the most appropriate term model.

And again, here -- there's other aspects of this that you could incorporate such as what are called residual tests, residual run tests you can see on the severity side. All of the data points are below the line for a while and then they're all above the line for a while.

You know, that -- that's generally not viewed as a -- you know, in comparison, if you look at the frequency where the data points are sort of all around the line, that's viewed as sort of a good fit.

You get this pattern of residual, so it's generally not viewed favourably. And that could have been an additional test that MPI incorporated into their models.

We think you could do that visually. There is a statistic you can calculate, and it's -- I think MPI does their modelling in Excel. It's not easy to do in Excel. If you use statistical software, it's not -- not difficult, but -- but -- well, you don't need to do it. You can sort of just see it.

MR. ANTHONY GUERRA: Thank you. If we can go to page 33 of the Oliver Wyman report. This is Property Damage Other.

You agree with me, sir, that MPI used the period 2010 to 2019 for frequency and 2009 to 2021 for severity?

MR. RAJESH SAHASRABUDDHE: Yes, I'll -- I'll agree with that.

MR. ANTHONY GUERRA: And in response, Oliver Wyman is suggesting use of the period 2009 to 2022 for both of those trends?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: If we go to page 34, the alternative transfer posed by Oliver Wyman, in this case, the frequency adjusted, R-square value is the 0.795 and the 'P' value is the 0.079.

Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And for severity, R-square value is the 0.909 and zero for the 'P' value, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And so, in -- in this case, we have situations where we have moderate to good R-squared values, but the case of severity, the 'P' value is significant, whereas in the frequency modelling it's -- it's perhaps not as significant?

MR. RAJESH SAHASRABUDDHE: Right. I would agree with that, yes.

MR. ANTHONY GUERRA: We can go to claims forecasting, Appendix 3H, please, page 42.

The MPI frequency trends, the year selected was 2011. Do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: Of the trend for the R-squared -- sorry -- R-squared value at 0.84 and the 'P' value at 0.05?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And do you agree with me, sir, that comparing that to the frequency results from the Oliver Wyman alternative model that the MPI results are actually better?

MR. RAJESH SAHASRABUDDHE: Again, it's

my position that you can't compare fits to different data sets, so -- and that the -- the fit needs to be, you know, evaluated in -- in the context of the -- of the data that's being explained.

For example, the -- the 'P' value issue here, you'll note that the loss trend is -- and you can see it on this chart, too, because our -- our statistics show the same as what's in the first row.

But the loss trend is much closer to zero, so you're more likely to get a 'P' value that's higher. It's only marginally higher. We don't necessarily -- we wouldn't necessarily view that as -- as a significant issue.

MR. ANTHONY GUERRA: Thank you. Ms. Schubert, if you can pull up MPI Exhibit number 64, the claims forecasting presentation.

And I appreciate you haven't seen this in -- in too much depth, if at all, other than today. So if I can ask you to go to slide 12, please.

We talked about the issue of accident year weights somewhat at length, and I do want to cover some of that today.

So if you look at the far right-hand column you'll see that for the years 2017 to 2022 MPI selected accident year weights of 20 percent for every year except for 2020, correct?

MR. RAJESH SAHASRABUDDHE: That's correct, yes.

MR. ANTHONY GUERRA: And so what MPI is saying there with these weights is that there's a 20 percent chance, or one in five chance, that the experience from each of these years will reflect the adjusted loss cost experience during the upcoming rating year.

Is that fair to say?

MR. RAJESH SAHASRABUDDHE: And that there is a zero percent chance that 2020 would reflect that, yes.

MR. ANTHONY GUERRA: Yeah, absolutely. I appreciate that clarification. And so MPI did not include 2020, the -- the COVID lock-down year.

You agree with that?

MR. RAJESH SAHASRABUDDHE: Yes, they did not include 2020.

MR. ANTHONY GUERRA: And so -- and again, I -- I think this is just a rephrasing for you, but you would agree that MPI is saying that there's a zero percent chance that the upcoming rating year will resemble the COVID lock-down year for the adjusted loss cost basis, correct?

MR. RAJESH SAHASRABUDDHE: Well, understanding that they have an adjustment for the COVID lock-downs in -- in the estimates, so that's not an unadjusted value, where they didn't compensate for the effect of the COVID adjustment.

And again, when we -- we asked them on the -- when we asked about the rationale for the -- including 2020 and 2021, it wasn't COVID that was mentioned, it was the -- the snowfall levels that were mentioned.

And I would also mention that the 2021 value also includes a -- also includes a COVID -- includes a COVID adjustment. And -- and I think we, you know, remember in early 2022, you know, the -- the Omicron variant was -- was around and there were -- there were still some -- some more restrictions that were sort of re-emerged at that time.

MR. ANTHONY GUERRA: Okay. And -- and so if I can, hopefully, recall some of your earlier testimony accurately.

What I think I understood you say earlier this morning was that MPI with this weighting, is -- is predicting a six (6) year experience with uneven weights. Correct?

MR. RAJESH SAHASRABUDDHE: There --

there is a six (6) year experience period with uneven weights. I think, yes, that's factually correct. Yes.

MR. ANTHONY GUERRA: So, that's factually correct, that's what --

MR. RAJESH SAHASRABUDDHE: Yeah.

MR. ANTHONY GUERRA: -- that's what you had said. Yes.

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: Thank you. And if we can go to the Oliver Wyman presentation from earlier this morning, at slide number 17, please.

You agree with me, sir, that Oliver Wyman is essentially doing the same thing; in this case, a five (5) year experience with uneven weights?

MR. RAJESH SAHASRABUDDHE: Yes. But -- I mean, we view the distinction between five (5) years and six (6) years as being meaningful, but -- but the uneven weights is -- the -- the -- while the weights are uneven, none of them are zero (0).

MR. ANTHONY GUERRA: Okay. And if we can go to the Oliver Wyman Report at CAC/Exhibit 5, please. If we can go to page 7, please. Oh -- there, perfect.

And, so what Oliver Wyman is saying

with its alternative weights is that MPI is more likely to experience a year like 2020 over a year like 2017. Correct?

MR. RAJESH SAHASRABUDDHE: That -- that's implicit in the model, but the reason we don't include 2017 is because it's outside of a five (5) year period, not because of its predictive value.

So, you -- you could extend that all the way back to 2009 and 2010 where we have data and say, it's more likely that we experienced twenty -- 2020 or 2021, relative to those years, but it has nothing to do with our -- our assessment of the predictive value of that period.

But, it's more the idea that the experience period should -- should be five (5) years long instead of -- longer for an insurer of this size.

MR. ANTHONY GUERRA: Okay. Thank you. And in the case of accident benefits weekly indemnity, the first column, do you see that?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: And then the bodily injury, the middle column?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And then the property damage and also, actually, the collision as well.

You agree with me, sir, that in -- in that particular case by assigning more weighting to the 2020 year as opposed to the 2021 year, what Oliver Wyman is saying is that 2020 is more likely to happen than 2021.

MR. RAJESH SAHASRABUDDHE: Our -- our assessment was that 2020 is more like the longer term experience than 2021 and that's the basis on -- on -- on which we provided those weights and the conclusion that -- that you described is -- is an accurate implicit -- implicit conclusion.

MR. ANTHONY GUERRA: Oliver Wyman's aware that MPI's claim forecast come from its June 15th, 2023 Application filing.

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And MPI -- and sorry, Oliver Wyman is rather aware that MPI didn't update its claims forecasting after the June filing?

MR. RAJESH SAHASRABUDDHE: That's my understanding. Yes. Yeah.

MR. ANTHONY GUERRA: Ms. Schubert, can I ask you to pull up MPI Exhibit No.64, please, the Claims Forecasting Presentation. And, if we can turn to slide 7, please.

MPI addressed the uncertain future that we find ourselves in and talked about the actual and possible events occurring after the release of the 2024 GRA Claims Forecast, that may mean uncertainty ahead and the need for caution.

And, in this particular case, MPI pointed out the current labour interruption on severity of claims, the auto worker labour interruptions on severity of claims, inflation increases observed in July and August 2023 and possibly ongoing and then the actual versus estimated work-from-home adjustment. Do you see that, sir?

MR. RAJESH SAHASRABUDDHE: I do.

MR. ANTHONY GUERRA: Would you agree with me that labour interruption could impact claim severity?

MR. RAJESH SAHASRABUDDHE: Yes -- yes, I -- I could see a circumstance where -- where that's true, where the number of claim adjusters that are available to manage claims is -- is fewer and that impacts severity, so -- so, yes, I could see that.

MR. ANTHONY GUERRA: And are you aware, sir, that MPI is currently in week nine (9) of a strike involving approximately seventeen (17) -- seventeen hundred (1,700) of its roughly two thousand

(2,000) employees?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And would you agree, sir, that this labour interruption could impact the frequency and severity of claims in the future?

MR. RAJESH SAHASRABUDDHE: I -- I don't know how it would impact frequency. I can't think of a -- of a hypothetical approach where it would impact frequency.

It's possible that it could impact severity. I -- I don't know that for -- for sure. That would be sort of speculation on my part, but, at least, I can -- I can hypothesize a -- a circumstance where it would impact severity.

I can't hypothesize a circumstance where it would effect frequency, you know, unless they just weren't -- there wasn't a claim in-take process, but, ultimately, those claims would get reported. They would just get shifted, I would imagine. So, it's not as if the insured is going to abandon a claim, just because MPI is -- is on strike.

MR. ANTHONY GUERRA: Correct, but they may not report it in this current accident year. They could report it in the next accident year. Correct?

MR. RAJESH SAHASRABUDDHE: I would

think they would report it right away. When it gets recorded in the claims system, there might be a delay, 'cause that takes manpower to input, but I can't see an insured saying, well, I'm not going to report the claim now. I'll report it -- and these are hypotheticals.

So, I -- I -- this is not an area that I -- I'm just trying to -- trying to come up with a reasonable circumstance under which your -- your hypothesis would be true and I -- I can't identify one for frequency, but I, you know, potentially, could identify one for severity but, again, it's outside the scope of my expertise.

MR. ANTHONY GUERRA: Fair enough. And Oliver Wyman is aware of the UAW and Unifor strikes in September/October. Correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. ANTHONY GUERRA: And you agree, sir, that those labour interruptions could impact the severity of claims as well in future?

MR. RAJESH SAHASRABUDDHE: Again, that's a little -- I know the UAW is sort of striking in different facilities in different countries. So, I haven't followed it to see whether it's affecting the price of new cars or car parts and I know UAW, you know, it represents workers in -- in various different sectors of the automotive industry. So, that one, I'm not a hundred percent sure about.

MR. ANTHONY GUERRA: And inflation increases in July and August and September, Oliver Wyman would agree that those higher inflation amounts could impact severity of claims?

MR. RAJESH SAHASRABUDDHE: Yes. Higher inflation. Yes. Change -- changes -- there is an implicit assumption about inflation in the future trend. So, the -- that's -- to the extent that actual inflation was -- was greater than that implicit assumption, or greater or less than, it -- it would impact claims severity. That's correct.

MR. ANTHONY GUERRA: Thank you. And, finally, Oliver Wyman would agree that, if the estimated mobility data doesn't match the actual data for the next upcoming rate year, that that could significantly impact the frequency of claims?

MR. RAJESH SAHASRABUDDHE: Yes. If people drove less than MPI's assuming; if they didn't drive that 5.56 percent more then -- then it would be impacted but, again, ultimately, you have to have -- have an assumption underlying the rate and -- and our view is that uncertainties are captured through capital, not -- not the premium. So, that's what the capital is there for to -- because the uncertainties can work in either direction.

So, what -- what the view is is that -- that, if you have adverse uncertainty, you absorb that through the capital account, not through increasing the premium for what, potentially, could happen.

MR. ANTHONY GUERRA: So, you would agree with me, sir, that it's important to have a reasonable reserve of capital, just for that particular uncertain future?

MR. RAJESH SAHASRABUDDHE: Yes. Capital is -- is critical for insurers.

MR. ANTHONY GUERRA: Thank you, sir. No further questions.

PANEL CHAIRPERSON: Thank you. It's almost noon. So, I think we should take our break for lunch right now and come back at one o'clock, please.

--- Upon recessing at 11:59 a.m.

--- Upon resuming at 1:02 p.m.

MR. STEVE SCARFONE: My apologies, Madam Chair. I was just on the phone with counsel for the CMMG about a last-minute undertaking that they want us to commit to. So we're going to try and sort that out offline if we can, but...

PANEL CHAIRPERSON: Thank you, Mr. Scarfone. So we'll continue with PUB counsel, Mr. Andres.

MR. TODD ANDRES: Thank you, Madam Chair.

CROSS-EXAMINATION BY MR. TODD ANDRES:

MR. TODD ANDRES: Mr. Sahasrabuddhe, I'm Todd Andres and I'm co-counsel for the PUB, and I -- I do have a number of questions for you. Most -- most of them arise out of the Information Requests that were -- and the responses to the Information Requests given by the CAC.

MR. RAJESH SAHASRABUDDHE: Okay.

MR. TODD ANDRES: And it will come as no surprise to you we're going to start with the issue of accident year weights.

MR. RAJESH SAHASRABUDDHE: Okay.

MR. TODD ANDRES: So if we start on page 6, and I -- I note that Oliver Wyman has estimated it reviews about seventy-five (75) automobile rate filings a year in Canada, correct?

MR. RAJESH SAHASRABUDDHE: That's

correct, yes.

MR. TODD ANDRES: Thank you. And in response to question 'B', you say that:

"The rate filings generally but not always adjust loss experience and/or the weights applied to the experience periods affected by the pandemic."

It's fair?

MR. RAJESH SAHASRABUDDHE: Yes, that is fair.

MR. TODD ANDRES: Thank you. And how often have you seen more than five (5) accident years of claims experience provided in these rate filings?

MR. RAJESH SAHASRABUDDHE: It's quite rare. I can't say that I've never seen it, but I -- I don't necessarily recall an instance where more than five (5) years have been used.

MR. TODD ANDRES: Okay. And -- and so from your review of these rate filings, would you say that many companies used data provided by the General Insurance Statistical Agency, or GISA, for the actuarial analysis provided in their filings?

MR. RAJESH SAHASRABUDDHE: Yes, particularly for trends. That's true, yes.

MR. TODD ANDRES: All right. Thank you. And -- and obviously -- so you're familiar with the GISA actual loss ratio exhibit?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: And in that GISA actual loss ratio exhibit, which has data aggregated at the provincial level, it uses five (5) accident years of data, correct?

MR. RAJESH SAHASRABUDDHE: I think -- I don't recall the specifics of that exhibit. I know many GISA reports include twenty (20) years, but at least five (5) I think is -- is probably --

MR. TODD ANDRES: I -- I can take you there if you like.

MR. RAJESH SAHASRABUDDHE: Okay. Yeah. That -- that'd be great, yes.

MR. TODD ANDRES: Yeah. So, Ms. Schubert -- it's already there. So if we click on the snapshot for actual loss ratio -- so actual loss ratio is the second heading and that's right there.

MR. RAJESH SAHASRABUDDHE: Oh, yes. Okay, okay. I understand, yes. This -- yes. I'm familiar with this exhibit, yes. This exhibit has five (5) years.

What my reference was to the GISA data

that many companies use for trend has twenty (20) years of data, but I -- that's a different report than this one.

MR. TODD ANDRES: Right. And -- and -- but if we go back -- and -- and so I -- I don't necessarily need to take you there, but you'll agree that the -- the GISA territorial exhibit which has data, again, aggregated at the territorial level within each province, there is also five (5) years of accident data, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: Thank you. And -- and you would agree that this may be one (1) of the reasons that companies only provide five (5) years' worth of data in their rate filings?

MR. RAJESH SAHASRABUDDHE: Generally for -- for the -- the five (5) years is the experience period of their own loss data that they would use. I don't think that's driven by availability of GISA data, if that's the question, because their experience period is just based on their own data.

So it wouldn't be influenced by what's -- what's available in the -- in the GISA filings. The -- the GISA filings they use more for the trend analysis 'cause their data tends to be thinner.

MR. TODD ANDRES: So, you know, given that -- and -- and -- given that we understand that companies do tend to use -- well, so you'll agree that companies do tend to use a five (5) year period.

If they were to -- to adjust their -- you know, the weights that they were giving to the pandemic years downwards, they would increase the weights for some or all of the other years, correct?

MR. RAJESH SAHASRABUDDHE: That's correct, yes.

MR. TODD ANDRES: But they would not go back to earlier years, correct?

MR. RAJESH SAHASRABUDDHE: Yes. We do not generally -- I don't recall an instance where they -- where they added years at the back end.

MR. TODD ANDRES: So is it fair to say the data availability may play a role in how companies have adjusted their weights for the pandemic?

MR. RAJESH SAHASRABUDDHE: The data availability -- I'm sorry. Could you state that again?

MR. TODD ANDRES: Data availability -- so in other words, this -- the -- the tendency to use five (5) years -- that's because of the availability of the five (5) years' worth of data.

MR. RAJESH SAHASRABUDDHE: No. So that's -- again, generally, they're using their own internal data, so they can -- and unless they've had some sort of systems change where they can't access their own data.

And they would have data available for, you know, significantly longer periods of time, and their selection of five (5) years is more related to the -- the issue that -- that I reviewed where you don't want to use older data. You want to be more responsive to recent conditions. It's -- I -- I don't think it's a data availability issue for commercial filers.

MR. TODD ANDRES: So you're suggesting that they're not relying on the GISA data.

Is that correct?

MR. RAJESH SAHASRABUDDHE: That -- that's correct, not -- not -- for trends, yes. For the indication for -- to analyse their own experience, they're -- again, so the -- the commercial filers, much as MPI, they compare their loss experience to what they're currently charging.

So if a commercial filer makes a filing, they have to compare their own loss experience to what they are currently charging.

This is an industry aggregation, so it wouldn't really provide meaningful information in that context except for, you know, perhaps to understand if there was, you know, something that affected all companies in a -- in a province for a particular year.

For example, a big hail storm in Calgary, that's the sort of thing that they may look at and -- and try to understand through the GISA data, but I don't think that that affects their decision to just use the five (5) years.

MR. TODD ANDRES: Understood. Thank you. So MPI does not use GISA data, correct?

MR. RAJESH SAHASRABUDDHE: There's no GISA data in -- in the -- in the GRA, yeah.

MR. TODD ANDRES: Right. And -- and again, it does have access to a great more than five (5) accident years of experience, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: Now, if MPI didn't believe that 2020 was predictive of the future, it would not be unreasonable for it to make use of an earlier year as a proxy potentially, such as 2017?

MR. RAJESH SAHASRABUDDHE: Yeah. I -- I don't think it's unfair to say it wouldn't be reasonable. Again, it's -- it's not what we observe going back to a six (6) year experience period, but -- but it is -- it's a choice that they could make, yes.

MR. TODD ANDRES: Right. Just confirming, it's not unreasonable.

MR. RAJESH SAHASRABUDDHE: Yeah.

MR. TODD ANDRES: I think you may have said, "not reasonable." So it's not unreasonable, correct?

MR. RAJESH SAHASRABUDDHE: I wouldn't do it, but -- but that's in -- in my judgment. So in my judgment, you would want to stay with the five (5) year experience period.

There's lots of considerations that would come into that because, remember, it's not only 2020 that was affected by the pandemic, but it's also 2021. And then do you have a means for adjusting for the effect of the pandemic?

So you'd have to put all of that together, and if you -- if you looked at all of that and said, okay, we're going to exclude 2020 for the pandemic but make an inconsistent judgment on that for 2021 and bring in 2017, like, to me that set of facts is unreasonable even though in and of itself the one (1) fact of, okay, we're not going to include 2020 and put in 2017.

In -- in zero isolation that might seem okay, but if I -- if I keep in -- into account that they have an adjustment vehicle, they include 2021, on -- on that basis I would find it unreasonable.

MR. TODD ANDRES: Okay. So your -- your suggested approach gave more weight to 2018, '19, and 2022 and gave weight to 2020 and 2021 based on a relative likelihood approach, correct?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. TODD ANDRES: Thank you. And I -- I believe you said in all of the rate filings you reviewed you have not seen a relative likelihood approach, correct?

MR. RAJESH SAHASRABUDDHE: That's correct, yes.

MR. TODD ANDRES: Thank you. And you were asked to apply this approach of yours, the -- the relatively novel approach, I would suggest, to accident years 2018 to 2022, for each coverage to demonstrate how the relative likelihood approach would work if it was applied to all of the years, correct?

MR. RAJESH SAHASRABUDDHE: Yes. That was an Information Request of us, yes.

MR. TODD ANDRES: Thank you. And so,

if we look at that, that's still in PUB/CAC-2. This is the response to 'H'. Right.

And, as we see, the -- the weights appear to be somewhat random, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: So you would agree that the general use of this approach may increase the volatility of the predicted loss count and, hence, is not generally appropriate?

MR. RAJESH SAHASRABUDDHE: I think I -- I think it generally would reduce the volatility because outliers get less weight in this approach. So -- so I think in -- in the long run, it would actually reduce the volatility. I don't think it would actually increase the volatility.

MR. TODD ANDRES: And so can -- can you explain why you would have suggested a novel approach for -- for the accident year weighting?

MR. RAJESH SAHASRABUDDHE: Sure. We're suggesting -- first of all, I mean, again, just to clarify, this only applies to 2020 and 2021 and we're trying to respond to novel circumstances.

The COVID-19 pandemic, as -- as -- yeah, as we all hope, a once-in-a-lifetime event. It created -- it created -- it changed -- or it affected automobile loss experience. And we -- and now there's more uncertainty in the estimate in terms of going forward because, you know, perhaps imperfect adjustment to -- to unwind that effect.

So it's -- it's a novel approach to respond to a unique time period. It's -- and that's why we -- we are not suggesting that it be used for other periods.

MR. TODD ANDRES: Thank you. And -- and based on filings that you've reviewed, are accident year weights adjusted more on a judgmental basis?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: Thank you for that. So moving along to -- now we're going to talk to -- or speak to PUB/CAC-1.

And so, if MPI had just used 20 percent weight for each of the most recent five (5) accident years, you've estimated the rate level indication would be a negative 1.41 percent, yes?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: Thank you. And the indication as filed had been negative .13?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: And that's a change

of negative 1.28?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: Thank you. Therefore, the estimated impact on the overall rate indication would have been negative 1.28, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: Thank you. And so, based on this negative 1.28 percent impact, if instead MPI had elected to use weights of 10 percent per accident year 2017 and 2020 and 20 percent for each of '18, '19, '20 -- sorry, I'll say that again -- '18, '19, '21, and '22 for those coverages in which it had used zero percent weight in 2020, the impact would have been about half, or negative .64 percent?

MR. RAJESH SAHASRABUDDHE: Right, because this is equal weight to all years, so you're bringing in '17 and taking half the effect of '20.

MR. TODD ANDRES: Correct.

MR. RAJESH SAHASRABUDDHE: I'm not sure that the math would exactly work out that way only because -- let's see -- because the 1.28 would be -- would include the dropping of '17 and the inclusion of '21 at the -- at equal weight.

But in our approach -- oh, I'm sorry. So that's the base case. And then, if we -- it's --

I'm not sure that that's the case because it would depend on where 2017 was relative to 2021. It's not -- so, for example, if -- if 2017 and 2021 had the identical loss ratio once adjusted, it doesn't matter that you shift 10 percent weight from 2021 to -- I'm sorry -- from 2020 to 2017, you would get the exact same result. That -- does that make sense?

Again, so if you -- if you have six (6) loss years that you're looking and you're moving 10 percent weight from 2020 to -- to 2017, you know, from originally -- you know, from 20 to 10 and from zero to 10, if the estimated loss ratio -- the forecast loss ratio is exactly the same, it has no effect on the losses.

So I'm not -- I'm not sure where it would end up, so I -- I can't really say as to whether it would be that minus 64 that you indicated.

MR. TODD ANDRES: Thank you for that. Turning to the issue of claims trending in general. This is PUB/CAC number 3.

In the 2023 GRA, you did not take issue with the use of different trend periods for frequency and severity for a given coverage, correct?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. TODD ANDRES: Thank you. And your response was that, since MPI's prior trend approach relied more heavily on judgment, you focussed your 2023 GRA review on the modelled projections and results rather than the modelled designs and assumptions, correct?
MR. RAJESH SAHASRABUDDHE: Yes. Yes, that's -- that's -- that was our response, yes.
MR. TODD ANDRES: And -- and do you agree that MPI's new approach in methodology is more robust?
MR. RAJESH SAHASRABUDDHE: Yes.
MR. TODD ANDRES: Thank you. And then with respect to accident benefits and in the other non-indexed category, you agreed in -- in your response to CAC -- PUB/CAC number 5 -- that's at page 20 -- starts at page 20.
You agreed that the use of a 0.0 percent future frequency trend for accident benefits other non-indexed appears to be unduly conservative considering the historical negative frequency trend observed for accident benefits other non-indexed as well as other coverages.
Is that fair?
MR. RAJESH SAHASRABUDDHE: Right. So

I -- I -- again, I don't -- I don't see the initial question here, but I assume that was a response to a hypothesis put forward to us and -- yes.

MR. TODD ANDRES: And just to be clear, you considered negative 2.4 to negative 4.9 to be a reasonable range for the selected future frequency trend for accident benefits other non-indexed?

MR. RAJESH SAHASRABUDDHE: Yes, that's -- that was our conclusion.

MR. TODD ANDRES: Thank you. With a collision frequency trend of negative 1.7, why do you not consider negative 1.7 to be within a reasonable range?

MR. RAJESH SAHASRABUDDHE: While -- while I can accept that there's correlation between different types of coverages and collision because, ultimately, it's the -- you know, it's -- it's the collision that triggers other types of claims. They're not perfectly correlated.

So the fact is that -- that different -- different coverages experience different sorts of claiming behaviour and -- and, as a result, you wouldn't want to use the exact same values.

I guess if -- if you're suggesting that

potentially the collision frequency trend could be a lower bound, I guess I would need to think about that because we try to -- we evaluate the accident benefits trend in the context of the accident benefits data, not -- because -- because we do know that there are, as I said, different claiming trends by coverage.

So, I think if one wanted to make that argument, that it should be -- it should be on some level related to the collision data, I guess I could accept it, but I'd have to look at the correlations to -- to confirm that that was reasonable.

MR. TODD ANDRES: Right. Thank you for that. Turning forward again to PUB/CAC number 6.

You agreed that the severity trend model used by MPI had a misalignment issue that overstated the trend as the model 2 prediction for 2020 does not align with the model 1 prediction for 2020, fair?

MR. RAJESH SAHASRABUDDHE: Yes. Again, that was not an issue that we identified but was -- but was essentially identified through these. I mean, I think we knew it, but we didn't put it in our report and -- as I stated this morning -- and so we certainly agree with it.

MR. TODD ANDRES: Thank you. And --

and your alternative model does not suffer this deficiency, correct?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. TODD ANDRES: Thank you. And you estimate in the original report the -- the original Oliver Wyman report, in table 7, that the use of the alternative model in the selection of severity transfer collision would result in a decrease in the overall rate indication of .72 percent. Correct?

MR. RAJESH SAHASRABUDDHE: I believe that -- that I think that was it, but when we calculated that, we used that -- so we had actually calculated the -- I think -- again, I'm going to get this wrong, but I think it's at MPI Exhibit 70, the -- the corrected trend number.

We had calculated at that level, but we assumed that there was some sort of rounding issue in our calculation. So, we accepted the -- when we calculated the effect, we put through, sort of the incorrect measure, so that's why that number has changed.

But -- but yes, that was sort of the -- the basis of -- of the estimate.

MR. TODD ANDRES: Right. And there it

is there. Thank you for that.

So, if you used weights of 20 percent for each of the years 2018 to 2022, the rate decrease would be, you know, negative 1.87 percent. Correct?

MR. RAJESH SAHASRABUDDHE: 2018 through 2022 --

MR. TODD ANDRES: If we -- and we can go back to the --

MR. RAJESH SAHASRABUDDHE: Yeah.

MR. TODD ANDRES: -- IR -- the same Information Request, then, Ms. Schubert, response 'D'.

MR. RAJESH SAHASRABUDDHE: Okay. We submit it would decrease, sorry -- alternative loss trend model -- oh, I see, okay, so just for collision, the -- the indication would be minus one point -- would -- would decrease by one point eight seven (1.87) percentage points, so that would mean -- yes, it -- it -- so the -- again, I -- the -- the way we've written which, again, we try to be precise with our language, is that the -- the MPI indication would -- would reduce by this approximate one point nine (1.9) percentage points.

The -- I -- I -- I don't recall what their indication is for collision, but had -- let's say it was minus 1 percent, it would become minus 2.9

percent.

MR. TODD ANDRES: Thank you. Turning forward to PUB/CAC-8, in your design matrix for the severity model you had an error. Correct?

MR. RAJESH SAHASRABUDDHE: That's correct.

MR. TODD ANDRES: And the correction of that error would increase the rate indication by .02 percent. Correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: Thank you, there it is there. The difference between negative three point six three (-3.63) and negative three point six one (-3.61).

And your estimate of the impact of MPI using the two (2) factor model for severity using the years 2013 to 2022, would be to reduce the rate indication by negative .8 percent, using 20 percent weights for each of 2018 to 2022. Correct?

MR. RAJESH SAHASRABUDDHE: I'll -- I'll accept that if that's one of our responses here.

MR. TODD ANDRES: Well, it's in 'B', it's --

MR. RAJESH SAHASRABUDDHE: -- the other --

MR. TODD ANDRES: -- further down the page there.

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: Right. And switching to 2010 to 2022 for severity, with the two (2) factor model, again, would have an impact of an additional negative .01 percent. Correct?

MR. RAJESH SAHASRABUDDHE: Yes. I -- again, I don't -- I don't recall the -- all the calculations specifically, but -- but -- but if that's our response, I -- I certainly agree with it.

MR. TODD ANDRES: And if we scroll down to 'C', we'll see that that's correct. We're going from point 0 eight (.08) to point 0 nine (.09). Pardon me. Not 'C'. A little further down. Yeah, there it is point 0 nine (.09).

MR. RAJESH SAHASRABUDDHE: Yes.

MR. TODD ANDRES: Thank you. You do not have any data on which to determine the drivers of your indicated decrease in severity trend 2020.

Correct?

MR. RAJESH SAHASRABUDDHE: I'm sorry, so the drivers for decreased severity trend for 2020 is a -- I -- I don't understand that reference.

(BRIEF PAUSE)

MR. TODD ANDRES: I will get clarification for you.

MR. RAJESH SAHASRABUDDHE: Okay. I -- I would -- just as a -- as a general note, indicate that, you know, we are in -- we're analyzing the data. We don't have insight into all of MPI's underlying claim processes and -- and -- and other, you know, potential -- and I'll call them potential drivers to the extent that that's sort of what was being eluded to.

MR. TODD ANDRES: That -- that is what's being eluded to.

MR. RAJESH SAHASRABUDDHE: Okay.

MR. TODD ANDRES: Thank you. And those are my questions.

PANEL CHAIRPERSON: Thank you. Ms. Dilay...? Oh, I'm sorry. Mr. Gabor...?

MS. KATHLEEN MCCANDLESS: Madam Chair, just -- I see Ms. Wittman is here. I don't know if she has any questions for Oliver Wyman. I just wanted to be sure and I don't believe Ms. Meek does, but...

MS. KAREN WITTMAN: No. Thank you.

MS. KATHLEEN MCCANDLESS: Thank you.

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

MS. CHARLOTTE MEEK: No. Thank you.

PANEL CHAIRPERSON: Mr. Gabor...?

BOARD CHAIR GABOR: Ms. Schubert, could you go to page 17 of the presentation from this morning.

Sir, can you remind me how many filings you would have reviewed in the last two (2) years?

MR. RAJESH SAHASRABUDDHE: Again, we -- we estimate that we review about seventy-five (75) annually. It's -- like I said, it's a little bit hard to count because, you know, for example, Aviva might have two (2) or three (3) underwriting companies.

And two (2) -- and they might file for commercial and personal at the same time, so how -- how do you sort of count that is -- is a little bit tricky. You know, the Aviva general and Aviva Insurance Company of Canada, so does that count as two (2) different filings, but, sort of on an individual filing basis, we -- we've estimated about seventy-five (75) a year, so it would be a hundred and fifty (150) over two (2) years.

BOARD CHAIR GABOR: Okay. You refer to -- so -- so my questions are going to be about 2020 and 2021.

MR. RAJESH SAHASRABUDDHE: Yes.

BOARD CHAIR GABOR: You refer to 2020, the filings for 2020 and 2021 as novel circumstances.

MR. RAJESH SAHASRABUDDHE: Yes.

BOARD CHAIR GABOR: Okay. In terms of the weighting that has been proposed by MPI, in the other filings that you've reviewed, is there a standard that insurers used, because everybody faced the -- the same pandemic.

MR. RAJESH SAHASRABUDDHE: Yes.

BOARD CHAIR GABOR: But is there some -- that -- is there -- sort of an informal or formal standard that was used, or does it just go all over or -- or what was the --

MR. RAJESH SAHASRABUDDHE: Yeah. No, yeah, I -- I would say it's all over. We actually have -- we actually have companies that did not -- did not adjust the -- just left the pandemic experience in as is and part of their logic was that -- again, this is moving back a little bit in time, but part of their logic was, hey, commuting patterns haven't really recovered yet, so we're okay keeping that in, because we have the -- the higher level of activity in the older years that are not reflective of current commuting patterns.

So, the -- you know, the pre-pandemic years. And -- and then we have maybe a little higher of an effect for the pandemic years and it all sort of works out to about where we are now so we've -- we've seen that approach where there was no dropping.

And then, you know, we have seen times where -- where -- where the year had significantly less weight, as well.

But, typically, we have not seen a situation where -- and again -- defining 2020 and 2021 is difficult because not everyone works on a calendar year basis, or an April 1 to March 31 basis. You know, for one company, 2020, may be, you know, quote unquote 2020 may be June 30th, 2019 -- or it's July 1, 2019 to June 30th, 2020.

So, it -- it's -- but as a general rule, we have not seen a situation where -- where one pandemic year was -- was removed and the other was still left in. That -- either it was, hey, you know, this -- this pandemic -- and -- and the situation has also evolved over time as the experiences matured and the -- the impact of the pandemic is -- is becoming a -- become a little more clear. Some of that is through analysis of GISA data.

So, I think I might have rambled on and not answered your question directly, but -- but -- but we -- we do -- we do see varying -- varying approaches to -- to the pandemic affected experience periods.

BOARD CHAIR GABOR: Okay. And would you -- would you consider -- considering there are varying approaches by different companies, did you consider the varying approaches as being -- any of them being unreasonable or are they just reasonable, subjective and the circumstances sort of dictated that decisions had to be made.

MR. RAJESH SAHASRABUDDHE: Sure. I -- I -- honestly, I -- I don't recall with specificity but I'm -- I'm reasonably certain that there were situations where -- where we found that the weighting approach that was proposed by the filer was not reasonable.

But I don't -- I couldn't tell you how often -- it -- it's -- I wouldn't say it's terribly often, but -- but -- but it wouldn't surprise me if -- or, I'm sorry, but -- but I -- but I have a -- sort of a -- a general recollection that there were, you know, several filings where we did object to the accident year weights.

BOARD CHAIR GABOR: Okay. Thank you.

That's my only question.

PANEL CHAIRPERSON: Ms. Boulter...?

BOARD MEMBER BOULTER: Hi. It's me over here. MPI's indicating the overall rate would be zero percent, but we know from their chart that there is all different costs, increases, some decreases in different categories.

But my question is that the minus 5 percent that you're suggesting, there would be more significant savings across the board.

Have you looked at the different categories?

MR. RAJESH SAHASRABUDDHE: So the -- the comparable -- I'm going to make one (1) statement first, then I'll answer your question.

So the comparable to the minus 5 would be I think the minus 1-4-8 as opposed to the -- the zero because that -- because -- because the minus 5 includes theirs.

But from -- from our perspective, the -- the -- we're -- again, we're -- not having looked at the appropriateness of the expenses, all of the rate indication that we're proposing all relates to the loss cost piece, and -- and that wouldn't -- that wouldn't necessarily differ in -- in terms of -- in terms of where they are for the minus 5 versus the minus 3-5 that we have here or the minus 1. -- relative to the minus 1.48 that MPI's put out in the October update.

PANEL CHAIRPERSON: Ms. Nemec...?

BOARD MEMBER NEMEC: Thank you. I'm going to first start on page 17 of your presentation. And Mr. Gabor talked a little bit on this, and -- and that was -- thank you -- that was some of my questions.

But taking a little step further, when I was looking at this I looked at 2018/2019, and I had to put brackets around those two (2). And I went, you know, is this the old normal.

And then I went down to 2020/2021, and I still probably include 2022 and the new normal. So I was trying to look at that and go that's 60 percent in the new normal. I'm just looking under accident benefits and non-indexed.

And I thought, okay, 40 percent of '18/'19, 60 percent for '20, '21, '22. Kind of looked at the same for comprehensive. Collision was 50:50. So I was trying to kind of make sense of new normal, old normal, does this make sense. It's an estimate.

I don't know if you have any comments

about that.

MR. RAJESH SAHASRABUDDHE: Sure. So the -- the way it works is that they -- they adjust everything to a 2022 level, so it's probably not the new normal, it's probably somewhere in between. And then they add 5 percent to get to what would be considered the new normal for purposes of this rate application.

So it's some combination of the difference between the historical periods and the 2022 level, plus 5 percent, is sort of what the -- what the -- the new normal would be.

In other provinces -- and -- and our reports are publically available, at least in Alberta and Ontario. We actually do explicit calculations of the new normal. What we -- and what we've done is we've looked at where claims experience would be relative to -- and we sort of have many provisions in there because we really just have the one (1) data point.

The GISA data's half year. So we said potentially the second half of 2022 is sort of the new normal. That's the -- we're just starting to get the data for the -- the June 30, 2023, half year. But when we -- these are our reports that we did earlier this year.

So we looked at where claims experience would be had the pandemic not occurred compared to 2022-2 (sic). And almost uniformly we found that it's much lower under the new normal, but the magnitude, or the difference, really varies by province and by coverage. And some of that's just randomness in the data. And we just have the one (1) data point at this point.

So our caution to our -- to our clients and in the report is that, you know, it's an estimate that's -- that's subject to change and uncertainty because we just have the one (1) data point.

But I think what's clear is that -- that there's going to better experience post-pandemic than pre-pandemic, at least in the foreseeable future. We don't -- we don't see too many economists or -- or labour studies that say the -- you know, people are going to back to the five (5) day work week.

So, on that basis, we would think it's going to be better, but how much better -- and remember MPI does have an adjustment in there. They have this two (2) part adjustment, get to 2022, and then plus 5 percent from there.

BOARD MEMBER NEMEC: And so thinking -

- in what you just said then, you're saying 2017 is quite dated then compared to this new normal?

MR. RAJESH SAHASRABUDDHE: Correct. Yes.

BOARD MEMBER NEMEC: One (1) of the things though I did notice -- and sorry, I'm going to go back because I -- I was going to move on, but I think on page 17 there was a heavier weighting under collision, I think, to 2020 versus 2021 and a lesser weighting under the accident benefits of 2 percent in 2020 and '23.

I just kind of wasn't sure of how that kind of arose.

MR. RAJESH SAHASRABUDDHE: Yeah. Again, I think that's really a function of this difference in claiming behaviour that we've noticed. And I -- I guess, you know, maybe the way to think about it is that -- our understanding from MPI is that the 2021 year is unusual because there was a higher level of snowfall, and that might produce sort of less severe -- like, there might be higher levels of accidents, but they may be less severe, like, potentially a car just sort of sliding into another one at fairly low speed.

So you have an unusual outcome, but

it's driven by smaller claims. And so -- so that gets -- that gets less weight, but that's less impacted by the accident benefits other, which is also thinner coverage.

So if you have, you know, potentially one (1) or two (2) really bad claims, it could sort of really swing the -- swing the volatility of that coverage and -- and create the weighing scheme that we've proposed.

BOARD MEMBER NEMEC: Okay. And I'm going to turn to page 78 because, in -- in summary, I think, the majority of the comments relate to the -- these -- the weights, the accident weights, between the five (5) years.

One (1) snow -- I think one (1) major year of snowfall I think you mentioned just now is 2021. And past loss trends when -- whether the same year is used for the -- take a look at one (1) of your charts and I'll be able to say -- the severity and the frequency.

MR. RAJESH SAHASRABUDDHE: Yes.

BOARD MEMBER NEMEC: So I was looking at your summary chart and trying to understand the accumulation. So the accident weight year is 2.52?

MR. RAJESH SAHASRABUDDHE: Yes.

BOARD MEMBER NEMEC: So this is from your -- from the MPI presentation to the document we just saw, that was your alternate solution?

MR. RAJESH SAHASRABUDDHE: Right. So, if we just -- if we just changed the one (1) assumption and keep all the other assumptions the same. So what we try to do is we try to replicate the model and change one (1) assumption at a time.

The -- the overall 3.58 is if we changed all of the assumptions.

BOARD MEMBER NEMEC: Right. And 2.52 on this document is -- the document that we just looked at --

MR. RAJESH SAHASRABUDDHE: Yes.

BOARD MEMBER NEMEC: -- for your alternative. And on the -- so I think there's six (6) other areas. Certain of these areas relate to using a different year for the severity and frequency?

MR. RAJESH SAHASRABUDDHE: Correct.

BOARD MEMBER NEMEC: Which ones are those? Do you know those offhand?

MR. RAJESH SAHASRABUDDHE: I don't know offhand.

BOARD MEMBER NEMEC: Okay. That's okay. It's in your detail.

MR. RAJESH SAHASRABUDDHE: Yeah.

BOARD MEMBER NEMEC: It's in your detail. So it's either that, and also picking -- maybe picking a different date. I think in one (1) situation you picked 2014?

MR. RAJESH SAHASRABUDDHE: Right. So it's consistency -- it's, like, a -- it's either consistency of the period. It's on collision. It's this disjoint model. It's also perhaps picking different time periods for -- I think in -- there -- there might be one (1) exception, but I think, in general, we pick one (1) of the two (2) MPI periods.

So if they have -- or inconsistent, we said use the frequency period of severity -- or the severity period for frequency. I think there's just one (1) coverage where we said, no, you should a different period for both of them.

BOARD MEMBER NEMEC: Okay. And just as an overall thought, always looking at objectivity and consistent and how -- how you keep that in your methodology of -- of looking at your forecasts and looking at your methods versus the eyeball test.

MR. RAJESH SAHASRABUDDHE: Yeah.

BOARD MEMBER NEMEC: And I guess these are all estimates?

MR. RAJESH SAHASRABUDDHE: Yes.

BOARD MEMBER NEMEC: Looking at the charts, I can see how the eyeballs would make some sense, but how does that -- if your eyeballs look different every year, does that impede your ability to have objectivity and some consistency?

MR. RAJESH SAHASRABUDDHE: Yeah. So, in general, we would expect that most of these coverages, the -- so the -- the old years aren't going to change significantly, so those patterns are still going to be there. And then so it's really a matter of, well, what does the next year look like. And to the extent that net -- the next year is different from what we thought it might have been through the projection, then -- then it'll move a little bit.

But -- but I don't think that, you know, for example, there's -- there's going to be a situation where the next year -- I think there were -- the one (1) coverage where we suggested going to 2014 to -- to 2022, I don't think the next year is going to say, no, we really should have included 2013 because I don't think that's going to happen.

I -- I think it's -- it's -- I think the starting point might still be 2014, or maybe we notice something different and, you know, inflation's going to decelerate.

And MPI captures that through their future trend, but their future trends are a little bit different, so -- so next year's model where that future trend becomes part of past trend, because as time passes it's -- it's going to require a re-evaluation of the models in any case.

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

PANEL CHAIRPERSON: Ms. Dilay...?

MS. KATRINE DILAY: Thank you, Madam Chair. I do have a few questions on re-direct.

RE-DIRECT EXAMINATION BY MS. KATRINE DILAY:

MS. KATRINE DILAY: Mr. Sahasrabuddhe, you remember the line of questioning that My Friend Mr. Guerra from MPI asked you relating to the difference in the overall claims expense between what MPI is suggesting and what Oliver Wyman is suggesting.

Do you remember that line of questioning?

MR. RAJESH SAHASRABUDDHE: Vaguely. Yes, generally I do.

MS. KATRINE DILAY: And at a high

level again, is it your recollection that he was -- he suggested to you that the difference between your evidence in the -- which was based on the original GRA filing and then the difference between that and the October update, the difference in claims expenses would go from 38 million to about 30 million.

Do you remember that -- that question?

MR. RAJESH SAHASRABUDDHE: I -- I do, yes. I remember that line of questioning, yes.

MS. KATRINE DILAY: So I'd like to -- to just clarify some numbers on the record based on that line of questioning. So if we could go to the GRA, Ms. Schubert, the figure RI-Henton (phonetic), which is in -- at page 27 of the rate indication chapter. Thank you.

And so if we look at lines 1 and 2 there, and specifically line 2, so there -- this is MPI's -- so on line 2 for claims expenses, you see the seven ten dot eighteen (710.18) overall?

MR. RAJESH SAHASRABUDDHE: Yes. It's labelled claims. That line 3 is the claims expense, but yes.

MS. KATRINE DILAY: Thank you. And so focussing on line 2, and so if we -- if we multiply the seven ten (710) by the amount of units, so just above the 1.28 million --

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KATRINE DILAY: -- subject to check, we'd get about 909.3 million?

MR. RAJESH SAHASRABUDDHE: Yes. That's my recollection, yes.

MS. KATRINE DILAY: And then going to MPI -- sorry, Exhibit CAC I believe it was 5, the Oliver Wyman report, top of page 37.

So there, instead of the seven ten dot eighteen (710.18) that MPI was proposing, this is saying, based on Oliver Wyman evidence, you're suggesting a six seventy-nine point nine five (679.95) for claims?

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

MS. KATRINE DILAY: And then if we multiply that by the 1.28 million vehicles that we just previously saw, or units, that would be 870.6 million --

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KATRINE DILAY: -- subject to check?

MR. RAJESH SAHASRABUDDHE: Yes. I -- I think Mr. Guerra may have been using the value in our presentation, which is slightly updated from this, but -- but they're -- they're close.

MS. KATRINE DILAY: And then you're saying here in your presentation -- or in your report rather -- that it's a 4.26 percent less than MPI's estimate, correct?

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KATRINE DILAY: Slightly updated in your presentation as well --

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KATRINE DILAY: -- correct? And then turning to Exhibit MPI-50, which is the October update.

(BRIEF PAUSE)

MS. KATRINE DILAY: -- so you see there the -- on line 2, that updated number in October -- oh, I apologize. On page 3. Thank you, Ms. Schubert.

So if we look on page 2 under claims, that updated number in October so went from seven ten dot eighteen (710.18) to seven-o-three dot fifty-five (703.55)?

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KATRINE DILAY: And then if we multiply that by the number of units, subject to check, we'd get 908 -- 900.8 million?

MR. RAJESH SAHASRABUDDHE: I'll accept that, yes.

MS. KATRINE DILAY: So in terms of the differences -- so if the expected reduction in revenues is 4.26 percent, according to the Oliver Wyman report, that would mean a reduction of 4.26 percent from the 900.8 million, or 38.4 million?

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KATRINE DILAY: And under the original GRA filing that difference was 38.7 million?

MR. RAJESH SAHASRABUDDHE: Yes.

MS. KATRINE DILAY: And so the change between the original GRA numbers and the October numbers would be a difference of three hundred thousand (300,000), correct?

MR. RAJESH SAHASRABUDDHE: Yes. That sounds about right, yes.

MS. KATRINE DILAY: And just one (1) quick last question.

Mr. Guerra -- My Friend Mr. Guerra confirmed with you that you didn't review the claims forecasting slide deck that MPI had filed last week or a couple of weeks ago?

MR. RAJESH SAHASRABUDDHE: Yes, that's correct. We did not review that.

MS. KATRINE DILAY: But you'll confirm that you received and reviewed portions of the transcript from the claims forecasting panel that were relevant to the contents of your evidence?

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

MS. KATRINE DILAY: Thank you, Madam Chair. Those are my questions on re-direct.

PANEL CHAIRPERSON: Thank you, Ms. Dilay. I have just one (1) further question, sorry. On the slide deck this morning, slide 78.

Mr. Sahasrabuddhe, the minus three point five eight (3.58) should be an addition of all of the numbers below in the individual impact.

Is that correct?

MR. RAJESH SAHASRABUDDHE: They're not directly additive. It's the combination --

PANEL CHAIRPERSON: Okay.

MR. RAJESH SAHASRABUDDHE: -- of all of those changes, but you can't add them together.

PANEL CHAIRPERSON: So if they were to add -- if I were to add them together, I think I come to a minus three point two six (-3.26), but that is not necessarily?

MR. RAJESH SAHASRABUDDHE: Right, 'cause there's some interaction effects that, you know, you change the -- the trend, it affects different years differently.

PANEL CHAIRPERSON: Okay.

MR. RAJESH SAHASRABUDDHE: And then, when you re-weight it, you get a -- a different result.

PANEL CHAIRPERSON: Okay. Thank you very much for that.

MR. RAJESH SAHASRABUDDHE: Sure.

(PANEL STANDS DOWN)

PANEL CHAIRPERSON: And thank you very much for your presentation at this hearing. I'll give you an opportunity to leave, and then we'll move into cross-examination under undertakings. Thank you.

MS. KATRINE DILAY: Madam Chair, since MPI needs to bring some representatives up -- up, perhaps we could take five (5) minutes or so.

PANEL CHAIRPERSON: Sure. It's almost quarter to 2:00. Why don't we come back at two o'clock. Is that acceptable, Mr. Scarfone?

MR. STEVE SCARFONE: That sounds great. Thank you.

PANEL CHAIRPERSON: Okay.

--- Upon recessing at 1:47 p.m.

--- Upon resuming at 2:04 p.m.

PANEL CHAIRPERSON: Thank you. Mr. Scarfone, do you have some exhibits to enter?

MR. STEVE SCARFONE: Yes. Thank you, Madam Chair.

MPIC would mark as its next exhibit, 114, its response to Undertaking number 32. MPI Exhibit 115 is its response to Undertaking number 33. MPI Exhibit 116 is response to Undertaking number 31. And MPI Exhibit 117 is response to Undertaking number 29.

--- EXHIBIT NO. MPI-114: MPIC response to Undertaking number 32

--- EXHIBIT NO. MPI-115: MPIC response to Undertaking number 33

--- EXHIBIT NO. MPI-116: MPIC response to
Undertaking number 31

--- EXHIBIT NO. MPI-117: MPIC response to
Undertaking number 29

MR. STEVE SCARFONE: And I can advise the Board there will -- there will be by agreement one (1) further undertaking, which brings the total to thirty-four (34) undertakings. And then the Panel is here to answer questions on some of those.

PANEL CHAIRPERSON: Thank you. And the final undertaking, are you expecting to file that today?

MR. STEVE SCARFONE: Yes. So I just spoke with counsel for the CCMG. And Ms. Meek is preparing that to read into the record. I don't know that she's got it done right yet because we're just -- we've just agreed to it just now.

So perhaps I could introduce the members of the Undertaking Panel.

PANEL CHAIRPERSON: Yes, please do.

MR. STEVE SCARFONE: So reappearing for the Board is Mr. Kolaski, the Corporation's chief financial officer. He's already been sworn in. And

Ms. Low, the Corporation's chief actuary. She, too, has been sworn.

And back row support is Mr. Dunstone, the Manager of Forecasting; Dorothy Scott, Financial Standards Specialist; Lynn Onofreychuk, Assistant Manager of Project Accounting; and Grant Gaudry, Manager of Budgeting; and Diane Hopkins, Manager of Financial Reporting.

And in addition to the back row support that you see before you, we also have some people that are appearing virtually to help answer questions; Simmi Mann, for Vehicle for Hire. She's the customer value proposition lead. Glenn Bunston is virtually. He's the director of ALM and investment management.

Khurram Masud, who appeared before you on ratemaking. He is the director of pricing. And Robert Smithson, Director of Customer Value Proposition. They're all on the call to provide assistance.

PANEL CHAIRPERSON: Thank you, Mr. Scarfone. Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Thank you.

MPI UNDERTAKING PANEL:

CARA LOW, Resumed

RYAN KOLASKI, Resumed
GLENN BUNSTON, Resumed (by TEAMS)
SIMMI MANN, Resumed (by TEAMS)

CROSS-EXAMINATION BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Hello, Mr. Kolaski and Ms. Low. Nice to see you again. I don't expect to take up too much of your time. I do have some questions on a handful of undertakings.

First, can we go to MPI Exhibit number 99, and that's the response to Undertaking 12.

And the -- the request was to advise as to whether the total premiums found in the far of figure REV-11 were net of rebate. The response was that the total premiums shown on figure REV-11 do not include rebate surcharge values.

And maybe -- Kristen, it might be helpful if we could pull up REV-11 just for the witness's reference, if needed. And it's just a question of clarification. Thank you.

So can you clarify as to whether the premiums shown are before reduction of the rebate or if they include the impact of the rebate?

MR. RYAN KOLASKI: Sure. So when you look at the top where it says "fleet scale," right, that top increase does not include the -- the rebates. The rebates are shown in the box below where they are forecasted out where it says "net rebates," so it's -- it's prior.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. So before reduction of the rebate?

MR. RYAN KOLASKI: Correct.

MS. KATHLEEN MCCANDLESS: Thank you. Now moving to MPI Exhibit number 106, the response to Undertaking 19. Again, a question of clarification.

So here MPI was asked to provide a revised RI-10, PF-1, PF-2, and PF-3 reflecting the change in the rate indication with a reduction in expenses in the ratemaking calculation, some accommodation of claimed incurred expense and operating expenses of 12 1/2 million.

And the answer here refers to Basic's share of the 12.5 million reduction being approximately $8 1/2 million. And then there's the consequential rate indication change.

But just to clarify, the undertaking was to request the impact of the $12.5 million reduction for Basic, so not -- not the 8.5, but the 12.5. And so, based on the assumption in the response here, the rate indication changes by -- or decreases

by .28 percent, correct?
Based on how MPI's framed the response --
MS. CARA LOW: Correct. Yes.
MS. KATHLEEN MCCANDLESS: And if we were to go to CAC/MPI-1-1.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. And we're looking for the impact on the rate indication of adding back the initiative expenses. We see here at 'C' that the overall annual rate indication by not deferring improvement initiative expenses for '24/'25 and '25/'26 is 2.28 percent?
MS. CARA LOW: I see that, yes.
MS. KATHLEEN MCCANDLESS: And that's from the initial rate indication of negative .13 percent?
MS. CARA LOW: Correct. Yes.
MS. KATHLEEN MCCANDLESS: So an increase then of 2.4 -- 2.41 percent?
MS. CARA LOW: Yes.
MS. KATHLEEN MCCANDLESS: The amount of initiative expenses was the average of $29.2

million and $26.1 million?

MS. CARA LOW: Subject to check, that sounds correct.

MS. KATHLEEN MCCANDLESS: And so again, subject to check, that would be roughly $27.7 million?

MS. CARA LOW: Subject to check, yes.

MS. KATHLEEN MCCANDLESS: And $12.5 million is about 45 percent of 27.7 million?

MS. CARA LOW: Sounds about right.

MS. KATHLEEN MCCANDLESS: Okay. So would it then be reasonable that the impact would be about 45 percent of the 2.41 percent?

MS. CARA LOW: Could you repeat that one.

MS. KATHLEEN MCCANDLESS: If we're -- if we're using 12 1/2 million rather than --

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: -- 8.5 million --

MS. CARA LOW: Yeah.

MS. KATHLEEN MCCANDLESS: -- and based on the 2.28 with the negative .13, 45 percent of the $27.7 million, then would it be reasonable that the -- the impact of that would be about 45 percent of the

2.41 percent?

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

MS. KATHLEEN MCCANDLESS: So that would then result in negative 1.1 percent?

MS. CARA LOW: Subject to check, but that sounds reasonable.

MS. KATHLEEN MCCANDLESS: So that's -- the negative 1.1 percent would be the response rather than the negative .28 percent if we used 12 1/2 million rather than 8 1/2 million?

MS. CARA LOW: Agreed, yes.

MS. KATHLEEN MCCANDLESS: Thank you. Now moving to Exhibit number 63, and that's the response to Undertaking 2.

Here MPI was asked to produce the analysis that arrives at the full-time equivalence for the Crown benchmarking exercise for 2021/'22, correct?

MR. RYAN KOLASKI: Correct.

MS. KATHLEEN MCCANDLESS: And there's a table in this response. And perhaps at a high level, Mr. Kolaski, could you just explain what this table is showing us?

(BRIEF PAUSE)

MR. RYAN KOLASKI: All right. So, effectively, we start with our full-time FTEs on the -- on the left. Then we go through a purification process. And then we allocate those FTEs to each line of business accordingly.

So it kind of starts with the total, and then allocates them back over to the line of businesses.

MS. KATHLEEN MCCANDLESS: So -- and "from purify" and "to purify," are here at the heading in the table, can you just explain what that means?

MR. RYAN KOLASKI: Sure. One second.

(BRIEF PAUSE)

MR. RYAN KOLASKI: So the "from" and the "to" is how one department supports another department. So, effectively, a plus in one department is minus in another department, so that's part of the purification in order to get the FTE allocation into the right department overall.

MS. KATHLEEN MCCANDLESS: Thank you. Now, some questions on the initiative expenses and Undertaking 17.

The response was MPI Exhibit 104. And

then it was corrected yesterday, Kristen, so I just want to make sure we're looking at -- yeah, that's the corrected version. Thank you. And are we on page 2? Yes, we are. Okay.

So this schedule reflects initiative implementation expenses for Basic?

MR. RYAN KOLASKI: That is correct.

MS. KATHLEEN MCCANDLESS: And on the far right side of the schedule, last line 70, the total incurred is $108.2 million?

MR. RYAN KOLASKI: Correct.

MS. KATHLEEN MCCANDLESS: And those -- that's related to implementation expenses until NOVA is operational?

MR. RYAN KOLASKI: That is correct.

MS. KATHLEEN MCCANDLESS: And this would be a material balance for financial reporting purposes?

MR. RYAN KOLASKI: Correct.

MS. KATHLEEN MCCANDLESS: MPI did not adjust its 2022/'23 rates for this change, but it was reflected in 2023/'24?

MR. RYAN KOLASKI: That is correct.

MS. KATHLEEN MCCANDLESS: And we heard earlier that MPI has proposed a ten (10) year amortization for NOVA development expenditures.

MR. RYAN KOLASKI: That is correct. Actually, it's not proposed, we actually have adopted that. Sorry.

MS. KATHLEEN MCCANDLESS: If you look at the right-hand side of the schedule, it looks like MPI is amortizing over a five (5) year period.

MR. RYAN KOLASKI: Those on non-NOVA initiatives are amortized over five (5) years. NOVA initiatives are amortized over ten (10).

MS. KATHLEEN MCCANDLESS: So, lines 66 to 67 are over ten (10) years, but everything else would be over five (5)?

MR. RYAN KOLASKI: That is correct.

MS. KATHLEEN MCCANDLESS: Thank you. So, is MPI making a request to this Application for a disposition of these amounts over the five (5) years for everything or is that going to be made when MPI has an understanding on Release 3 delivery?

MR. RYAN KOLASKI: Just one second. I guess just to clarify. So, the non-NOVA projects only have a life cycle over five (5) years, right?

So, it's not like a disposition. We're not dis-jointed on that. I didn't -- maybe I just don't understand the question enough.

MS. KATHLEEN MCCANDLESS: Okay. Thank you. Can we go to MPI Exhibit No. 92, and that's the response to Undertaking 26.

Here MPI was asked to confirm what costs at the end of the project would be deferred development costs and what costs would be going through an income statement or a profit and loss statement.

MR. RYAN KOLASKI: Correct. Yes, I see that.

MS. KATHLEEN MCCANDLESS: And, the response here provides another table. And is the amount in this response comprised of overall corporate expenses, including DVA, SRE and Extension shares of NOVA initiative expenses?

MR. RYAN KOLASKI: One moment. Yes, it is.

MS. KATHLEEN MCCANDLESS: Thank you. And then if we go back to the schedule we were just looking at, that had the $108.2 million, and looking specifically at lines 66 and 67, right in the middle of the table there.

If we add up the 9.4 million and the $16.01 million, we get roughly $25.4 million.

MR. RYAN KOLASKI: I see that, yes.

MS. KATHLEEN MCCANDLESS: And those are the NOVA specific expenses.

MR. RYAN KOLASKI: Yes.

MS. KATHLEEN MCCANDLESS: So, to what extent is that 25.4 million reflected in -- and then if we could go to the -- the Undertaking response, reflected in the $68.6 million of NOVA expenses, total.

MR. RYAN KOLASKI: Sure.

(BRIEF PAUSE)

MR. RYAN KOLASKI: So, this response for the two-forty (240) would reflect only the NOVA cost, not the ongoing cost total. It's just a program cost related to it. So, line 67 is excluded.

MS. KATHLEEN MCCANDLESS: So, does that mean that Basic's share is only 9.4 million of the implementation expense?

(BRIEF PAUSE)

MR. RYAN KOLASKI: Sure. So, if you look at the table on the screen, so '21/'22 actuals, prior, aren't in the other table because that table starts at 2023/'24. So, if you flip back, so there's a disconnect there. Sorry. But if you scroll up to the top, you'll see the titles of the years. Yeah.

So, part of that calculation is not included on this -- these -- 'cause we've already -- 'cause in those years, I believe, it was included in the rates, right?

MS. KATHLEEN MCCANDLESS: Correct.

MR. RYAN KOLASKI: Does that make sense?

MS. KATHLEEN MCCANDLESS: I -- I believe that an -- that ---

MR. RYAN KOLASKI: It's kind of a convoluted thing between the two (2) tables ---

MS. KATHLEEN MCCANDLESS: --- up somewhat --

MR. RYAN KOLASKI: --- like, yeah.

MS. KATHLEEN MCCANDLESS: So, in the forecast period, then MPI is reflecting $9.4 million in NOVA expenses?

MR. RYAN KOLASKI: For '22/'23 forward. Yeah.

MS. KATHLEEN MCCANDLESS: Thank you. Now, Mr. Bunston isn't here. I believe we gave Mr. Guerra a heads-up that there would be a question coming that, hopefully, Ms. Low is able to -- to deal with.

It has to do with MPI Exhibit No. 109 and on -- the response to Undertaking 30.

MR. STEVE SCARFONE: Just, Ms. McCandless, I may have mis-spoke when I introduced the panel.

So, for all intents and purposes, Ms. Mann and -- and Mr. Bunston are front row.

MS. KATHLEEN MCCANDLESS: Pardon me. I -- I guess I didn't catch -- he is -- he is online?

MR. STEVE SCARFONE: Yes.

MS. KATHLEEN MCCANDLESS: Thank you. Thank you. So, here MPI was asked to update Exhibit MPI-81 and the rate indication based on the yield as at August 31.

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

MS. KATHLEEN MCCANDLESS: Hello, Mr. Bunston. And, figure 1 shows the yield for provincial bonds at 4 -- 4.31 percent.

MR. GLENN BUNSTON (by TEAMS): Yes.

MS. KATHLEEN MCCANDLESS: And then, Kristen, can we just go to transcript, page 1961, from yesterday. I just want to reference an exchange that you had, Mr. Bunston, with Board Member Bass.

In response to questions on the performance of the fixed income portfolio, you'll recall here at lines 2 to 12, or 13, that you indicated that MPI constantly evaluates the performance of external managers.

Have had some equity managers on their -- on your watch list because their performance has been sub-par over a rolling four (4) year period. And, two, had been removed from the watch list because their performance has improved.

MR. GLENN BUNSTON (by TEAMS): Yes. I see that --

MS. KATHLEEN MCCANDLESS: Correct.

MR. GLENN BUNSTON (by TEAMS): -- that exchange from yesterday.

MS. KATHLEEN MCCANDLESS: And then, specifically, with respect to fixed income, you note that:

"The one thing to keep in mind is that some of these performance differences are likely caused by differences in duration between our portfolio and the portfolio -- the benchmark portfolio, so duration has some impact on performance."

MR. GLENN BUNSTON (by TEAMS): Yes, I see that.

MS. KATHLEEN MCCANDLESS: And then Board Member Bass had some follow-up, and he asked:

"Doesn't that initial statement that we looked at, saying that it's been adjusted for that?"

And you note that:

"It was adjusted for asset mix -- so in other words, the mix between stocks and bonds and alternatives, but not necessary -- not necessarily adjusted for duration within the fixed income investments."

MR. GLENN BUNSTON (by TEAMS): Yes, I see that.

MS. KATHLEEN MCCANDLESS: What is the difference in duration that is affecting the comparison?

MR. GLENN BUNSTON (by TEAMS): Yes. So the -- at March 31st of 2023, the -- the duration of the universe bond index was seven point three (7.3) years. And I don't have the duration of the peer universe, but I believe that it would be close to the duration of the index.

And so I'd note that, during this period, our -- the duration of our portfolio was higher than the duration of the index. And because interest rates are increasing during this period, that is likely the cause of the under performance of our fixed income portfolio relative to the -- both the universe and the -- sorry, the peer universe and the -- the bond index.

So I'd just add to that that the -- the primary objective of the Basic claims portfolio is risk management, of which interest rate risk is -- is a key risk and returns are a secondary objective.

And so we manage that interest rate risk by matching durations between our fixed income portfolio and the liabilities. And our liabilities have a duration of about eight and a half (8 1/2) to nine (9) years.

And so that means that our bond portfolio is more sensitive to interest rate changes than the -- than the index and the peer universe. And given the significant increase in interest rates over the last year, this resulted in the under performance of our portfolio relative to both the benchmark and the peer universe.

But again, our objective is not to outperform our peers. It's to hedge the interest rate risk associated with the liabilities.

MS. KATHLEEN MCCANDLESS: Thank you. Now --

BOARD MEMBER BASS: Ms. McCandless, just -- can I follow up on that before you go on? Sorry to be out of order, everybody.

Mr. Bunston, in the report that you get from Ellement, is there any attribution of the different components of a -- an investment manager's work?

So, for example, with respect to equities, you're probably used to seeing an attribution to stock selection and an attribution to sector selection, et cetera.

Is there anything in the report with respect to fixed income that would assist you or us with respect to duration, et cetera?

MR. GLENN BUNSTON (by TEAMS): No. Ellement does not provide any -- any attribution analysis in their reporting.

BOARD MEMBER BASS: And in your opinion, would you be able to request that from Ellement for future reports? And if you don't know, it's okay to say that.

MR. GLENN BUNSTON (by TEAMS): We could discuss that with them. I think another thing that we might discuss with them is adjusting -- making adjustments to the -- either the benchmark and/or the peer universe to try to ensure that the duration is closer to the actual duration of our portfolio.

BOARD MEMBER BASS: That makes sense, too. Thank you.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Thank you. Now moving on to Exhibit number 114, the response to Undertaking number 32.

Here MPI was asked to advise or provide the update and the estimate of the transition gain for the intended movement or transfer of the pension management to the province.

And the updated amount here is $214.6 million?

(BRIEF PAUSE)

MR. RYAN KOLASKI: Yes, that's -- I see that, yes.

MS. KATHLEEN MCCANDLESS: And that's --
the previous estimate was $150 million, correct?

MR. RYAN KOLASKI: That's my understanding, correct.

MS. KATHLEEN MCCANDLESS: And this -- this update -- this updated figure hasn't been reflected in the MCT calculations, fair?

MR. RYAN KOLASKI: That gain on the pension has not been reflected in the MCT calculation.

MS. KATHLEEN MCCANDLESS: If -- if MPI proceeded with this and the gain was as estimated, then obviously that would have an effect on the MCT level and increase it fairly significantly?

MR. RYAN KOLASKI: So yeah. We did take into account the gain, but again what's being presented is an estimate. We don't have actual alignment with government to do the transfer as of yet, so that discussion hasn't happened, so that's why it's not part of the -- the forecast period, just to clarify that.

MS. KATHLEEN MCCANDLESS: Understood. Thank you.

MR. RYAN KOLASKI: And then just for clarity, like this reference is kind of a couple of years old, so that gain is going to shift, right, based on mix of the staffing complement that's within the pension plan itself and then just the mix of investments overall.

MS. KATHLEEN MCCANDLESS: Thank you. Now, Kristen, can we pull up Exhibit 116, the response to Undertaking 31. And pro forma 1, please.

First, just -- pro forma 1, per the undertaking, was to be updated using an expected investment yield net of investment expenses of 5.16 percent, and then pro forma 1 from this response.

And then can we side by side pull up pro forma 1 from MPI Exhibit number 50, which was the October 4 update. That would be page 5 of -- of 50.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Thank you. And we're going to focus in on 2024 forecast for both pro formas, and specifically lines 18 and 31, for the interest rate impacts.

So when the yield is adjusted to 5.16 percent -- and we're looking at lines -- first line's 18, interest rate impact on claims incurred -- we see for 2024 in the rate -- or the October 4 update was negative -57.95 million, correct?

(BRIEF PAUSE)

MS. CARA LOW: Correct.

MS. KATHLEEN MCCANDLESS: Okay. And then if we see the response to the Undertaking on the left-hand side, again line 18, now we see what that -- that change.

Now the interest rate impact is $7.2 million?

MS. CARA LOW: I see that.

MS. KATHLEEN MCCANDLESS: And then if we go down to the interest rate impact on investment income at line 31, starting with the October 4 update, that impact was a negative -$103.5 million for 2023/'24?

MS. CARA LOW: I see that, yes.

MS. KATHLEEN MCCANDLESS: And now we see that has changed to four hundred and ninety-six thousand dollars ($496,000)?

MS. CARA LOW: I see that, yes.

MS. KATHLEEN MCCANDLESS: Okay. And can you explain why there's such a wide var -- variance with that change? Could it be an error in the calculation?

MS. CARA LOW: I will need to talk to

my back row.

(BRIEF PAUSE)

MS. CARA LOW: The exhibit on the left is using the March yield, so it's from -- it's using the model that was run for the GRA application in June. So the March yields.

The one on the right was provided in October, and it was using the August yields.

(BRIEF PAUSE)

MS. KATHLEEN MCCANDLESS: Okay. Thank you. Madam Chair, I might need a couple minutes just to confer with advisors before determining that I'm finished my questioning in this area. I might suggest just moving on to the Interveners at this time, and I'll resume my questioning after, if necessary.

PANEL CHAIRPERSON: Thank you, Ms. McCandless.

MR. STEVE SCARFONE: Madam Chair, just before we move on, for Undertaking 19, so there is -- in fact for the first time in the history of this GRA, subject to check, has come back to need some clarification on an answer that Ms. Low provided to Ms. McCandless.

So I think she was putting some math to her.

MS. CARA LOW: So instead of removing 8 1/2 million, if you remove the full -- was it 12 or 12 1/2 -- 12 -- 12 1/2 -- that your logic made sense if it was all assigned to the rating year. But it's actually assigned over five (5) years, so it doesn't have the full impact that we walked through.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: Right. So just to follow through from that then, the -- the decrease of 1.1 percent is that --

MS. CARA LOW: Yeah.

MS. KATHLEEN MCCANDLESS: -- does that get adjusted...

MS. CARA LOW: Right. So on this exhibit here that we're looking at, the provisional rate indication was minus zero point one three (0.13), and then it went down zero -- minus 0.41 percent, and it would go down to minus zero five four (0.54) indication.

MS. KATHLEEN MCCANDLESS: Why is it

assigned over five (5) years?

MS. CARA LOW: One (1) minute.

(BRIEF PAUSE)

MS. CARA LOW: It just seems like that was the understanding, that it was just a reduction to the initiative expenses, and then it flowed through the financial forecast over the five (5) years. So perhaps a misunderstanding.

MR. STEVE SCARFONE: So have we landed then on a number?

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: The undertaking was requesting a reduction in expenses in the rating year of twelve point five (12.5). It seems perhaps the MPI made the assumption it would be over the five (5) years. It's because this is not initiative expenses; it was related to corporate benefits expense.

So does that mean that there's an assumption built into the response that maybe was incorrectly included?

(BRIEF PAUSE)

MR. STEVE SCARFONE: Ms. McCandless, we're going to have to make a correction to the response to that Undertaking. I think that's the most efficient way to deal with this here now.

CONTINUED BY MS. KATHLEEN MCCANDLESS:

MS. KATHLEEN MCCANDLESS: I'm -- I'm just -- I'm trying to understand what the issue is.

So, if -- if -- does Ms. Low quibble with the math, if we assume -- or if we apply that twelve and a half (12 1/2) to the rating year only.

MS. CARA LOW: No, that -- your math would have been correct. Yeah.

MS. KATHLEEN MCCANDLESS: Okay. So the negative 1.1 --

MS. CARA LOW: Yes.

MS. KATHLEEN MCCANDLESS: -- percent does work with applying the 12 1/2 million to the rating year?

MS. CARA LOW: Correct. Yes.

MS. KATHLEEN MCCANDLESS: So, in that case, I'm not sure that there's any correction needed. I think MPI's rationale for something other than a one point one (1.1) is on the record, but that wasn't the question that was asked. So, I don't believe a correction is necessary.

MR. STEVE SCARFONE: And, I'd agree with that, so long as we get confirmation that that response is accurate with that clarification. Absolutely. Yeah. Okay.

MS. KATHLEEN MCCANDLESS: Okay. In that case then, I think we're good, and those are my questions. Thank you.

PANEL CHAIRPERSON: Thank you. Ms. Dilay?

MS. KATRINE DILAY: Thank you, Madam Chair.

CROSS-EXAMINATION BY MS. KATRINE DILAY:

MS. KATRINE DILAY: I do have just a few questions, likely for Mr. Kolaski, and it relates to MPI Exhibit 110 which is the response to Undertaking Number 21. Thank you, Ms. Schubert.

And, so Mr. Kolaski, you'll agree here MPI was asked to revise the response to CAC/MPI 2-12 to use the total corporate staffing forecast levels for '24/'25 and '25/'26, rather than using normal operations, correct?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And we can see here in Figure 1, you calculate the compensation reduction for both '24/'25 and '25/'26 by maintaining the FTE levels at '21/'22 levels.

MR. RYAN KOLASKI: Yes, that is correct.

MS. KATRINE DILAY: And for '24/'25 forecast, the compensation reduction would be 20.1 million.

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And for '25/'26, the compensation reduction would be 16.2 million, correct?

MR. RYAN KOLASKI: Correct.

MS. KATRINE DILAY: And if we go to page 2 of the response, Figure 3. So here, this is the pro forma, and it applies a rate change of minus 0.54 percent based on maintaining that staffing level at '21/'22?

MR. RYAN KOLASKI: That is correct.

MS. KATRINE DILAY: And can MPI indicate how it calculated the rate indication of minus zero point five four (0.54) in Figure 3 pro forma 1?

MR. RYAN KOLASKI: Just one (1) moment?

(BRIEF PAUSE)

MR. RYAN KOLASKI: We went through and updated our corporate expenses, right, for the re -- revision, and then we sent that over to the pricing team. So it just runs back through the forecasting model. So it's just a change in the operating expenses overall.

(BRIEF PAUSE)

MS. KATRINE DILAY: And thank you for that.

Can MPI also indicate how it treated employee benefits expenses in calculating the compensation reduction in Figure 1?

MR. RYAN KOLASKI: Sure. Just one (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: The benefit costs

are included in the salary line, so it's all salary compensation together.

(BRIEF PAUSE)

MS. KATRINE DILAY: Thank you. Those are our questions.

PANEL CHAIRPERSON: Thank you. Ms. Meek, do you have any questions?

MS. CHARLOTTE MEEK: I don't. Thank you, Madam Chair.

PANEL CHAIRPERSON: Thank you. Ms. Wittman...?

MS. KAREN WITTMAN: Thank you, Madam Chair. Yes, I do have some questions.

CROSS-EXAMINATION BY MS. KAREN WITTMAN:

MS. KAREN WITTMAN: My questions I think are going to be directly -- directed largely to Ms. Mann, if you're there.

MS. SIMMI MANN (by TEAMS): I am there -- I am here.

MS. KAREN WITTMAN: Okay. Hello. And it's with respect to what I think was Exhibit 112 and the answer to Undertaking number 3 which was the undertaking that dealt with commercially sensitive information, or CSI, and Uber's position on sharing that with the Interveners.

Do you recall that?

MS. SIMMI MANN (by TEAMS): Yes.

MS. KAREN WITTMAN: Okay. So before I ask you questions about that, I want to put that undertaking in context because that undertaking arose while you were given your evidence on the proposed blanket policy, and specifically when you were commenting on the fact that Uber was refusing to share its CSI with the Interveners.

Do you recall that?

MS. SIMMI MANN (by TEAMS): Yes.

MS. KAREN WITTMAN: And if it helps, that's at -- that was on October 11th, the transcript from October 11th, pages 370 to 371. And there was an exchange between you and Board Chair Gabor about how TNC CSI was handled in other jurisdictions --

MS. SIMMI MANN (by TEAMS): Correct.

MS. KAREN WITTMAN: -- notably British Columbia and Saskatchewan.

Do you recall that?

MS. SIMMI MANN (by TEAMS): Yes, I do.

MS. KAREN WITTMAN: Okay. And I don't

know that we need to go through that whole exchange in detail, but your answer in response to the questions in a nutshell was that in BC the Interveners only receive redacted information. Do you recall that?

MS. SIMMI MANN (by TEAMS): In BC, the redacted, essentially, there was redacted information with the regulator only receiving unredacted information.

MS. KAREN WITTMAN: Right. So, the -- right, and, then, the -- in Saskatchewan, I think your answer, in a nutshell, was that SGI was not requiring that level of detail to be filed.

MS. SIMMI MANN (by TEAMS): Correct.

MS. KAREN WITTMAN: Now --

MS. SIMMI MANN (by TEAMS): -- in the aggregate kilometres.

MS. KAREN WITTMAN: Yes. Right, and, so, I just want to clarify that information with you, because I think it's extremely relevant to the Undertaking and Uber's -- my understanding of -- of Uber's position on sharing CSI information with the Interveners.

So, as I understand it, in both those provinces, BC and Saskatchewan, they have adopted blanket policies for TNCs. Am I correct on that?

MS. SIMMI MANN (by TEAMS): Correct.

MS. KAREN WITTMAN: One -- one small difference is, in BC, they don't call it a TNC. They call it a TNS, Transportation Network Service --

MS. SIMMI MANN (by TEAMS): M-hm.

MS. KAREN WITTMAN: -- as opposed to Corporation. Yes?

MS. SIMMI MANN (by TEAMS): Okay. Yes.

MS. KAREN WITTMAN: And -- and a copy of that -- or -- sorry -- that application for a TNC in BC was made back in 2019 in BC?

MS. SIMMI MANN (by TEAMS): Yes.

MS. KAREN WITTMAN: And a copy of that application was provided to your Counsel yesterday?

MS. SIMMI MANN (by TEAMS): Correct.

MS. KAREN WITTMAN: And you -- you've had a copy to review that?

MS. SIMMI MANN (by TEAMS): Yes. The 2019?

MS. KAREN WITTMAN: Right.

MS. SIMMI MANN (by TEAMS): Yes.

MS. KAREN WITTMAN: And it's a bit of a long document, but we've produced an excerpt from that, which we've provided to Ms. Schubert, and, Ms.

Schubert, perhaps you could pull that up at this point.

This deals only with this -- and, rather than the entire application, we have just taken an excerpt from this and restricted the excerpt to those pages that deal with the TNS and the calculation of the per-kilometre rate and we'd like to mark that as an exhibit at this point.

I think that would be Exhibit 8 of the Taxi Coalition.

And what was also provided to your Counsel yesterday was a copy of the Order that followed as a result of that application, which was also included in the package of materials and we'd like to mark that as Exhibit 9, if that's acceptable to use as an aid to cross at this point.

MR. STEVE SCARFONE: That is acceptable.

--- EXHIBIT NO. TC-8: Excerpt from the application for a TNC in BC made back in 2019 dealing with TNS and the per-kilometre rate.

--- EXHIBIT NO. TC-9: The Order that followed as a result of the application.

CONTINUED BY MS. KAREN WITTMAN:

MS. KAREN WITTMAN: Now, based on our review of this application and this excerpt, when that application for a TNC blanket policy, called a TNS Certificate in BC --

MS. SIMMI MANN (by TEAMS): M-hm.

MS. KAREN WITTMAN: -- was made, it was based on ICBC's taxi data, not the Uber data.

Were you aware of that?

MS. SIMMI MANN (by TEAMS): Yes. I am aware of that.

MS. KAREN WITTMAN: Okay. And, in fact, it specifically set out, at paragraph 36 of Exhibit 8, which I believe is on page 17.

MS. SIMMI MANN (by TEAMS): M-hm.

MS. KAREN WITTMAN: And, in that paragraph, it set -- it sets out that, in the absence of TNS data in BC, the TNS distance-based pricing was based on ICBC's taxi data. You see that?

MS. SIMMI MANN (by TEAMS): Yes, I do.

MS. KAREN WITTMAN: Which represents

similar usage rate classes?

MS. SIMMI MANN (by TEAMS): Correct.

MS. KAREN WITTMAN: And, then, it goes on to say, at the end of the -- that paragraph:

"That this adjusted claims and expense amount was then divided by the estimated average annual kilometres travelled by taxis, to develop a per-kilometre rate for TNS."

You see that?

MS. SIMMI MANN (by TEAMS): I do.

MS. KAREN WITTMAN: Okay. And, if we just flip back for a second, to paragraph -- or page 14 of Exhibit 8 and paragraph 16 --

MS. SIMMI MANN (by TEAMS): Ms. Wittman, do you -- do you want me to explain why they might have used this approach, 'cause I can do that?

MS. KAREN WITTMAN: I am more interested in just confirming the facts that Uber data was not used in calculating this rate. It was the taxi data.

MS. SIMMI MANN (by TEAMS): Correct but --

MS. KAREN WITTMAN: And -- and so,

what I also want to confirm is that it wasn't an issue in -- in British Columbia, whether Uber was going to be required to share its data, because it wasn't asked to. Would you agree with that?

MS. SIMMI MANN (by TEAMS): It -- there's always nuances to this. So, if you scroll back to the -- the previous paragraph that you were on. The first --

MS. KAREN WITTMAN: Paragraph 36?

MS. SIMMI MANN (by TEAMS): Was it 36? I'm sorry. The first sentence is "in absence of TNS data."

MS. KAREN WITTMAN: Right.

MS. SIMMI MANN (by TEAMS): So, we have TNC operation. ICBC and SGI implemented in a very different scenario. They implemented a blanket policy when they permitted ride-sharing. Whereas, we implemented the Time Band Model when we did ride-sharing.

So, we have the additional benefit of having this TNC data. So, we can use the group that we're actually, you know, going to service, to develop the per-kilometre rate. The benefit would be to have a more accurate per-kilometre rate.

ICBC and SGI, and I can't speak for

them and I'm not an expert in them, I can just relay the information that they didn't have that option.

MS. KAREN WITTMAN: Fair enough. I just want to confirm, though, that, in BC, the per-kilometre rate, when they were looking at the blanket policy, was based on taxi data.

You'll agree with that?

MS. SIMMI MANN (by TEAMS): Yeah.

MS. KAREN WITTMAN: It doesn't mean much either way. I just want to confirm that it was based on taxi data.

MS. SIMMI MANN (by TEAMS): M-hm.

MS. KAREN WITTMAN: That's a "yes"?

MS. SIMMI MANN (by TEAMS): Initially, yes.

MS. KAREN WITTMAN: Yeah. And -- and further, that taxi data was not confidential. Correct? It was pub -- it made publicly available?

MS. SIMMI MANN (by TEAMS): That I can't confirm. I don't know the answer to that.

MS. KAREN WITTMAN: Okay. Well, we'll get to that. So, the -- if we can flip back, now, to paragraph 16 for a second. In the middle of the page --

MS. SIMMI MANN (by TEAMS): M-hm.

MS. KAREN WITTMAN: -- in the middle of that paragraph, it also sets out that the TNS will have a prescribed rate for 10 years. You see that?

MS. SIMMI MANN (by TEAMS): I do.

MS. KAREN WITTMAN: And, so, as I understand it, what it was saying, in this section, was that the rates that were going to be adopted in 2018 would be adopted for the next 10 years.

Do you agree with that?

MS. SIMMI MANN (by TEAMS): Not entirely. I think they have a schedule of rates.

MS. KAREN WITTMAN: A Schedule. Right --

MS. SIMMI MANN (by TEAMS): Right.

MS. KAREN WITTMAN: -- but it was pres -- it was going to be prescribed for a 10-year period?

MS. SIMMI MANN (by TEAMS): It looks like that could be correct.

MS. KAREN WITTMAN: Okay. And the rates that were actually adopted were set out at page 21 and 22 of this excerpt and Exhibit 8 and, in particular, on the table on page 22. You see that?

MS. SIMMI MANN (by TEAMS): Yes.

MS. KAREN WITTMAN: Okay. And, then, in addition to that, there was an Order, and this has

-- has now been marked as Exhibit 9, from BCUC, which is the BC equivalent of the PUB, which sets out, at paragraph D(ii), that ICBC's proposal for the blanket policy was -- was going to be adopted and that the rates for the TNS Basic insurance were approved to be effective September 2020 and up to 2028 or -- sorry -- up to and including 2028. You see that?

MS. SIMMI MANN (by TEAMS): Yes.

MS. KAREN WITTMAN: Okay. So, based on this document and, in particular, the Order, you would agree with me that Uber's data simply didn't come up in its initial application. Correct?

MS. SIMMI MANN (by TEAMS): In this initial application. Correct --

MS. KAREN WITTMAN: In BC.

MS. SIMMI MANN (by TEAMS): -- because there was no operation.

MS. KAREN WITTMAN: Correct. Okay. And, then, as far as the Saskatchewan experience is concerned, it's my --

MS. SIMMI MANN (by TEAMS): Ms. Wittman, can I -- can I ask one thing. I wasn't sure if you were done.

There is a subsequent filing to this, where they provided an update, and that is where the redacted information is. So, they continued to report on the TNC experience -- or -- sorry -- the TNS experience in British Columbia, and that is, specifically, what I asked ICBC about, as in who is permitted to see the aggregate kilometres.

MS. KAREN WITTMAN: Do you happen to know where in this application that is?

MS. SIMMI MANN (by TEAMS): I don't. It's not in this application. It's separate, but we have to remember that there's also a rebate surcharge mechanism here. So, while they have the rates on a ten (10) year schedule, the rebate surcharge -- or the discount surcharge is there to account for the differing experience.

MS. KAREN WITTMAN: Okay. Thank you for that. I also want to look at the Saskatchewan experience, however. So when we look at -- at what happened with SGI, they also applied for a blanket policy. Is that right?

MS. SIMMI MANN (by TEAMS): SGI; correct.

MS. KAREN WITTMAN: Okay. And a copy of that application, or the rate proposal by SGI, the Saskatchewan Auto Fund 2021 Rate Proposal was provided to your counsel yesterday. We have an excerpt here.

But you've had an opportunity to take a look at that?

MS. SIMMI MANN (by TEAMS): Yes.

MS. KAREN WITTMAN: Okay. And the excerpt, again, just deals with the -- the pages of the application that deal with the blanket policy and the setting of the rates for the per-kilometre rate.

So I'd like to mark that as Exhibit 10 and use that as an aid to cross, if acceptable.

MR. STEVE SCARFONE: It is, Ms. Wittman. I would say though I do -- I don't want to be too intrusive or obstructive to this line of questioning, but I -- I just want to ask the Board to be mindful that we don't get too far afield from the response to the undertaking.

Now, I know that Ms. Wittman would like this Board to consider what's been done in other jurisdictions, but the answer to the undertaking is as Uber has explained. They've -- they've given us their position, and -- and that was the undertaking that was put to us, was to get Uber's position with respect to the sharing of their CSI.

BOARD CHAIR GABOR: Sorry, if I could just interject. I think I asked the question --

MR. STEVE SCARFONE: Yes.

BOARD CHAIR GABOR: -- for the undertaking. And I thought the undertaking was: Can you go back to Uber and provide the basis for the refusal. Was that not the undertaking?

MR. STEVE SCARFONE: Well, if we may -- perhaps it might be instructive --

BOARD CHAIR GABOR: It -- it --

MR. STEVE SCARFONE: -- to pull it up.

BOARD CHAIR GABOR: -- could you put the undertaking up.

It's including "provide information." I guess the question I have, and, you know, counsel's raised it, your cross-examination is normal cross-examination which I would have expected in the Hearing; it really doesn't relate to the undertaking.

Their -- their response is: We're not -- we're not responding. We're not going to give the information.

You're now starting to go into an area, you know, and I don't want to -- you know, I -- I guess you can -- you can go there. But when you started into it, I was sort of going, I thought that was my undertaking.

And the response was, Well, we're just not going to provide a response. And the question was: What's the basis for the response?

So, you know, you -- you can go there, but I'm not sure it's proper, so.

MS. KAREN WITTMAN: Thank you for those comments. And in response I would say the issue here is that we're effectively being asked to -- or the -- or the PUB is effectively being asked to issue a directive that will allow the information, Uber's confidential information, to be exempt from Intervener access or to be redacted such that the Interveners don't get to see it.

And we haven't really -- we can tell from the response -- and I'm going to into that a little bit further -- we haven't really been given an explanation as to why as part of this response, nor has there been a motion on this very subject. Instead, we're just being asked to do this.

And so part of what's relevant is what happened in other jurisdictions. And what happened in other jurisdictions was not set out in detail in the application. It came up in the direct examination of Ms. Mann and MPI which leads to a number of questions. And I think it's incredibly important that we understand what happened in other jurisdictions so Uber's response is placed in context. This is the first time it's come up is the bottom line.

BOARD CHAIR GABOR: Well, I guess -- I guess my response is that I -- I thought it would have come up in cross-examination to go -- to find -- for you to see what they're -- what happened to Uber in other jurisdictions.

The purpose right now is to go through undertakings, the response to undertakings.

(BRIEF PAUSE)

BOARD CHAIR GABOR: Yeah, I mean, you can put -- you -- you can -- you know, you can continue. The problem is this isn't intended for cross-examination that it could occurred during the hearing; it's intended for cross-examination on the undertaking.

The undertaking has a response. You're going -- you're going parallel to it. If you want to argue it in final submissions, certainly you can argue in the final submission, as to what the Board should be doing in relation to the order. But I -- I just don't know where we're going to end up.

I -- I suspect that you're going to ask more questions, and in final submission you're going to put a submission in -- in relation to what you're doing right now, but -- so you can go ahead. But I -- I don't know that -- I -- I intervened instead of the panel chair, but...

PANEL CHAIRPERSON: No, that's fine. I think that the -- you're moving towards to the questions with regard to the Saskatchewan Auto Fund.

If you want to ask that question in relation to Uber and whether there was information included in that, I think that's fine. But I think that that's probably the extent to which those questions should go.

MS. KAREN WITTMAN: Thank you, Madam Chair.

CONTINUED BY MS. KAREN WITTMAN:

MS. KAREN WITTMAN: So I will ask that specific question. Ms. Mann, are you there?

MS. SIMMI MANN (by TEAMS): I am there. I am here, I should say.

MS. KAREN WITTMAN: Okay. So I would like to mark as an exhibit the -- the excerpt from the Saskatchewal (sic) Auto Fund 2021 Rate Proposal, if it -- I think it was marked, but I just want to confirm that.

Yes, it was. All right.

And so then moving on to that question. Ms. Mann, did -- did you hear the question posed by Madam Chair?

MS. SIMMI MANN (by TEAMS): If you could just repeat it, so I can answer you properly that would be great.

PANEL CHAIRPERSON: The question that I --

MS. SIMMI MANN (by TEAMS): M-hm.

PANEL CHAIRPERSON: -- was the next question and the end of the questions from counsel for TC, is whether there was information obtained in the Saskatchewan Auto Fund 2021 Rate Proposal that included the kilometre charges to Uber.

MS. SIMMI MANN (by TEAMS): No, there was not. And it's a similar situation to ICBC. It's because they didn't have experience in Saskatchewan for ride sharing at that time so --

PANEL CHAIRPERSON: Thank you.

MS. SIMMI MANN (by TEAMS): -- it wasn't.

CONTINUED BY MS. KAREN WITTMAN:

MS. KAREN WITTMAN: Thank you. Okay.

So now dealing with the undertaking itself, Ms. Schubert, could you bring that up. It's Exhibit number 112.

So the undertaking had two (2) parts. It was to follow up with Uber and its -- and its claim for CSI, and specifically to deal with whether the Interveners could see it if they sign an NDA, or a non-disclosure agreement, and second, whether the Board would receive unredacted information but the Interveners would only receive redacted information.

And the response we have from Uber -- or MPI after contacting Uber is 1) that Uber is not agreeable to the proposal which is to have the Interveners see the confidential information if they sign an NDA, and second, as far as the Board receiving some -- certain unredacted information, they would consider it, but would need to have a final review or control over the redacted details that are provided to the Interveners.

Do you see that?

MS. SIMMI MANN (by TEAMS): Correct. I do.

MS. KAREN WITTMAN: Okay. Now, fair to say that in this response, Uber has not set out why it wants this information -- and has not advised MPI to set out why it wants its information to remain confidential, correct?

MS. SIMMI MANN (by TEAMS): Correct, because we didn't -- we didn't ask them. We simply asked them what their position was.

MS. KAREN WITTMAN: Sure. Fair enough. And you'll also agree with me that in this answer to this undertaking, Uber has also not set out how providing its data would reveal its market share to potential competitors, correct?

MS. SIMMI MANN (by TEAMS): Right. Not in this response.

MS. KAREN WITTMAN: Right. And Uber has not set out in this response how a competitor would use this information to compete, correct?

MR. STEVE SCARFONE: I think we'll --

MS. SIMMI MANN (by TEAMS): I just -- I just --

MR. STEVE SCARFONE: -- concede --

MS. SIMMI MANN (by TEAMS): -- need a minute --

MR. STEVE SCARFONE: Simmi, just one (1) second. Just --

MS. SIMMI MANN (by TEAMS): -- for one (1) minute to check my back row.

MR. STEVE SCARFONE: Ms. Mann, just one -- we'll just concede that -- Ms. Wittman, that the response is as it indicates on the screen. So to the extent that you're asking her questions that they didn't respond with something else, we'll concede that point.

MS. KAREN WITTMAN: All right. But just so it's on the record, there's also nothing in this response that sets out how supplying this information would significant affect Uber's competitive position or cause it undue financial loss, correct?

MR. STEVE SCARFONE: Correct. That's not in the response.

MS. KAREN WITTMAN: Okay. Thank you.

CONTINUED BY MS. KAREN WITTMAN:

MS. KAREN WITTMAN: Ms. Mann, are you still there?

MS. SIMMI MANN (by TEAMS): I am.

MS. KAREN WITTMAN: Okay. I just have one (1) final section, and that's this.

In -- in obtaining this answer to undertaking or otherwise, did MPI discuss with Uber that the PUB has a process for handling CSI?

MS. SIMMI MANN (by TEAMS): We did.

MS. KAREN WITTMAN: And did you discuss that it can be done by having the Interveners or their counsel or their experts sign non-disclosure agreements and agree not to provide any of the confidential information to their clients?

MS. SIMMI MANN (by TEAMS): Yes, I believe we did describe the situation and how that was handled. We, essentially, explained to them our regulatory environment and process along with Interveners, as well as the confidential -- confidentiality process through the GRA.

MS. KAREN WITTMAN: And Uber did not agree to that, correct?

MS. SIMMI MANN (by TEAMS): Well, I think they've stated their position here. We simply provided them with the confidentiality agreement and asked them to put in their conditions. Their discussions were internal; they simply provided us with a response.

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

PANEL CHAIRPERSON: Mr. Gabor, do you have any questions? Ms. Boulter...?

BOARD MEMBER BOULTER: Okay.

Regarding Undertaking number 17, if I could have that brought up. Exhibit 104.

Okay. I'm -- I'm looking at this, and this is NOVA and Non-NOVA projects and funding, correct?

MR. RYAN KOLASKI: Yes.

BOARD MEMBER BOULTER: Okay. And the non-NOVA, were they ever in NOVA, because some of them look like they cross over a bit?

MR. RYAN KOLASKI: Just one (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: Thanks for your patience. If you have Undertaking 24, if you want to throw that up on the screen.

That is a list of projects that are not directly related to NOVA but NOVA will use. So, they're not NOVA-related.

But there is a listing on Undertaking 24. That is the list there.

BOARD MEMBER BOULTER: Yeah, but my question was, back on that one, on 17, were any of those initially in the scope and the planning of NOVA and pulled out and put here?

MR. RYAN KOLASKI: None of those were in scope, no.

BOARD MEMBER BOULTER: No. They -- they weren't in scope now, but were they ever in scope?

MR. RYAN KOLASKI: No, Ma'am.

BOARD MEMBER BOULTER: Okay. Thank you very much.

And several of the projects on here -- I'm -- I'm trying to remember everything I've heard -- are over five hundred thousand (500,000). Did they go through the -- the invest -- the approval process to get those?

MR. RYAN KOLASKI: So, you're referring to the LPM Project; yeah, they would have went through that process.

BOARD MEMBER BOULTER: Okay. That's all my questions. Thank you.

PANEL CHAIRPERSON: Ms. Nemec...?

BOARD MEMBER NEMEC: I'm going to continue on with the improvement initiative expenses which, I think here are 108 million. And I think I understood you saying some of these are NOVA, some of them are non-NOVA type of expenditures.

Do you know what the total amount of NOVA-type expenditures are? Do they tie into one of the other -- there's $68 million of NOVA expense in the -- Undertaking 26. Does it -- do those tie together?

MR. RYAN KOLASKI: Just one (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: That's a similar question from prior which is the pre-'22/'23 years, right.

BOARD MEMBER NEMEC: M-hm

MR. RYAN KOLASKI: It does have expenses that aren't reflected here 'cause those expenses were included in those rate-setting years.

BOARD MEMBER NEMEC: Okay.

MR. RYAN KOLASKI: So --

BOARD MEMBER NEMEC: And excluding that difference in the years, that -- whatever those amounts work out to, they -- all of the amounts would tie in as to non-NOVA and NOVA? They're not anywhere else?

(BRIEF PAUSE)

MR. RYAN KOLASKI: Correct. So the -- I'm just, for clarity, Undertaking 17, is Basic only, right, and the other chart is all --

BOARD MEMBER NEMEC: Right.

MR. RYAN KOLASKI: -- right, so there is a slight --

BOARD MEMBER NEMEC: Right.

MR. RYAN KOLASKI: -- drip on that, but yes.

BOARD MEMBER NEMEC: So even without getting into the detailed numbers --

MR. RYAN KOLASKI: Correct.

BOARD MEMBER NEMEC: -- though, everything in these implementation expenses that are NOVA tie into this, should you have the right dates and the right Basic only. Thank you.

And -- and the reason I -- I just wanted to talk a little bit about: We have NOVA, ongoing operations in here, which -- so the ongoing operations are -- and -- and I'm trying to understand how that is an improvement initiative expense. And, similar, below that, NOVA deferred development amortization expensed.

Just curious as to --

MR. RYAN KOLASKI: Sure, let me just --

BOARD MEMBER NEMEC: -- just -- I'm trying to just understand. What's put in this account?

MR. RYAN KOLASKI: Fair question, yeah.

BOARD MEMBER NEMEC: Just to go back to what is in here?

MR. RYAN KOLASKI: One (1) moment.

(BRIEF PAUSE)

MR. RYAN KOLASKI: So in terms of the ongoing operations, those are future normal operating costs. So things like bubble staff and licensing fees that will continue on after the implementation. So we're tracking those as we go through this, overall.

In terms of your deferred development costs, those are costs that were previously deferred, and now that the -- that release is active, they're now being amortized. So, like the R-1; kind of that position.

BOARD MEMBER NEMEC: And I'm just trying to tie that answer into the purpose of this account. The hundred and eight (108) that -- there was -- trying to tie it into this is expense for financial statement purposes. We talked about for rate-setting purposes to defer and amortize that into the rate indication over the next five (5) years, I -- I believe is what was discussed previously.

So I'm -- are all of these costs -- does this need to be adjusted or to say these -- and the reason why we said it is there was new accounting rules relating to cloud-based computing that couldn't be capitalized, and saw some value for those types of costs over five (5) years.

Are -- are there -- there seem to be a lot of dissimilar type costs in here, so I'm just wondering how we're using this 108 million.

Is it all what we initially thought as we were going to defer for ratemaking purposes and amortize it over five (5) years? 'Cause now it's including an amortization fee.

MR. RYAN KOLASKI: Yeah. Just one (1) second.

(BRIEF PAUSE)

MR. RYAN KOLASKI: All right. So if

you can just -- so if you look at the column on the screen, so there's 11 million to the 26 million, so those three (3) columns.

So those are specifically deferred for rate setting purposes, so those are definitely not in the rate. But again, for accounting, right, the accounting is different. This where the IFRS-14 kind of steps in.

So from an accounting perspective, the treatment is different, but those three (3) columns are definitely excluded. And then what you're seeing is the forecasting out of all those initiatives overall.

So that's where the disconnect comes, which was why I believe you guys were looking for IFRS-14 accounting treatment. So then the confusion that we're having here is like -- kind of goes away 'cause then it's kind of aligned.

Does that kind of answer your question a bit?

BOARD MEMBER NEMEC: So I can't see the top of the page. Maybe --

MR. RYAN KOLASKI: Yeah. I can't see the titles either, but yeah.

BOARD MEMBER NEMEC: Ms. Schubert, can

you just -- so we have actuals. So total implementation expenses deferred, and then -- in the middle, and then we have total implementation expenses recovered.

And could you go down to the bottom so I can see what the difference in those totals are, deferred and recovered. I'm not sure I understand it, but you're saying the first three (3) columns on the left, 11.8 million, the 29.1 million, 26.1 million, those three (3) columns are what --

MR. RYAN KOLASKI: Deferred, yes.

BOARD MEMBER NEMEC: -- is deferred. So 40, 50, 66 million.

MR. RYAN KOLASKI: Yeah, subject to check.

BOARD MEMBER NEMEC: Okay. Okay. I'm going to think about that.

Second question just on this document is: We have NOVA-type expense -- expenditures in here and we have non-NOVA-type expenditures in here, correct?

MR. RYAN KOLASKI: That is correct.

BOARD MEMBER NEMEC: Do we know what the amount of NOVA-type expenditures versus non-NOVA-type expenditures are?

MR. RYAN KOLASKI: Just one (1) second. I think --

BOARD MEMBER NEMEC: And just round about.

MR. RYAN KOLASKI: So if you look at lines 66 and 67 --

BOARD MEMBER NEMEC: Okay.

MR. RYAN KOLASKI: -- you'll see what those are. There's the ongoing costs --

BOARD MEMBER NEMEC: Oh, that's just it? That's it? The Duck there are some Duck expenditures up top, that wouldn't be included either? Duck Datamark (phonetic) enrichment.

MR. RYAN KOLASKI: Do you have a line, ma'am?

BOARD MEMBER NEMEC: Yeah, 47, line 47, and I can't say anything above that.

(BRIEF PAUSE)

MR. RYAN KOLASKI: So that is Duck Datamart not Duck Creek. Slightly different, sorry.

BOARD MEMBER NEMEC: Okay. Thank you. And the reason I asked that question, just for the magnitude, is because I believe your -- I guess these are all expensed then except for the three (3) lines on the left which are going to be at a ten (10) year amortization rate.

MR. RYAN KOLASKI: So NOVA has been adopted at a ten (10) year amortization rate, and then anything that is non-NOVA in terms of an initiative would be over five (5) years.

BOARD MEMBER NEMEC: And is --

MR. RYAN KOLASKI: Kind of a five (5) and ten (10). Think of it that way.

BOARD MEMBER NEMEC: Yeah, five (5) and ten (10). And the two (2) -- and there's a distinction between the -- the estimated lives of non-NOVA and the NOVA-type expenses?

MR. RYAN KOLASKI: Yes. So the previous policy was that, on our initiatives related to software and development was a five (5) year life, and we have -- had applied that to NOVA prior.

And then specifically, as we discussed prior, for the last fiscal year we adopted NOVA initiatives over a ten (10) year period once they go live.

BOARD MEMBER NEMEC: Thank you. My second question is a bit of an accounting question, and it has to do with Undertaking 32, number 32, about the pension, and the gain on transition of two hundred and fourteen point six (214.6). It's just -- I just don't get how --

MR. RYAN KOLASKI: Sure. So let me -- so -- so just for clarity --

BOARD MEMBER NEMEC: Is there a surplus of two hundred and fourteen point six (214.6) that someone isn't going to take on that liability and expect you to pass on the assets for a future liability, I guess is the question.

MR. RYAN KOLASKI: Sure. So this specific reference is not the answer, right, just so we're all clear. So this is coming back from a previous application.

So the way the transfer would work, probably the easiest way is to kind of just frame with what -- how the pension gets discounted. So today, we just -- we used Ellement to do the discounting.

That rate at the end of June, subject to check, would be about four point eight three (4.83). At March, that rate was four point nine (4.9). So your liability is going to go up or down based on that rate.

Then what happens is you quantify at a point in time where you're going to transfer or settle the pension. So once you pick that date, there'll be a settlement date, and Ellement will do a valuation. That valuation is done on what's called a going concern, so they're going to take on that liability on a going-concern basis.

That discount rate is approximately five point seven five (5.75), subject to check, and is fairly consistent over a long period of time.

So what happens is is that liability will float up or down based on the market rates, and then it's going to get benchmarked against the five seven, and that's what's creating kind of that gain, depending on that point in time.

And then, when you transfer it over to CSSB, they have a funding ratio that's different. So that funding ratio is approximately 80 percent, and they true it up every year. So it's kind of like 80 percent of your going concern valuation, right?

So we do the valuation; Ellement does a calculation to get a going concern amount; then we apply the 80 percent to that amount. We then settle that pension obligation with the investment portfolio funds that are held.

That difference then creates a gain. So technically, that obligation is no longer on the books of MPI.

It's a very specific and lot of rules around pension settlement, so we haven't landed exactly the wording around that and we're kind of modelling off of the MLCC situation where -- I think it was back -- subject to check, back in 2014 when they adopted this, so we're trying to do the same thing.

But that's kind of what's creating that. So, yes, the obligation is there. The legislation is unclear as to who's ultimately responsible for that difference between the 100 and 80 percent settlement, but we're using again another Crown corporation that did this.

And obviously the rules around this are very specific to the language, and then we still have to align with government that they're going to accept that we can do this. But that's in theory around the $200 million potential win because the obligation is now CSSB's overall, right?

And then just a follow-on question 'cause you're probably going to ask, we will retain part of the portfolio 'cause when you transfer it over, CSSF has specific rules around pension salaries and caps.

So part of our pool today will not be allowed to transfer under CCA rules, so I'm probably going to hold back $20 to $30 million, more or less, which is what is showing on the screen as say 28 million overall.

And then we also will retain -- what's on our balance is the future benefit or post-retirement benefits and severance piece as well. So, that will also be an obligation. So, what you're going to see is a gain on transfer related to, basically, CSSB taking on that obligation, but we will still have a pension, right, overall, and then that's kind of like net of settlement.

But we don't have the actual alignment yet, just to be clear, and we don't have the final Ellement pension dates, right, in order to do a re-val of that 215 million, right. So, it's going to drift, right, but there would be a gain. It's just a question of magnitude.

BOARD MEMBER NEMEC: So, the effect of this is that, currently, the defined benefit pension plan that is fully funded today?

MR. RYAN KOLASKI: Well, it's -- we -- we pay as we go. So, yes, it, essentially, is. Yeah.

BOARD MEMBER NEMEC: There's an

actuarial asset and liability?

MR. RYAN KOLASKI: So, we do have, like, yeah, we do have a -- a liability and we do have an investment portfolio today. The investment portfolio exceeds the liability, which is part of what's creating your gains.

BOARD MEMBER NEMEC: So, there's a surplus there?

MR. RYAN KOLASKI: Correct. Yeah.

BOARD MEMBER NEMEC: And, when it goes to CSSF, that will not be fully funded, end of plan, in effect?

MR. RYAN KOLASKI: So, they -- you, well, I guess they've assumed, right, that liability. So, in essence -- but they choose to run at a different funding rate, which is about 80 percent less.

BOARD MEMBER NEMEC: Which remain unfunded by twenty (20). Okay. Thank you.

PANEL CHAIRPERSON: Mr. Bass...?

BOARD MEMBER BASS: Yeah. I'm a little confused on the NOVA ex -- initiative expenses that you were just asked about and you had indicated, and I've heard it before, during the hearing, some are being amortized over five (5) years and some over ten

(10) years. Why are they being amortized?

MR. RYAN KOLASKI: The NOVA expenses are being amortized?

BOARD MEMBER BASS: Yes.

MR. RYAN KOLASKI: Is that the question? Release 1, like, so, part of the -- as the phases have started, we have gone live. So, once you have a go-live position, those expenses start to get amortized overall and, then, so, like the deferred part is related to releases that are not actually live today.

BOARD MEMBER BASS: Okay, Kristen, can you pull up our Order from last year, please, /'23, and go to page 55. The bottom paragraph.

So, it talks about the initiative expenses, and:

> "The Board considers it appropriate and consistent with AAP to defer costs that are for systems that do not benefit current ratepayers."

Then, down towards the end, the fourth last line:

> "The Board, therefore, directs MPI to defer these integration costs through a regulatory deferral

account for rate-setting purposes. The account will accumulate the integration costs and will be recovered when Project NOVA is fully in service."

So, Project NOVA is not yet fully in service, is it?

MR. RYAN KOLASKI: The full Project NOVA, no. It's not in service and, then, as we described, those costs in those first three (3) columns, are not included in the rate application.

So, from a rate-setting perspective, those costs are excluded, but, from an accounting perspective, they're being reflected in our financials.

BOARD MEMBER BASS: So --

MR. RYAN KOLASKI: -- natural disconnect in IFRS-14 kind of comes into play.

BOARD MEMBER BASS: Well, I'm not so sure it has anything to do with IFRS-14. I think it has to do with regulatory accounting and your normal accounting within the Corporation.

But, just to confirm, the initiative expenses are not included in any of the rate-setting pricing, et cetera, that's been put before us? Ms.

Low?

MS. CARA LOW: That would be correct. It's not in the AAP rates.

BOARD MEMBER BASS: Okay. Thank you.

PANEL CHAIRPERSON: Thank you. And, Mr. Scarfone, have you and Ms. Meek developed a further Undertaking that we need to deal with this afternoon?

MR. STEVE SCARFONE: I believe we have. Yes. If she can -- if I can ask Ms. Meek to read it into the record and we will accept that Undertaking and, then, get it to her and it'll be filed promptly.

PANEL CHAIRPERSON: Thank you.

MS. CHARLOTTE MEEK: Thank you, Madam Chair.

PANEL CHAIRPERSON: Could you come to the front -- front row --

MS. CHARLOTTE MEEK: Oh. Sure.

PANEL CHAIRPERSON: -- Intervener row. Thank you.

MS. CHARLOTTE MEEK: Thank you, Madam Chair. So, the Undertaking is for MPI to advise, directionally, of the impact on the discount rate of adding a similar allocation of equities instead of real return bonds to the Basic portfolio on a cash basis with no repos or reserve repos and, in addition, MPI provide an explanation of the basis for why the impact on the discount rate is the same or different from the impact on real return bonds on a cash basis.

PANEL CHAIRPERSON: Mr. Scarfone...?

MR. STEVE SCARFONE: I didn't know about the second part. Just one second.

(BRIEF PAUSE)

MR. STEVE SCARFONE: Mr. Bunston's gone. Yes, we will take that undertaking.

--- UNDERTAKING NO. 34: MPI to advise directionally of the impact on the discount rate of adding a similar allocation of equities instead of real return bonds to the Basic portfolio on a cash basis with no repos or reserve repos and, in addition, MPI provide an explanation

for the basis for why the
impact on the discount
rate is the same or
different from the impact
on real return bonds on a
cash basis

MS. CHARLOTTE MEEK: Thank you, Mr. Scarfone.

PANEL CHAIRPERSON: Thank you. And I believe that concludes our business for this afternoon. Ms. McCandless...?

MS. KATHLEEN MCCANDLESS: Unless Mr. Scarfone has any re-examination arising out of the answers from his Panel.

PANEL CHAIRPERSON: Mr. Scarfone...?

MR. STEVE SCARFONE: No re-examination, Madam Chair. I would ask the Board for one (1) small indulgence given that our closing is tomorrow. So if you see Mr. Guerra and I in the same clothes that we're wearing today, you'll know why. But can we start at 10:00?

PANEL CHAIRPERSON: I think the question that we have is, what does that do in terms of the schedule for the next two (2) days to the conclusion of -- of the Hearing.

Ms. McCandless, can you comment?

MS. KATHLEEN MCCANDLESS: So tomorrow, according to the schedule, we have closing on behalf of the Board, MPI, and CAC. And then the follow day we have CMMG, Taxi Coalition, and MPI reply which I don't expect would take the full day on Friday.

I -- I estimate to be approximately one (1) hour. MPI, do you have an estimate?

MR. STEVE SCARFONE: Two (2) hours.

MS. KATHLEEN MCCANDLESS: And CAC...?

MS. KATRINE DILAY: We're estimating between two (2) and two and a half (2 1/2).

MS. KATHLEEN MCCANDLESS: So I think we have enough time over the two (2) days, but the issue is whether CAC would want to split its closing.

BOARD CHAIR GABOR: Sorry. If you're starting at 10:00, it's MPI that's splitting at lunch.

MS. KATHLEEN MCCANDLESS: They would break at lunch and resume, but I mean overnight.

BOARD CHAIR GABOR: No, but I mean if you're going -- sorry, how long is yours -- yours?

MS. KATHLEEN MCCANDLESS: And hour.

BOARD CHAIR GABOR: An hour. So you're going from 10:00 to 11:00. Theirs is two (2) hours. So it would be MPI that's splitting over lunch because we're not going from --

MS. KATHLEEN MCCANDLESS: What I mean is -- is from one (1) day to the next. My -- my concern would be that CAC might start and not be able to finish before we adjourn tomorrow.

PANEL CHAIRPERSON: Well, perhaps what we could do is we'll sit tomorrow until CAC's concluded. Is that acceptable, Mr. Scarfone?

MR. STEVE SCARFONE: That -- that would be acceptable to MPI, correct.

PANEL CHAIRPERSON: Ms. Dilay...?

MS. KATRINE DILAY: Yeah, that would be acceptable.

PANEL CHAIRPERSON: Okay. That's fine then. I don't think the Board has got any concerns about starting an hour later. So we'll start at ten o'clock tomorrow morning and we'll conclude at the end of CAC's submissions, whenever that may be.

MR. STEVE SCARFONE: Thank you.

PANEL CHAIRPERSON: Okay. Thanks. See you tomorrow at 10:00.

--- Upon adjourning at 3:38 p.m.

Certified Correct,

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Wendy Woodworth, Ms.