MANITOBA PUBLIC UTILITIES BOARD

RE:

MANITOBA PUBLIC INSURANCE

DRIVER SAFETY RATING

Before Board Panel:

Graham Lane - Board Chairman

Len Evans - Board Member

HELD AT:

Public Utilities Board

400, 330 Portage Avenue

Winnipeg, Manitoba

April 6, 2009

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APPEARANCES

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Walter Saranchuk, Q.C.	)
Kevin McCulloch	)MPI
Byron Williams	)CAC/MSOS
Myfanwy Bowman	)
Raymond Oakes	)CMMG
Donna Wankling	)CAA Manitoba
Jerry Kruk	)

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UNDERTAKINGS

--- Upon commencing at 9:05 a.m.

THE CHAIRPERSON: Okay, good morning, everyone. I'm Graham Lane, Chairman of the Public Utilities Board. I'll now call to order the special hearing of the Driver Safety Rating Application, filed with the Board by the Manitoba Public Insurance Corporation.

The Hearing will be conducted in accordance with the provisions of the Crown Corporation's Public Review and Accountability Act, Manitoba Public Insurance Corporation Act, and the Public Utilities Board Act.

In the Application the Corporation is seeking approval of compulsory driver insurance premiums and vehicle premium. Discounts under the proposed Driver Safety Rating or DSR program for implementation on November 1st, 2009. The Corporation is not applying for changes to the approved 2009 compulsory vehicle rates.

With me on the panel is Board Member Mr. Len Evans. Also present is Gerry Gaudreau, Executive Director and Secretary to the Board. Gerry Barron and Hollis Singh, Associated Board Secretaries may also join us from time to time.

Candace Everard and Walter Saranchuk of

Pitblado LLP are acting as Board Counsel. And as well, the Board is assisted by its Advisors, Mr. Roger Cathcart, CA of Cathcart Advisors and Mr. Brian Pelly of the actuarial firm, Eckler Partners.

Transcript of this Hearing will be prepared by Digi-Tran and made available on the Board's website.

We have set aside eight (8) days for the hearing of this Application, three (3) this week, three (3) next week, and if necessary, two (2) during the week of April 20th. We'll begin the Hearing each morning at 9:00 a.m., have a mid-morning break, lunch break, and an afternoon session will begin at 1:30 p.m., with a view of adjourning at 4:00 p.m. Though the lunch break will seem overly long, it provides the Board an opportunity to consider and discuss the evidence and the proceeding, and as the Board will deem advisable confer with its counsel and advisors.

Following closing submissions, the panel will sequester itself and deliberate to come to a final determination on the matters before us. In the end we may choose to accept, deny or vary the Corporation's application.

Please know that regardless of the outcome, the Board commends the Corporation for the effort that has been invested in the DSR application and recognizes that extensive review and analysis has been put together -- has been done to put together the proposed system, an effort the Board appreciates.

We are very pleased that changes to the current Bonus-Malus system are underway, assisted, if not made possible by the Corporation's assumption of responsibility for driver and vehicle licensing or DVL.

We have as usual important issues before us and I'm confident that through this process we'll receive both written and oral evidence that will guide us to a decision that is in the public interest.

We are concerned not only with the short term economic impact of the Corporation's operations upon ratepayers, but also with the fairness of the impact, and as well the Corporation's long term fiscal and operational well being. As the Board has expressed in the past, in order to form an opinion on overall financial strength of the Corporation, it needs some information related to non-basic operations. It will seek such from the Corporation: An update on IFRS, evidence with respect to the Corporation's equity holdings, and information regarding the implications to the Corporation flowing from a recent major land purchase. Without this information the Board may have difficulty adequately analysing and assessing the application before it.

We trust that all participants in the Hearing will employ a cooperative and collaborative approach, and will assist each other with a view to pursuing a common goal with enabling the panel to reach a sound decision, which is fair, reasonable, and in the public interest.

Please take note that the Board views this process as a joint and integrated effort by all involved, the outcome of which to directly or indirectly benefit Manitobans.

I'll not call on Ms. Everard for introductions to be followed by introductions of the Corporation and the Intervenors. We'll then hear opening remarks and swear-in the Corporation's witnesses.

Ms. Everard...?

MS. CANDACE EVERARD: Thank you, Mr. Chairman. As indicated, my name is Candace Everard and with me is Walter Saranchuk; we are Board counsel and appear from the law firm of Pitblado LLP. Roger Cathcart is also present as the Board's accounting advisor, seated at my far left, and Brian Pelly, to my right, is the Board's actuarial advisor.

Mr. Chairman, then we should hear the

introductions of the MPI panel.

THE CHAIRPERSON: Mr. McCulloch...?

MR. KEVIN MCCULLOCH: good morning, Mr. Chairman, Mr. Evans. For this Hearing into the DSR there will be two (2) members from the MPI executive giving evidence. To my immediate right, Ms. Marilyn McLaren, president and CEO of MPI, and to my far right, Mr. Don Palmer who is the Vice-President of Finance and Chief Financial Officer.

THE CHAIRPERSON: Thank you, sir.

Mr. Williams, for CAC/MSOS...?

MR. BYRON WILLIAMS: Yes, good morning, Mr. Chairman, and good morning Board Member Evans.

My name is Byron Williams from Public Interest Law Centre; I'm here with my colleague Ms. Myfanwy -- M-Y-F-A-N-W-Y -- Bowman, and she'll be joined from time to time up here while I'm -- I'm otherwise occupied, by our articling student Ms. Juliana Aiken, A-I-K-E-N.

Ms. Desorcy, who roused herself early this morning is here a couple of rows back. And from time to time during the hearing we'll be joined by Ms. Kimberley Weihs, W-E-I-H-S, from the Manitoba Society of Seniors. Good morning.

THE CHAIRPERSON: Thank you, Mr.

Williams.

Mr. Oakes, for CMMG, Coalition of Manitoba Motorcycle Groups...?

MR. RAYMOND OAKES: Thank you, Mr. Chairman. Good morning, ladies and gentlemen. Raymond Oakes, Booth Dennehy and Associates, on behalf of the CMMG as you've noticed, and our current president, well-known to the Board, Mr. Doug Houghton is also in attendance. Thank you.

THE CHAIRPERSON: Thank you.

I believe it's Miss Dalman, for CAA?

MS. DONNA WANKLING: good morning, Mr. Chairman; it's actually Donna Wankling from CAA Manitoba and --

THE CHAIRPERSON: I knew I had it wrong before I said it.

MS. DONNA WANKLING: -- and with me throughout this Hearing, will be Samantha Charran, also from CAA Manitoba, and Mr. Jerry Kruk, who is advising us.

THE CHAIRPERSON: Thank you, Ms. Wankling.

Okay, we'll move now to the introduction of witnesses from MPI and the leading of the testimony.

Should we swear in the panel? Mr.

McCulloch...?

MR. KEVIN MCCULLOCH: Mr. Chairman, perhaps before we swear in the panel I should have added to my opening introductions the people who are sitting at the back table. and starting from my left, Kathy Kalinowsky, Director of Legal Services and Assistant General Counsel; Mr. Paul MacKinnon, Driver Safety Rating Business Architect; Mr. Luke Johnson, Manager of Actuarial Services; and Mr. Ottmar Kramer, Director of Finance and Corporate Controller.

And with that completed introduction we can now swear the witnesses.

THE CHAIRPERSON: Mr. Gaudreau...?

MR. BYRON WILLIAMS: Mr. Chairman --

THE CHAIRPERSON: Mr. Williams...?

MR. BYRON WILLIAMS: -- I'm not sure of the order today, but at some point in time we -- we do have some introductory remarks that -- that we have prepared as well.

THE CHAIRPERSON: Well, let's start with that before we swear in the panel. It would make more sense wouldn't it?

Mr. Williams, do you want to make introductory remarks?

MS. CANDACE EVERARD: Mr. Chairman, just

if I can interject with apology? I also have a few opening remarks, so perhaps I could do mine first and then we can proceed in the order that we usually proceed in, with the Board's permission?

THE CHAIRPERSON: Okay, I've been away for a while; that's the trouble with taking a holiday.

MS. CANDACE EVERARD: Not to worry. Thank you very much, Mr. Chairman.

MS. CANDACE EVERARD: Pursuant to this Application, the Corporation is applying to the Board for approval of compulsory driver insurance premiums and vehicle premium discounts, under the proposed Driver Safety Rating or DSR program. The Corporation has advised that rates generated through this Application would take effect on November 1st, 2009, and would result in an overall 31.3 percent decrease in driver premiums, and a 1 percent decrease in vehicle premiums.

With respect to exhibits, Mr. Chairman, there have already been a number entered on the record at the pre-hearing conference in this matter. PUB Exhibit 1 is the notice of public hearing and pre-hearing conference, dated January 1st, 2009.

PUB Exhibit 2 are the Board's Rules of Practice and Procedure.

And the revised timetable is Exhibit 3.

At this time, Mr. Chairman, I'm seeking to enter a few additional exhibits, namely the transcript of the pre-hearing conference that was held February 13th, 2009; that would be Exhibit 4.

--- EXHIBIT NO. PUB-4: Transcript of Pre-Hearing Conference Held February 13th, 2009

MS. CANDACE EVERARD: As Exhibit 5, Mr. Chairman, the Board's procedural order, 14/09, dated February 23rd, 2009.

--- EXHIBIT NO. PUB-5: Procedural Order 14/09 Dated February 23rd, 2009

MS. CANDACE EVERARD: As Exhibit 6, the reminder notice of the public hearing, dated March 4th, 2009.

--- EXHIBIT NO. PUB-6: Reminder Notice of Public Hearing Dated March 4th, 2009

MS. CANDACE EVERARD: As Exhibit 7, the Information Requests asked by the Board of the

Corporation, of which there were forty-nine (49).

--- EXHIBIT NO. PUB-7: Forty-nine (49) Information Requests asked by the Board of the Corporation

MS. CANDACE EVERARD: And as Exhibit 8, the pre-asked questions posed by the Board to the Corporation, of which there were five (5).

--- EXHIBIT NO. PUB-8: Five (5) pre-asked questions posed by the Board of the Corporation

MS. CANDACE EVERARD: And just for everyone's information, given the size of the DSR Application, we have not prepared a separate book of documents as we sometimes do in other proceedings. We do intend to cross-examine the Corporation's panel, however, on a number of topics, including program design, statistical validity and actuarial considerations, the DSR retrospective and perspective model forecast results, implementation and transition issues, operating results, including the Rate Stabilization Reserve or RSR, cost allocation and ratepayer impacts.

Mr. Chairman, I believe there has been a procedural outline distributed, which provides for the order of the proceedings. I don't believe that there are any witnesses intended to be called at this Hearing, other than the Corporation's panel, and I further understand that there will be two (2) presenters to be heard by the Board from the public this afternoon at -- about 1:15 p.m.

And as you indicated, Mr. Chairman, we have eight (8) days set aside for this Hearing, to be used as needed. So those are my remarks at this stage. Thank you.

THE CHAIRPERSON: Thank you. Mr. McCulloch, do you have any introductory remarks?

OPENING COMMENTS BY MR. KEVIN MCCULLOCH:

MR. KEVIN MCCULLOCH: Very limited, Mr. Chairman. The first order of business would be to enter some exhibits.

The Exhibit Number, MPI Number 1, is the application itself.

--- EXHIBIT NO. MPI-1: Application

MR. KEVIN MCCULLOCH: I would propose

that MPI Exhibit Number 2 be the affidavit of Sherry Komadowski, which confirms the delivery of the application, the notice, and the renewal notice -- reminder notice, rather, to the list of Intervenors and interested parties. That would be MPI Exhibit Number 2.

--- EXHIBIT NO. MPI-2: Affidavit of Sherry Komadowski, which confirms the delivery of the Application, the notice, and the reminder notice, to the list of Intervenors and interested parties

MR. KEVIN MCCULLOCH: MPI Exhibit Number 3 would be the affidavit of Zdenka Melnyk, confirming the publication of the original notice in the various newspapers throughout Winnipeg and Manitoba.

--- EXHIBIT NO. MPI-3: Affidavit of Zdenka Melnyk, confirming the publication of the original notice in the various newspapers throughout Winnipeg and Manitoba

MR. KEVIN MCCULLOCH: And MPI Exhibit Number 4, the affidavit of Zdenka Melnyk, confirming publication of the reminder notice.

--- EXHIBIT NO. MPI-4: Affidavit of Zdenka Melnyk, confirming publication of the reminder notice

MR. KEVIN MCCULLOCH: At this point as well, I would like to bring to the Board's attention a -- a scheduling issue that the Corporation has for the Hearing scheduled for Wednesday, April 15th. The Corporation's panel will be available that morning but in the afternoon, there's a meeting -- forecasting meeting that requires the attendance of Mr. Palmer and of members sitting at the -- the back table, the support group.

So if it's agreeable to the Board, we would suggest that there be no hearing on the afternoon of Wednesday, April 15th. The meeting that will take place that afternoon is required, of course, for the preparation of the General Rate Application, which is to be filed in June. So it's -- it's PUB business but it's not the -- the DSR Hearing that will take place that afternoon, if agreeable to the Board.

THE CHAIRPERSON: That is fine, Mr.

McCulloch.

MR. KEVIN MCCULLOCH: And that concludes my remarks.

THE CHAIRPERSON: Now, Mr. Williams.

OPENING COMMENTS BY MR. BYRON WILLIAMS:

MR. BYRON WILLIAMS: I've just been waiting for this opportunity, Mr. Chairman. And I should note, I mention that Ms. Weihs would pop in. She's in the second row now, sitting beside Ms. Desorcy.

And certainly on -- on behalf of both CAC and the Manitoba Society of Seniors, I do want to thank the Public Utilities Board for initiating this Hearing. And my clients want to thank MPI, both for the -- the thoughtful background material they prepared, as well as the extensive thought that's obviously gone into this Application. And certainly, Mr. Chairman, and Mr. Evans, my clients see this as an important opportunity to -- to improve the -- the system, from the perspective of transparency, fairness and in an ideal world, loss prevention.

In my client's view, the Bonus-Malus System was an important initiative when it came in and it certainly has served the Corporation and Manitoba as well. But anyone who has chatted with an MPI customer or reviewed the voluminous customer research MPI conducted in preparation for this Hearing would -- would no doubt see that there are material challenges with the existing Bonus-Malus System.

Too many customers find the complex system of penalties and rewards confusing. For others involved in the -- in the -- in accidents, the system can often be aggravating, whether it's the driver who feels unduly punished as a result of one (1) accident after many years of claims-free driving, or whether it's the consumer who's frustrated by what they see in some cases as the multiple financial consequences flowing from a single accident, what my clients colloquially refer to as double or triple dinging.

Of course in this Hearing the onus is on the Corporation to justify and establish that the proposed driver safety rates are just and reasonable. And as part of my client's consideration of whether the proposed rates are just and reasonable, they'll be considering both the relative merits of the Bonus-Malus System, as compared to the proposed DSR, the DSR both in the short term and the long term, as well as the relative merits of the Driver Safety Rating or DSR, as compared to other potential alternatives.

And my clients will all -- evaluating

whether the proposed rates are just and reasonable, employing four (4) general criteria.

The first criteria that they'll apply is transparency.

The second perspective they will take will be from a fairness perspective.

The third analys -- analytic approach they'll take will be from the perspective of loss prevention, whether this has some potential to minimize the horrific impact of adverse driver behaviour.

And the fourth perspective they will be looking at will be from the perspective of fiscal prudence, because this is -- the Chairman may have adverted to in his opening remarks in -- in accordance with both the Corporation's long term and short term financial interests.

Looking at transparency just for a second, the first criteria, my clients will be asking themselves: How easy to understand is the proposed Driver Safety Rating? And they'll also be asking themselves: Hoes it end or at least reduce double or triple dinging?

From a fairness perspective my clients will have a lengthy series of questions. They'll ask: What is a relative treatment of low risk, moderate risk, and high risk drivers?

They'll ask: Has the Corporation sanctioned at-fault accidents too heavily as compared to wilful conduct, as -- as expressed in traffic convictions?

They'll ask whether the Corporation has omitted what might be considered an important predictor of future accident likelihood, severity of accident, as expressed in injuries?

And they'll ask: What if anything can the Corporation tell us about the social science literature in this regard?

My clients will also ask: Is the inclusion of certain offences that are not considered indicative of driving behaviour appropriate?

They'll look at the robustness of the MPI model and they'll ask: Are driver and vehicle owners paying their relative fair share?

And they'll look at what they -- my clients consider to be the ongoing issue of cross-subsidy. What do the results of the Corporation's -- Corporation's research in this proceeding tell us about the overall fairness of the system, in terms of rewarding drivers who are less likely to be involved in accidents, versus those who are more likely to be involved in accidents?

In terms of loss prevention my clients also have a lengthy list of questions. Should driver remedial training as a way to recover more quickly from demerits form a component of the program as a mechanism to enhance loss prevention? And I have to note that my clients have a bias in favour of education.

They'll ask perhaps a threshold question. Is it a realistic expectation that the DSR will serve as an effective loss prevention initiative? And what if anything can the Corporation tell us about the social science literature in this regard?

From a loss perspective issue -- perspective, my clients -- excuse me, from a loss prevention perspective, my clients will be asking: Should the Corporation be focussing on high risk drivers? Or is it moderate risk drivers whose behaviour is more likely to be changed by a system such as this? And what if anything can the Corporation tell us about the social science literature, in this regard? And in terms of imposing consequences, what are the relative merits of a skill-based approach versus a one (1) time surcharge?

From the perspective of fiscal prudence, my clients have a threshold question: Do the expected benefits in terms of transparency and fairness outweigh the material costs of this program, especially given that we are looking at what appears to be a $91 million reduction in revenue over the next four (4) or five (5) years, with no anticipated reduction in claims costs? So that's an important question from my client's perspective.

The Corporation has described this as a targeted rate reduction aimed at safe drivers. My clients want to -- want to understand who actually benefits from this program in the -- in its early years, in the transition years. Is it who the Corporation has characterized as safe drivers or is it otherwise?

My clients will also ask whether the targeted decrease in premiums and the loss of surcharge, when coupled with the transition period, may have a negative or counterproductive message from the perspective of loss prevention?

And my clients understand that the Corporation is engaged and attempting to maintain a delicate balancing act, public accountability -- public acceptability, excuse me, fairness, loss prevention, and ensuring that the rates are no more and no more less than what are just and reasonable. But my clients wish to ensure that in the transition period the Corporation isn't leaning too for -- too far towards public acceptability and giving insufficient weight to fairness and loss prevention, as well as fiscal prudence.

My clients will also consider whether there all -- are alternative approaches which might better achieve the objectives we described previously, both in the transition period and over the long term. And in -- in this context, they'll be looking closely at the issue of drivers' premiums, both the relative relationship between driver premiums and vehicle premiums, as well as the very interesting issue raised by CMMG, whether the sole vehicle to implement this type of program might be through driver premiums.

My clients will consider how best to evaluate the program, how best to communicate it, and whether or not it is appropriate to ask the Extension Program to pay any of the costs associated with this program.

Just by -- to -- to conclude with a bit of an apology, my clients have reviewed the record and it's an extensive record. In hindsight, my clients have come to the view that all parties could have benefited from a literature review that both identified -- would be helpful in identifying the relative strengths of the Driver Safety Rating and also highlighting potential areas for improvement. My client's probably should have produced this as evidence.

In the course of the proceeding we'll be exploring with MPI the best ways to bring any helpful outside information to the Board's attention in the -- and to the attention of interested parties.

A final note, I understand that Mr. McCulloch will be announcing his retirement and that he'll be leaving MPI in June. One (1) of our CAC volunteers brought this to our attention. And certainly my clients have truly respected Mr. McCulloch's work before the Public Utilities Board. They know he's gone to the Supreme Court on a couple of major issues and they -- they certainly want to express their congratulations to him.

And finally, we'd ask that the CAC Information Requests be entered as Exhibits, Mr. Chairman. Thank you.

THE CHAIRPERSON: Thank you, Mr. Williams.

Mr. Oakes, do you have any introductory comments?

MR. RAYMOND OAKES: Very briefly, Mr. Chairman. I thank you.

OPENING COMMENTS BY MR. RAYMOND OAKES:

MR. RAYMOND OAKES: As indicated in the

Intervenor request form filed by CMMG, the reason for our proposed intervention, or intervention today, is to provide the perspective of the motorcyclists on proposed changes to premiums and discounts under the DSR program, and to assist the Board in critically evaluating the proposed program.

Of course, in this application, motorcycles -- motorcyclists have a distinctive contribution and a distinctive interest in the proposed DSR initiative. Motorcyclists are most significantly affected by the impact of poor drivers. They are more likely to be severely injured in the event of an accident.

They're also impacted of course by the significant increases in premiums. They sustain the most severe increases and most drastic increases of any class of driver over the last two (2) decades.

With respect to issues such as the spiralling commission that occurs year after year upon these massive increases, we've time and time again asked the Corporation for some creative initiative in that respect that is specific to motorcyclists and we wish to explore that.

My Learned Friend, Mr. Williams, has pointed to the CMMG proposal, which pertains to the

Application of the premium on the licence as opposed to the insurance, and that is obviously an issue that will be dealt with in further detail under the Application.

The CMMG has been very actively involved over the last two (2) decades, with respect to questions relative to loss prevention and will bring that perspective as well to our cross-examination questions.

Mr. Chairman, I don't propose to have a lengthy series of opening remarks because our President -- CMMG's President, Mr. Houghton, is presenting a five (5) page brief at 1:15 today, and so I'll close my remarks a with request that we mark the CMMG IRs as exhibits.

THE CHAIRPERSON: Very good. Thank you, Mr. Oakes.

Ms. Wankling...?

MS. DONNA WANKLING: Mr. Chairman, after the very eloquently articulated opening comments by Mr. Williams, CA Manitoba has no opening remarks. Thank you.

THE CHAIRPERSON: Thank you. So we will be back to the future or whatever it is. Mr. Gaudreau, do you want -- now we'll swear-in the MPI's panel.

MPI PANEL:

MARILYN MCLAREN, Sworn

DONALD PALMER, Sworn

EXAMINATION-IN-CHIEF BY MR. KEVIN MCCULLOCH:

MR. KEVIN MCCULLOCH: Mr. Chairman, Ms. McLaren has opening comments that she would like to put on the record, and once those are complete, we'll be ready to proceed with cross-examination of the panel.

THE CHAIRPERSON: Very good. Ms. McLaren...?

MS. MARILYN MCLAREN: Thank you, Mr. Chairman. Good morning. Well, the Driver Safety Rating has been a long time coming. It was critical to proceed cautiously to insure that the program that affects each and every Manitoba driver, vehicle owner, is fair, is equitable, and provides some strong incentives for safe driving behaviour.

We all know that Manitobans love their merits and have some very strong opinions about demerit penalties and what constitutes unsafe driving behaviour. Driver and vehicle owners have shown great interest in the development of the new system, and is -- the development has been one of the more significant instances of basic AutoPac public policy development in recent history.

Today, we are very pleased to start the

hearings for the first rates which will be charged under the new Driver Safety Rating program, that's been proscribed in the Driver Safety Rating System Regulation 13-2009, under the MPIC Act. The Application is for the rates to be charged at each step on the new DSR scale and is also for a rate decrease targeted at the safest Manitoba drivers.

The Driver Safety Rating Program has been designed with three (3) primary goals: To provide higher rewards for the safest drivers; to provide stronger incentives for higher risk drivers to improve their behaviour; and to improve drivers' understanding of how their driving behaviour can affect the amount they pay for auto insurance.

The program has been developed within the overall far-reaching public policy context of the basic AutoPac program. It cannot be considered in isolation. The balancing of the first two (2) goals provides the financial framework for the transition plan to DSR implementation that forms the basis of this application.

First, the intention is to introduce the new program in such a way to minimize the potential for immediate rate increases for high risk drivers. This means that they'll have an opportunity to adjust driver behaviour before they're assessed higher penalties.

Second, it was determined to be equally important to reward long-term safe driving behaviour with lower rates immediately, to increase the impact of the new program. Of course, the importance of immediately decreasing rates for this group of drivers was first predicated on the fact that some sort of overall rate decrease was necessary.

The financial projections shown in TI-1, page 2, originally filed at the 2009 GRA, demonstrates that such a targeted rate decrease was financially viable and consistent with long-standing rating principles.

Let me direct your attention to that statement of operations. With a 2010/11 net income projection of $6.6 million, and a 2011/12 net income projection of $27 million, that indicated that this would translate into approximately a 2 percent rate decrease in the '10/'11 year. Now I am fully aware that everyone in this room -- all members of -- of -- participants in the proceedings through the years understand how that works with the staggered renewal process and the need to consider two (2) fiscal periods to determine one (1) rating period.

You take the 6.6 million of projected income in '10/'11, add it to the 27 million projected in '11 and '12, that gives you about 33 million. You divide that in half and that works out to about a 2 percent decrease per year. That's how the two (2) fiscal years translate to one (1) rating period. We've discussed this, I think, at every proceeding since we staggered the renewal process in 1995.

Furthermore, I can tell you with confidence that since those forecasts were prepared, our emerging claims experience indicate that the new forecasts will be similar to the prior forecasts. So rather than apply for this 2 percent rate decrease in the 2010 GRA, we decided to incorporate rate decrease for the safest drivers into the DSR transition strategy.

This is crucial to understanding the strategy behind the financial impact of introducing the Driver Safety Rating Program. We urge the Board, the Intervenors, and the public, to look upon this as a rate application to decrease rates for certain customers, not on the basis of vehicle classifications or vehicle experience or even territory, as usual in a GRA, but, rather, on the basis of the driving record of the individual. That's one (1) of the beauties of the Basic AutoPac program since 1971, is it has always been very personalized rating, very much based on the individual, without having to categorize driver experience the way others may have to do that.

At MPI we're excited to be introducing this rate decrease specifically for those many Manitobans who are the safest drivers and contribute directly to lower claims costs.

As shown in SM-4, Exhibit 1(b) -- turn to that please, if you have a moment -- the total premium decrease for 85.9 percent of Manitoban drivers -- and that 85.9 percent is derived merely by adding together the percent of drivers, in the far right-hand column, experiencing a rate decrease. About half these decreases represent the elimination of the twenty dollar ($20) driver premium for those safest drivers, those with eight (8) or more DSR merits.

And with respect to Mr. William's comment earlier about double and triple dipping sometimes, vehicle owners have never understood why they pay a premium on their vehicle and they pay a premium on their driver licence. And, in this Application, that's one (1) of the things this rate decrease will do, is eliminate the driver premium for a vehicle owner with eight (8) or more new DSR merits.

The differences between the new financial projections on TI-1, page 1, and TI-1, page 2, are the result of this targeted rate decrease, rather than new costs associated with DSR. We're quite -- quite uncomfortable with the language around that, and we thought it was really important to speak to that.

I'd like to turn your attention to TI-1. So, in other words, for the year 2011/'12 outlook in TI-1, page 1, with DSR, the net income is $9.5 million. If the rate decrease for DSR had not been introduced, as shown on TI-1, page 2, without DSR, that 2011/'12 outlook net income would have been 27 million.

The only actual costs associated with DSR are the implementation costs shown in PUB-1-16. The DSR costs amount to slightly under $1 1/2 million per year, or .2 percent of the rate requirement. I'm going to dwell on this again because it's integral to our DSR Rate Application.

The costs of the DSR program are $1.5 million annually. The effect of the DSR rate decrease is $17.5 million, $27 million net income in 2011/'12 without DSR, minus the nine point five (9.5) in 2011/'12 with DSR.

For the upcoming year the GRA, to be filed in June 2009, namely the year 2010/'11, the effect on net income by introducing the DSR rate decreases is $14.9 million. The impact of the targeted rate decrease is also evident when we look at the RSR balances shown in TI-2, the without-DRS balance at the end of 2012/'13 is approximately $45 million greater than the with-DSR balance. This is about the rate increase, not the cost of the program.

These figures are derived by comparing TI-2, page 2, the 2012/'13 total basic retained earnings with DSR of 195 million to the 150 million in TI-1 page 1, with DSR. This difference is solely the effect of the targeted rate decreases; it's not the cost of the program. It's approximately equivalent to the difference that would have occurred with a 2 percent overall rate decrease in the yer 2010.

So in this Application, the hearing process, the role of the Public Utilities Board is to set the rates to be charged for each level in the DSR rating. MPI's made its submission as to what it believes are just and reasonable rates for each level.

Like every other rate application brought before the PUB in the past twenty-one (21) years, the Public Utilities Board will have to test the evidence to substantiate the justness and reasonableness of the applied for rates. And if PUB is not satisfied with the rates as proposed by MPI, the PUB has the authority to change those rates just like in every General Rate Application.

So to help focus on what is before us,

given that there is a lot of paper in the Application and the Information Requests, please turn to the chart located at
AP-1.

The rates applied for are set out in the driver premium and vehicle premium columns. The outcome of this Hearing will determine what figures are to be inserted into these two (2) columns.

So we look forward to discussing this exciting new program with you. One (1) of the things personally I hope bear some discussion over the next few days, are the new forms, the renewal notices, that are an integral part of explaining the new system to Manitobans.

We look forward to enhancing understanding of the program and we look forward to defending the Rate Application that we've put before you. Thank you.

THE CHAIRPERSON: Thank you, Ms. McLaren.

Ms. Everard ...?

CROSS-EXAMINATION BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Chairman. Ms. McLaren, thank you for those opening comments. I was trying to follow them as closely as I could and I'll look forward to reading the transcript and asking some follow-up questions on some of those comments as they come up.

And I believe that you just confirmed this but let's confirm it again for the record, that the Corporation accepts that it bears the onus of substantiating and proving the appropriateness of the DSR Application before the Board?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: And the Corporation agrees that it is its onus to prove that the rates proposed are just and reasonable?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: With respect to the scope of the Application, I just want to ask a few questions to clarify for the record where the Corporation is coming from.

With respect to timing, first of all, Ms. McLaren in your pre-filed testimony it's indicated that the Corporation is seeking approval of rates and discounts associated with the new DSR plan for policies issued between November 1st of 2009 and February 28th of 2011?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE EVERARD: And in accordance with SM-1, Attachment 'A', it would appear that the Corporation is seeking approval of those numbers for the

2008/'11 vehicle merit discount and driver premiums period of time.

Is that right?

MS. MARILYN MCLAREN: I'm not sure. 2008/'11?

MS. CANDACE EVERARD: Oh, I'm sorry. I misspoke, 2010/'11. So in other words in this Application the Corporation is applying for the vehicle merit discounts and driver premiums for the 2010/'11 fiscal year?

MS. MARILYN MCLAREN: As well as the last four (4) months of the '09/'10 fiscal year.

MS. CANDACE EVERARD: Yes, thank you. From November 1st, of 2009?

MS. MARILYN MCLAREN: Yes. Sixteen (16) months, where the Application covers the sixteen (16) month period.

MS. CANDACE EVERARD: And twelve (12) of those months are the fiscal year 2010/'11 that would normally be asked for as part of the 2010 GRA?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE EVERARD: And the Corporation is not seeking, I take it, approval for the vehicle merit discounts or driver premiums beyond the 2010/'11 fiscal year, at this point in time.

MS. MARILYN MCLAREN: Exactly. We are applying for the sixteen (16) month period that you referenced.

MS. CANDACE EVERARD: So for subsequent years the approval of those rates will be sought in the regular GRA process?

MS. MARILYN MCLAREN: Yes, they will.

MS. CANDACE EVERARD: Okay. Getting into the applicability of the program, are there any drivers that are excluded from the DSR program?

MS. MARILYN MCLAREN: Drivers? No.

MS. CANDACE EVERARD: Are there any vehicles that are excluded from the DSR program?

MS. MARILYN MCLAREN: Vehicle owners that are limited companies and not individuals would be excluded from this program.

MS. CANDACE EVERARD: There's reference in some of the materials, specifically SM-5, the section that deals with prospective modelling to the term "merit eligible vehicles".

Was that a term that was used just for the modelling, or is that a general DSR term?

MR. DONALD PALMER: That's a term that is applicable not only for the DSR discounts but have been applicable to all vehicle discounts in previous applications. So essentially any commercial vehicles would not be subject to DSR. Broadly speaking, those vehicle discounts would be applicable to personal vehicles, private passenger cars, private passenger trucks, motorcycles.

MS. CANDACE EVERARD: And as was set out in SM-5 relating to the prospective modelling, it was just private passenger and motorcycles.

Would that be a fair way to summarize the evidence you just gave?

MS. MARILYN MCLAREN: That would be and I'll let Mr. Palmer respond to that. But I -- I just really want to clarify the point again that the introduction of the Driver Safety Ratings System included no changes to what have all -- what have been merit-eligible vehicles for a long period of time. The same group will continue to be merit-eligible vehicles under the new system. There's been no change to the longstanding practice with the introduction of the DSR.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Ms. McLaren, given your opening comments relative to an effective 2 percent rate decrease, can the Corporation confirm that there will be no rate decrease proposed at the next GRA, the 2010/'11 GRA?

MS. MARILYN MCLAREN: No, we can't confirm that. What we can confirm is there certainly would not be a rate increase expected in that GRA.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Ms. McLaren, in your opening evidence, or your direct evidence, you referred to TI-1. It's the case that the forecasts reflected at TI-1, were those presented at the last GRA?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE EVERARD: So in other words, the forecast set out in TI-1 have not been updated from the last GRA?

MS. MARILYN MCLAREN: That's right.

MS. CANDACE EVERARD: So the forecasts have not been subject to a rate application review? For example, the Board has not had an opportunity to review the impact of, say, investment income given the current economic environment?

MS. MARILYN MCLAREN: I'm -- I'm not sure that's true. I think actually the current economic environment started while we were at the proceedings in the 2009 Rate Application. So yes, those forecasts have received full regulatory review last fall. They are exactly the same forecasts with the changes clearly identified.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. The Corporation has said at the answer to the first question posed by the Board in the Information Request, MPI -- or PUB/MPI-1-1 -- the three (3) stated goals of the DSR Program.

If I can ask you to turn to that Information Request Response and read in for the record the three (3) stated goals as reflected.

MR. DONALD PALMER:

"The three (3) stated goals of the Program are to provide higher reward for the safest drivers, provide stronger incentive for higher risk drivers to improve their behaviour, and improve drivers' understanding of how their driving behaviour can affect the amount they pay for auto insurance."

MS. CANDACE EVERARD: Can you relate for

the record why it is the case that one (1) of those stated goals is not to reduce claims costs and accidents?

MR. DONALD PALMER: It -- it's somewhat encompassed in -- in the third one, the driver's understanding. Any influence of -- of driver behaviour is pretty subjective, so it is certainly the Corporation's hope that driver behaviour is -- is made better, that we have more safer drivers on -- on the road that will benefit all Manitobans in -- in lower -- lower rates.

But, as we have talked about in -- in many instances -- talking about road safety expenditures and whatnot -- it is very difficult to -- to predict what the change in behaviour will be. At the very least, what the new Driver Safety Rating Program will -- will do, is to improve the relationship of the risk that any driver presents to -- to Manitoba highways, and improve that relationship to that risk and what they pay for their insurance.

MS. MARILYN MCLAREN: Further to that point, Ms. Everard, the Corporation works very hard to establish program objectives that are measurable and reasonable within the context. You know, the literature review, the work that we did -- Mr. Williams referenced some of the literature earlier -- that there's no evidence that a program like this -- certainly, we know that a program like this does not follow -- the structure of this program does not follow what has proven to be the classic requirements of effective behaviour modification.

From a psychological perspective, influencing someone's behaviour by charging them an amount, perhaps months after the event, is not classic effective behaviour modification. We believe that the confusion and frustration that often encounter -- people encounter with the current program, is absolutely not even close to encouraging safer driving behaviour because of the financial insurance rating impact.

So, we think this new program has a much better chance of actually reducing claims costs and reducing claims frequency than what we have today. We believe that we have designed it as best we can to -- to achieve that, but in terms of actually influencing behaviour in a way that we could look back and prove that this program did it, that -- that would not be an effective objective, because I don't know how we would ever turn back and -- and measure that any outcome truly was driven by the Program itself.

MS. CANDACE EVERARD: Thank you. In the same IR answer, 1-1, the Corporation has set out how it does intend to measure the success of this program.

Can you comment on the -- the three (3) measuring sticks that are list -- listed there?

MR. DONALD PALMER: The first one is the improved relationship between rate charged and risk presented by DSR category. And the modelling that we have done seems to indicate that there is that real relationship between risk and DSR category. We -- we have shown that with our retrospective modelling.

I'd just like to include -- this is -- is a graph that Mr. -- if Mr. McCulloch wants to present into -- as an exhibit.

MR. KEVIN MCCULLOCH: Yes, Mr. Chairman, we're coming to the point where Mr. Palmer is going to be commenting on a graph. This information has already been disclosed in the Rate Application but this graph is just a clearer delineation of -- of the impact. And I'd like to file that as MPI Exhibit Number 5.

THE CHAIRPERSON: Very good.

--- EXHIBIT NO. MPI-5: Graph

MR. DONALD PALMER: After our rate modelling, our -- our retrospective exercise, what we did was we set up our model as if the DSR Program, as presented, had been established in the year 2001, with the transition rules that we're now applying for, and then run it through using -- using what our actual data was to see if the -- the rules that we have --we're modelling, really were predictive of -- or risk. And in the ideal world, as we get more merits, you would hopefully see lower claims frequency, and more demerits would likely be shown with higher claims frequency.

And I have to tell you, when we did our modelling, there was great joy and excitement in the actuarial department. We -- we -- when you see an increasing line -- is what I've just shown, to really say that -- that the -- the risk presented in the -- in the frequencies was really very much an increasing trend, we said, this really is -- is proof that the proposed rules that we have established really do work, in terms of -- of predicting that at-fault frequency.

So that -- that really is -- is -- proves that the program is -- is viable and reflects that risk. And certainly, we will continue as far as -- as Point Number 1, the improved relationship between rate charged and -- and risk presented, we will continue to monitor this to make sure that -- that risk is still an increasing line as -- as I've shown here. So -- so that's the -- the first measurement that -- that I've talked about.

Second, improved understanding of our customers. We do -- do -- always do extensive customer research to make sure that our customers do understand the program. We think there's a much better chance of them understanding the Driver's Safety Rating as proposed, or as established in the regulation, compared to the four (4) different programs that we used to have.

So -- but we will continue to make sure that our customers do understand it. And really our customers have a -- have a knack of letting us know what they think, so that any comments and -- and -- that they make to us, we certainly keep record of and we will continue to monitor that.

That same thing, with regard to improved public acceptance. Through those surv -- surveys, they'll know -- let us know what they think of the Program, not only if they understand it but if they like it.

MR. LEN EVANS: I wonder if I could interject with just a brief question? I really appreciate the chart, it's very revealing. Why would there be more volatility let's say from minus five (5) onto the right? Would it be because you have fewer items involved, as for -- as compared to the lower levels at fifteen (15), fourteen (14), thirteen (13)?

MR. DONALD PALMER: Thankfully, there are more safer drivers on Manitoba roads than -- than the higher risk driver, so at those higher levels there are very, very few drivers in that, so there is some annual volatility. But -- but again, if we would put a line through that, it's very much an increasing line -- trend.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Palmer. Just to follow up on a couple of the comments that you just made, with respect to Exhibit 5 and the graph, you indicated that the Corporation will monitor the experience going forward, and -- and it's indicated in the IR response as well, that it may adjust numbers to ensure that the risk is reflected in the rates.

Can you just give the Board a bit of an idea of how that analysis will be done and how the -- the tracking will provide the Corporation with the information that it needs?

MR. DONALD PALMER: That's another one of our classification cells that we always will be monitoring. You know, not only do we look at type of vehicle, territory, how vehicle is used, but driver behaviour. And this -- this certainly gives us a more finite measure of that particular classification cell and -- and how claims frequency is -- tracks with DSR rating.

MS. CANDACE EVERARD: So it would be fair to say that any adjustments that the Corporation which -- wishes to make would come to the Board for approval?

MR. DONALD PALMER: Any rates associated with -- with those changes, yes.

MS. CANDACE EVERARD: With respect to the evidence that you gave about the understanding of customers and public acceptance, and there's also reference in the IR answer to surveys being done on an ongoing basis, does the Corporation have an idea at this point of how often those surveys will be done?

(BRIEF PAUSE)

MR. DONALD PALMER: We do quarterly omnibus surveys, and likely, especially early on in the -- after we established DSR, we would be asking some pretty key questions, likely on a quarterly basis. More extensive surveying is probably done less than that. I might guess annually, but at this stage we don't fully have this planned out.

But we do -- we do do -- we do have quarterly surveys and -- and that will be really one (1) of the high priorities early on in DSR, to make sure that there is public acceptance and understanding of the program.

MS. CANDACE EVERARD: Thank you. Ms. McLaren, just following up on some of the evidence that you gave, with respect to the Corporation's view of whether this program can influence driver behaviour. You mentioned some of the literature that Mr. Williams raised, and I appreciate that Mr. Williams has asked a pre-ask on this, but did the Corporation do any kind of literature review with respect to that issue; that is the correlation between this kind of system and influence on driver behaviour?

MS. MARILYN MCLAREN: We reviewed some of the same documentation that Mr. Williams put forward.

MS. CANDACE EVERARD: And the details of that will be provided in the answer to his pre-ask?

MS. MARILYN MCLAREN: Yes.

MS. CANDACE EVERARD: Now, in designing the DSR system, did the Corporation have a look at or study the demerit or merit systems in other jurisdictions?

MR. DONALD PALMER: Yes, we did. Extensively, BC and Saskatchewan are -- are the two (2) major ones that we really took a look at and -- to really get a -- firm understanding of.

MS. CANDACE EVERARD: If I can direct your attention to the pre-ask questions posed by the Board, and in particular our Pre-Ask Question 1, which deals with a comparison between the three (3) systems, Saskatchewan and BC that you just mentioned, Mr. Palmer and the proposed DSR System.

Can I get you to go through this answer and give a summary of the relative similarities and differences between the three (3) systems?

MR. DONALD PALMER: Sure. This may -- may take a while.

MS. CANDACE EVERARD: That's why I said summary.

MR. DONALD PALMER: In terms of one (1) method for -- for rating, there are in BC are distinct programs for driver's licence and for vehicle surcharges. Both MPI -- the proposed DSR rates and SGI have published one (1) scale that bring -- brings those two (2) things together.

So really one (1) of our major goals was to get one (1) program that people can -- can grab and -- and look on one (1) page, rather than have many different programs that they have to understand. So -- so from that aspect SGI has the same sort of approach as -- as we do; ICBC has separate approaches on -- on drivers licence, and vehicle premiums.

In terms of what we count, in terms of rating factors, convictions, the MPI DSR program affects both licence and vehicle premium, as it does in Saskatchewan. In ICBC the convictions only apply to -- to drivers' premium or drivers' licence. For ICBC, the vehicle premium is actually affected by at-fault accidents.

In terms of suspensions, whether we will be including suspensions as an input factor, we will -- it's -- we will not be using suspensions at this -- this time. SGI does use suspensions.

In terms of -- of driving experience, MPI, SGI, and ICBC, all use driver experience. The number of years that you've been driving does influence the rates that you pay. For ICBC that's only true of vehicle insurance, not drivers' premium.

All three (3) of the systems, in terms of -- of driver experience, start at a base rate and then the number of years that you -- you drive will move you up the scale. Essentially to -- to have lower rates, it's a question of safe driving, driving without those input factors that I referenced. So it takes a certain number of years to -- to get to the highest discount level, so that's why driver experience is -- is included.

In terms of movement on the scale, and this is dependant a little bit on the discounts that are associated with each scale selection, all our customers have the same movement rules. It doesn't matter where they are on the scale at a certain point in time. One (1) step means one (1) step, and if you're at the bottom or if at the top you still will move that one (1) step.

In SGI and ICBC, the number of steps that you move are dependent on where you start. So there may be more steps if you are worse off. I think ICBC, for instance, if you're a good driver and have a -- and do something bad, one (1) of those input -- put factors, you move three (3) steps, if you're on the -- the best rating. If you're near the higher rating, you may move as many as six (6) steps on that scale, so we have not incorporated that.

I think one (1) of the things that really sets the MPI Program apart from the other two (2), is that it is based on the future. It's a predictive rate, as any insurance rate is. It's not a -- a retrospective penalty that you pay once and -- and are done with it. This really is a -- an annual rate that's assessed on a going-forward basis, reflective of the -- the expected at-fault frequency that -- that -- in this graph that I'm so fond of.

And the other -- the SGI system, it is split in terms of -- the discounts are prospective on an annual basis. The penalties on the -- the demerit side of the scale are -- are one (1) time penalties. The same, in terms of ICBC; the driver surcharges are a one (1) time, rather than assessed on an annual basis.

In terms of when the bills go out to -- to have to pay the -- the surcharges or -- or get the discounts, we are doing that on an annual basis, as ICBC does. With SGI, when there are surcharges that are accrued, those payments for those surcharges are due immediately.

In terms of accident forgiveness, do you get a freebie, so to speak? Both SGI and ICBC include a first accident for -- forgiveness. We have not incorporated first acc -- accident forgiveness in MPI so far, although we are planning, in the future, as we have presented a scale, that even though you may -- you will -- or you will lose merits, that may not necessarily affect your driver -- your premium or your vehicle discount. So we may have the same discount level for fifteen (15) merits as for ten (10) merits.

If you're at fifteen (15), you move to ten (10), you would get the same discount, but the next time would affect your driver discount. It's almost a -- acts as a get-out-of-jail-free card. But -- so -- so there is effect on the number of merits, but not on the actual discount.

The penalties that I've talked about, whether they're one (1) time or -- or based on a sort of an annual sliding scale -- as I mentioned, MPI is a -- a sliding scale, as opposed to SGI and ICBC which would have one (1) time charges -- ICBC, again -- well, both SGI and -- and ICBC have that dual approach, where driver premiums or driver surcharges are one (1) time vehicle surcharges, in ICBC case, or discounts for SGI are a sliding scale that changes annually.

In terms of the appeal process of all three (3) systems; we haven't determined what the ICBC appeal process is; for MPI and SGI, for both -- both those companies, the surcharges are appealable. Although the point that you're at on the scale, or the number of demerits that you're assessed is not appealable, so you can appeal the amount that you have to pay, but not the level on the scale.

The last point we have is the effect of licence surrender. Can you -- can you give back your -- your licence to avoid charges? MPI, you cannot. ICBC there is no penalty due if you surrender that licence.

MS. CANDACE EVERARD: I notice that there's no reference to Saskatchewan under Number 11. Do you know what their rule is?

MR. DONALD PALMER: Undertaking Number 1.

--- UNDERTAKING NO. 1: MPI to determine SGI's policy on licence surrender

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay, and if we can just go back to Number 4 on this pre-ask, the -- the heading that deals with movement -- or driving experience.

Would it be fair to say that while an individual's movement on the scale due to their behaviour may be uniform for all drivers, the actual dollar impact to an individual is not going to be uniform?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Now, as is evident from the answer to the pre-ask and that testimony that you've given, Mr. Palmer, the Corporation had a -- a look at the -- the systems in Saskatchewan and BC.

Did the Corporation have discussions with either SGI or ICBC as well, or was it more like a -- a review that MPI did on its own, as opposed to interactive?

MR. DONALD PALMER: We have discussions with both of those organizations all the time. I don't know if we could point to specific minutes or -- or notes that reference discussions specifically for their demerit or merit programs, but certainly we do -- we do discuss many things with both of those organizations on a regular basis.

MS. CANDACE EVERARD: And in either jurisdiction were there anecdotes or an indication of the measures of successes or relative failures of aspects of their program, that the Corporation was able to use in its own analysis and program design?

MR. DONALD PALMER: Not specifically in those terms. I know the SGI program did change fairly recently. I haven't heard what their short-term experience is.

The ICBC program has been established for probably twenty-five (25) years. They have had some changes with the introduction of RoadStar and whatnot, more recently, in that again, specifically, their experience -- they're very happy with the -- the RoadStar, that the -- the way that they've established it, and -- and it has evolved over time to meet the changing needs of the customers.

MS. MARILYN MCLAREN: Ms. Everard, if I could at this point, I think it's important to draw attention to one (1) of the differences between the way MPI is doing things and the other two (2) organizations. More within the context of the -- of the holistic view, we need to take the entire program and not just isolate it within DSR.

The -- while ICBC still has multiple methods of rating drivers and vehicle owners, SGI has one (1) method, but they still treat drivers as drivers and vehicle owners and -- vehicle owners and don't necessarily pull together one (1) holistic view of the customers. Neither organization has aligned the renewal dates the way Manitoba Public Insurance has. Neither organization sends one (1) renewal notice to a driver/vehicle owner in one (1) envelope, that talks about the overall impact of the existing Bonus-Malus plan that we have this minute. And -- and we'll plan to communicate with them under the driver safety rating.

It is a -- a cohesive integrated approach to driver licensing and insurance, and vehicle registration and insurance, that has informed the development of DSR; that was a key building block in the development of DSR.

Neither of those two (2) organizations

have pulled together those processes in an integrated way, and to some extent, that fact informs the programs that they have.

MS. CANDACE EVERARD: Thank you. I just want to ask a couple of specific questions on the SGI Program, and to that end I have a document that I'd like you to have a look at.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Palmer, you've had a chance to look at the document that has just been presented?

MR. DONALD PALMER: Yes, I'm familiar with this scale, yes.

MS. CANDACE EVERARD: It's my understanding that it's from the SGI website. Does -- does it look consistent with the SGI documents that you've reviewed over the course of this Application?

MR. DONALD PALMER: Yes, it does.

MS. CANDACE EVERARD: Okay. Mr. Chairman, I'd then be asking to enter this document as the next PUB exhibit.

--- EXHIBIT NO. PUB-9: SGI safety rating scale

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: So, Mr. Palmer, this scale would appear to reflect the Saskatchewan safety rating scale, and if I'm reading it correctly it provides for a penalty zone or what we could probably compare to DSR level, into the minus ten (10) range. Whereas it provides for a safety zone or like a merit level zone into the plus sixteen (16) range.

Does that sound about right?

MR. DONALD PALMER: Going out to 2011, that -- that would be true, and -- and again, very similar to what we have in -- in the regulation here.

MS. CANDACE EVERARD: It's apparent from looking at the face of the document that the -- the full sixteen (16) positive merit levels are not yet in place, but are in the process of being phased in as you've said, to be completed by 2011?

MR. DONALD PALMER: Yes. And beyond 2011 what their plans are -- whether they're -- have even more, I'm -- I -- unaware of that.

MS. CANDACE EVERARD: Thank you. It would appear on the positive side of this scale, starting at Level 1, that an individual is afforded a 2 percent vehicle insurance discount, and that percentage escalates by 2 percent per level, maxing out at 20 percent for a platinum customer.

Am I reading that correctly?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And on the negative side of the scale, there's a -- appears to be a dollar penalty per incident.

Do you know how SGI defines an "incident"? Does that mean a conviction, or an at-fault claim, or both?

MR. DONALD PALMER: It's -- it's both.

MS. CANDACE EVERARD: And those penalties appear to range, beginning at the minus one (1) level, at a -- twenty-five dollars ($25), escalating by twenty-five dollars ($25) per level, to a maximum of two hundred and fifty dollars ($250).

Does that appear to be right?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: So is it fair to compare the two hundred and fifty dollar ($250) penalty for a minus ten (10) level in the SGI system, with what the Corporation is proposing for the driver premiums? And if my memory is correct, at the end of the day, a -- under DSR, has proposed the maximum penalty for an individual at a minus twenty (20), DSR level will be twenty-five hundred dollars ($2,500)?

MR. DONALD PALMER: In this Application, I think it's nine hundred and ninety-nine (999). It might be a thousand dollars ($1,000). We may have taken that leap into that fourth digit.

It's not quite comparable. Again, these surcharges at SGI would be a one (1) time surcharge, rather than an annual premium, as we're proposing.

MS. CANDACE EVERARD: And I appreciate that the twenty-five hundred dollars ($2,500) -- or that twenty-five hundred dollar ($2,500) penalty that I mentioned isn't on the table, so to speak, at this Application, because it is in a future year.

But I'm just trying to compare the -- the proposed bottom line or maximum by the Corporation to the bottom line that's in place at SGI.

MR. DONALD PALMER: That's -- that's correct, as you've described it. And -- but also even though our penalties go up to -- or are planned to go to twenty-five hundred dollars ($2,500) over the next three (3) or four (4) years, I don't know if Saskatchewan has any plans to change their surcharges either. So these are the ones that are currently in place, yes.

MS. CANDACE EVERARD: Thank you. Mr. Chairman, I'm about to move into another area and I note the time is 10:25. Perhaps we should take our morning break?

THE CHAIRPERSON: Very good.

--- Upon recessing at 10:25 a.m.
--- Upon resuming at 10:47 a.m.

THE CHAIRPERSON: Okay, welcome back, everyone. The SGI safety rating scale will be PUB-9. And back to you, Ms. Everard.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Chairman. Ms. McLaren, I just want to follow-up on a -- an exchange that we had earlier this morning. And Mr. Gaudreau's just handing around a copy of TI-15(a) from the last GRA.

I just want to come back to this issue of the forecasts that have been presented in this Application, versus that which has been provided before. But this is further to our discussion about the fact that at last year's GRA the poor economic conditions had already hit and your evidence was that that was before the Board at -- at the time.

Now it's my understanding that last year the forecast for investment income for 2008/2009 was projected to be 86.9 million, and this is reflected in TI-15(a) from last year. Now that forecast has been reduced, according to TI-1 in this Application, to 49.6 million.

Is that right?

So I'm -- I'm comparing the 86.9 million in TI-15(a), from the last GRA, and the 49.6 million, in TI-1, in this DSR Application.

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: So that would be a decrease of 37.3 million, roughly?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And are there any further updated revisions or forecasts to this investment income projection that's in TI-1, or is this the most recent one?

(BRIEF PAUSE)

MR. DONALD PALMER: The data that was used for the forecast in TI-1 was to the -- to the end of the third-quarter, so the end of November 30th. So all of the forecasts shown in TI-1 would be based on the actuals up till the end of the -- of November 30th and the projections for the fourth-quarter.

MS. CANDACE EVERARD: And is the actual number for the fourth-quarter now available, given that it's early April and the quarter would have ended at the end of February?

MR. DONALD PALMER: Not yet. We anticipate that we'll probably be filing the unaudited fourth-quarter before the end of these Hearings. They -- they have not been tabled with the Legislature, as yet.

We will not be providing audited results because those won't be available until the release of our annual report in June, which will be filed with the 2010 GRA.

MS. CANDACE EVERARD: Can you give us an idea, subject to the document forthcoming that you just mentioned?

(BRIEF PAUSE)

MS. CANDACE EVERARD: Even if you're not comfortable giving a number, can you just tell me which way it went, up or down?

MR. DONALD PALMER: I can tell you that claims costs have been very good and investment income has been very bad.

THE CHAIRPERSON: If it helps, in our Manitoba Hydro hearings, oftentimes they have provided a relatively narrow range on the net income line, before the audited results were available. Sometimes they have actually filed the material in confidence, which we have received after putting on the record a rough range.

MR. KEVIN MCCULLOCH: Mr. Chairman, if -- if I could, the only reason that I was hesitating in consulting with -- with the panel, is that the unaudited fourth-quarter results have been approved by the -- by our Board. They have been -- they will be either tabled or distributed at the Legislature, hopefully, by the middle of next week at which point we'll be in a position to file it with this Board.

THE CHAIRPERSON: That's better. Okay.

MR. DONALD PALMER: And just to expand on that a bit, in the TI-1 we show a net income for rating purposes of a loss of $5.4 million. The results that we're seeing so far will be better than that.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. Just before we leave these two (2) schedules -- TI-15(a), from last year, and TI-1, in this Application -- I just want to go through the differences in the forecast and investment income.

So, if we look at TI-15(a), from the last GRA, the investment income projected for 2009/'10, the year that we're in, was 91.9 million, and that's been revised slightly downward in TI-1 of this Application, to 91.1 million.

Does that look right?

MR. DONALD PALMER: That's right, yes.

MS. CANDACE EVERARD: And for the next year, 2010/'11, the forecast was 101 million .6, and that's down to 99 million, so a difference of about 2.6 million.

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE EVERARD: And in 2011/'12 the forecast was 114.4 million, which has been reduced to 110.3, so a difference of about 4 million.

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And in the last year reflected on these schedules, 2012/'13, the forecast has gone from 124.7, of the last GRA down to 120 million, so a difference of about four point six (4.6).

Does that sound about right?

MR. DONALD PALMER: Now, from that perspective, you are comparing what was filed with -- at the GRA with the -- with DSR numbers, and because the premium is down that will also affect the investment income. So there's a couple of things at play. There's less mon -- less premium coming in, so that will generate less investment income.

We have not yet completed our revenue forecasting in terms of what the expected investment income will be for -- when we actually put it in our GRA. So that's -- that's not something that we've finalized as yet.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So, is it fair to say that the projections set out at TI-1 don't reflect, in large part, the economic conditions of the day?

MR. DONALD PALMER: I wouldn't completely agree with that. There are -- there have been a real downturn in -- in results for 2008/'09, but -- and the prevailing interests rates are -- are lower now than they were when we cast these projections. But we still do have a large bond portfolio that generates income at a given coupon rate, so that wouldn't necessarily be affected.

The -- the downturn, in terms of realized and unrealized equity gains, may not affect what we think the future returns will be, so it's -- it's hard for me to say right now how those forecasts will be affected, but to say that they'll be drastically different from -- from what our forecast last year, we will still be using, you know, current assumptions and -- and not necessarily let the crash of last year affect the projections.

MS. CANDACE EVERARD: Thank you. Mr. Chairman, I don't think I entered this last document as an exhibit so I would like to enter it as Board Exhibit 10 in this proceeding; that's last year's GRA, TI-15(a).

--- EXHIBIT NO. PUB-10: Last year's GRA, TI-15(a)

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Okay. Moving then into some actuarial considerations, I'd like you to have a look at Answer 3 posed by the Board in the IR round, and in particular Sub A.

(BRIEF PAUSE)

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: So the last sentence of that answer, 1-3 Sub A, reads:

"The proposed discounts are, therefore,

consistent with the actuarial evidence
on a directional basis, but are not
intended to fully reflect actuarial rate
indicators."

Can you expand on what is meant by the phrase, "consistent with the actuarial evidence on a directional basis".

MR. DONALD PALMER: Again, I would direct your attention to the graph that was filed into evidence this morning.

So, on the basis that safer drivers will pay less and high-risk drivers will pay more, that reflects the risk that is shown by this graph. So from that perspective that's what we're doing. So again, on a going-forward basis, the -- the safer drivers will be extended higher discounts than the higher risk drivers will be.

So from that end, on a going-forward basis, as we filed in the next two (2) or three (3) or four (4)years, that likely we will be able to provide even higher discounts to the -- the safer drivers.

So from that persp -- that's what I mean by "directional". So -- so we know that the -- the risk that is presented, and we're -- we're providing discounts and surcharges on that basis.

MS. CANDACE EVERARD: And can you explain how this approach is different from having DSR premium adjustments that fully reflect actuarial rate indicators?

MR. DONALD PALMER: We haven't gone in for each DSR level and calculated an expected value of future claims. Likely, those would show that the -- the discounts for higher merit levels would be greater than for the high demerit -- demerit levels, so -- so they're not fully reflective of that expected cost.

MS. CANDACE EVERARD: And which of these two (2) actuarial objectives would best describe the Corporation's approach to setting rate relationships by territory and insurance use in the recent GRAs?

MS. DONALD PALMER: We have used actual expected costs for use and territorial indications. Again, subject to capping rules and credibility considerations, as well.

MS. CANDACE EVERARD: So of the two (2) objectives, that would be the actuarial rate indicators?

MR. DONALD PALMER: Yes, again, subject to some rate shock, which I -- I suppose could be characterized as public policy considerations, keeping all rate changes to the 20 percent cap.

MS. CANDACE EVERARD: So why not strive then to have the DSR premium adjustments based on the actuarial indicators, and wouldn't that enhance the extent to which basic rates are actuarially sound and statistically driven?

MR. DONALD PALMER: That's the direction that we are intending to go, as we've indicated, to give higher discounts to higher merit levels over the next three (3) or four (4) years. So that -- and -- and also giving higher surcharges to the higher risk drivers over the next three (3) or four (4) years as well.

So that's -- that's the direction that we're heading. Whether we'll ever get to that ideal state, I don't think it will happen, just because we're -- we'd be limited on the top end at how much we could -- we can surcharge. So -- so we will -- we'll move toward that over the next number of years.

MS. MARILYN MCLAREN: Add further to that point, Ms. Everard, whether or not the Corporation would ever consider that situation to be ideal is certainly unlikely. We do not believe that that kind of actuarial rate charging for a public program of this nature would ever be appropriate.

The difference between the rates charged by the highest risk driver and the rates charged by the lowest risk drivers are -- need to continue to be influenced to a significant extent by public policy objectives around access and affordability.

The other thing we need to keep in mind is that the other thing -- one (1) of the fundamental things that Manitobans require from this Program is some stability and predictability. And I think some of the public research that we've done will all -- also show that -- that people will, so to speak, trade-off bigger discounts for a smaller impact when they finally do have that one (1) accident in a very rare period of time.

We need to always remember this is a net sum game. Anything we do to mitigate the impact on the higher risk drivers, means we'll have that much less money. Anything you do to significantly extend the difference between the best rate and -- and the highest risk rate means that as soon as the best drivers do something that sends them down the scale, the more severe the impact will be.

So we really need to look at this in the total context. Precise actuarial rating of every single person in this system is not the objective. And for a public program like this, it -- it -- I can't imagine how all the considerations would leave to a determination that such a situation would be ideal for the program -- for the basic AutoPac program, overall.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So I think, Ms. McLaren, the evidence that you've just given probably answered my next question, but I'm gonna take you, in any event, to answer 23, posed by the Board in the IR process, which has as an attachment to the answer, a copy of the Corporation's strategic plan.

And in particular, Strategy 7 -- or Goal 7 and the strategies that go with it, which are found on page 17.

So it's reflected there at Strategy 7.4, that the Corporation wishes to develop a clear and understandable method to reward good drivers and ensure that individuals pay insurance rates that reflect the risk that they represent on the road.

Wouldn't it be the case, and -- and tell me if you disagree, that having the DSR premium adjustments based on actuarial indicators would be in line with this particular strategy?

MS. MARILYN MCLAREN: Yes, that would be in line with this particular strategy. And this will be a much smaller book if that was our only strategy.

There's a much broader context here and we can go through this in detail and pull out the other considerations and the other material downstream impacts of doing anything that tips too far one way and too little in the other way. So it really is the context of the overall program.

The -- I believe it's -- Corporation's Exhibit 5, that Mr. Palmer has referenced a number of times, not only the actuarial department was thrilled with the graph and the line, everyone was. Directionally this is very important. We have never been satisfied with the actuarial reality of the current program.

So we much -- very, very fundamentally believe this is a huge step forward, and very, very important to have that kind of directional relationship. We are significantly improving the relationship between the rate we'll charge and the risk people -- we present. That doesn't mean that somehow this program, or the Corporation, or the basic AutoPac Program, will meet people's needs or somehow will have failed if every single step on the DSR scale is not an actuarial sound rate.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So basically what you're saying is that Exhibit 5, the graph that the

Corporation provided this morning, demonstrates that risk and claims frequency decreases as a driver moves up the DSR scale, or conversely increases as the person moves down?

MR. DONALD PALMER: Up and down can -- can be interpreted a couple of ways, but I would say more merits less risk, more demerits more risk.

MS. CANDACE EVERARD: Okay. When I said "up" I meant more merits and "down" meant demerits, but I appreciate that. Thank you. I'll try not to use those words.

And so similarly what's been proposed by the Corporation, in line with the general direction of this graph, is that the vehicle merit discounts that are being proposed, meaning lower rates where there are higher discounts, are being proposed as the individual gains merits on the DSR scale, as opposed to moving up.

MR. DONALD PALMER: Yes, I agree with that.

MS. CANDACE EVERARD: So to summarize this exchange, it would be fair to say that the proposed discounts are consistent with the actuarial evidence on a directional basis, but are not intended to fully reflect actuarial rate indicators.

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Okay. Let's go to Question 33 posed by the Board in the IR round, and in particular Sub A of that answer.

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: Thank you. With respect to 1-33(a), can you summarize and explain for the record the construct of the table that's reflected?

MR. DONALD PALMER: This table reflects four (4) selected DSR levels.

(BRIEF PAUSE)

MR. DONALD PALMER: This is after the retrospective modelling that we described this morning. So in 2006, for each of those -- each of those selected DSR levels -- we don't have them all, we have people who had reached fifteen (15) merits, according to the ret -- retrospective modelling, five (5) merits, no merits, ten (10) demerits, and twenty (20) demerits, what their claims frequency was for the 2006 year.

We have made the assumption that every at-fault claim has a severity of ten thousand dollars ($10,000), so the costs per driver is the frequency times that ten thousand dollar ($10,000) severity. We have the average premiums that they actually paid for

Basic AutoPac in 2006, what the dollar difference is between those premiums and the at-fault claim -- claims costs per driver and the percent difference.

(BRIEF PAUSE)

MR. LEN EVANS: I wonder if I could interject a question again? Where -- how do you arrive at the ten -- how do you arrive at the ten thousand (10,000)? Why ten thousand dollars ($10,000) in Column 2?

MR. DONALD PALMER: That -- that's close to the overall severity. We have forced this table somewhat in that the -- on a total basis, the claims cost for at-fault equal the average premiums paid. We have made some adjustments, in terms of taking out comprehensive claims so that there is a -- a direct applicability.

So, from that perspective, to make sure that the entire table balances and the ten thousand dollar ($10,000) claim severity, which is pretty close to what the at-fault severity was on an actual observed basis.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. And you answered my next question, was to confirm that the claims cost information excluded comprehensive, so, thank you for that.

Does the premium information reflected on this table include both driver and vehicle premiums?

MR. DONALD PALMER: Yes, it does.

MS. CANDACE EVERARD: So, is it fair to say that the last two (2) columns of this table imply that the best drivers, reflected on the table at the fifteen (15) merit level, are being overcharged relative to the worst drivers reflected on the table?

MR. DONALD PALMER: On a purely actuarial basis, I would agree with that. And -- and remember that in some cases those higher demerit, or even zero merits, may not fully re -- reflect vehicle premiums, 'cause there may be a higher incidence of vehicle premiums at the higher merit levels.

MS. CANDACE EVERARD: Okay. Still with Question 33; if I could ask you to turn to Sub C of that question.

And understanding that the answer to Sub C was prepared on a different basis than Sub A that we just looked at, can you confirm that the claims information used for the purposes of Answer C does include all coverages?

MR. DONALD PALMER: Sorry, could you repeat that question?

MS. CANDACE EVERARD: Yeah, for sure. The question was: We appreciate that Sub C was prepared on a different basis than Sub A, but I want to confirm whether Sub C, Claims Information, does include all coverages.

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, that's correct.

MS. CANDACE EVERARD: And does the premium information reflected in Answer C exclude driver premiums?

(BRIEF PAUSE)

MR. DONALD PALMER: Yes, it's just vehicle premiums.

MS. CANDACE EVERARD: Still at 33 Sub C, if I could ask you to turn to Exhibit 8, which is the last page of the IR response, and in particular, the 2006 column on the far right, would it be fair to say, looking at that particular column, that it also implies that the best drivers are being overcharged, relative to the worst drivers?

MR. DONALD PALMER: On a pure -- again, on a purely actuarial basis, I would agree that there may be other measurements, what constitutes overcharging or undercharging.

MS. CANDACE EVERARD: And would the Corporation say that the DSR system that's been proposed is intended to address this imbalance? And if yes, to what extent?

(BRIEF PAUSE)

MR. DONALD PALMER: A couple of things there. This does not -- as you mentioned before, does not reflect driver premium, so -- especially in the high demerit scale, that brings you much closer to adequacy. For instance, we have the twenty-five hundred dollar ($2,500) driver premium that -- that certainly brings that 324 percent down to a much lower level.

Again, as Ms. McLaren outlined previously, the DSR program will reflect these differences somewhat on a going-forward basis with -- you know, moving to a higher discount level in -- in the fourth or fifth year and -- and to higher surcharge levels in the fourth or fifth year. So it does reflect some of the differences, not all of the differences.

MS. CANDACE EVERARD: When you say "some", can you give us a better indication, or some better estimation? Something more specific?

MR. DONALD PALMER: Again, we're talking directional. And to be specific, currently we give a 25 percent discount for the safest drivers, although there are some inequities within that that I'm sure we'll got on later on, so we are proposing -- or have included that we're going up to a 30 percent discount. So that increase of 5 percent is some.

(BRIEF PAUSE)

MR. DONALD PALMER: What -- what this table doesn't really reflect, in terms of some or all, that you have a very high number of drivers at the high DSR levels, and a very small number at the high demerit levels, so any small change that you make -- may make at the high -- high merit levels, you don't have near enough drivers to make up that difference on the -- on the demerit side.

So that reflects some of that imbalance. You just can't get the premium without charging tens or -

- tens or hundreds of thousands of dollars I suppose to the -- which we would never, ever get to.

MS. CANDACE EVERARD: Just to -- to pull out one (1) additional example that arises from these exhibits, if I can get you to turn back a page to Exhibit 7, still on Answer 33, and still looking at the 2006 column, there's a figure of just under thirty-four hundred dollars ($3,400) reflected for the worst grouping, the minus sixteen (16) to minus twenty (20) grouping, and is the case as was referenced earlier that under the system that's being proposed going forward in the future, the Corporation is considering a twenty-five hundred dollar ($2,500) max-out surcharge at the minus twenty (20) level.

So if -- if the numbers are right and I'm -- I'm comparing them correctly, it's still about nine hundred dollars ($900) short.

Is that fair to say?

MR. DONALD PALMER: That's fair, yes.

MS. CANDACE EVERARD: Okay. I'm going to get into some questions then about the transition of drivers into the proposed system, so I'd ask you to turn to Question 2, Answer 2, posed by the Board, and in particular Sub A.

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: Now, this answer provides in the first sentence, that the transition strategy specified in the regulation was chosen to minimize the amount of rate dislocation at the individual driver level. And in the next paragraph the answer states that the idea was to place all drivers at a point on the scale that was equal to or better than their current vehicle premium discount entitlement.

Are you with me?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now, it's true that the vehicle premiums represent a substantially larger portion of the total premium taken in by the Corporation than do driver premiums, yes?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: If I can ask you to turn to the Application binder for a moment, and in particular SM-4.

(BRIEF PAUSE)

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: There are some exhibits attached to SM-4 and I'm going to ask you to look at Exhibit 1(a) and Exhibit 1(b), and advise in general on what these schedules represent and then we'll get into some more specific questions.

MR. DONALD PALMER: Exhibit 1(a) shows, by DSR level, the number of current drivers there are at each DSR level, how many vehicles those drivers have, the current merit-eligible vehicle premium, the proposed merit-eligible vehicle premium, and what the dollar difference is.

So for DSR Level 10, we have three hundred and fifty-seven thousand three hundred and seventy-six (357,376) drivers, they own three hundred and seventy-three thousand five hundred and forty (373,540) merit-eligible vehicles. Their current -- under the old program, vehicle premium is two hundred and ninety-one million three hundred and twenty-two thousand dollars ($291,322,000).

And under the proposed plan because we're not proposing any change to those discount levels, the proposed merit eligible vehicle premium is also two hundred and ninety one million three hundred and twenty-two thousand dollars ($291,322,000). The next column is the dollar difference and then the percent difference.

On Exhibit 1(B), we -- we show the differences by driver, how much they will -- how much less or more they will pay under the DSR program. So for people going up there are thirty-nine (39) drivers that will pay an additional fifty ($50) to ninety-nine dollars ($99), which is .005 percent of the total driver population.

So you'll see from that, for instance, that the -- the biggest change people, going down from twenty dollars ($20) to twenty-nine dollars ($29) there's three hundred and fifty thousand one hundred and eighty-six (350,186) drivers, which is 45.6 percent of Manitoba drivers.

That's driver premium. And in total premium three hundred and fifty-one thousand four hundred and fifty-nine (351,459), which is 45.7 percent, will pay twenty ($20) to twenty-nine dollars ($29) less, under the DSR program.

MS. CANDACE EVERARD: Thank you for that overview and a couple of examples. And I just -- as I said want to go into a little more detail.

If I can just get you to turn back to Exhibit 1(a) for a moment, which you've explained the first page of, and that's where I want to stay for a moment.

Is it correct that this exhibit reflects in the dollar difference column, that under the proposed DSR system there'll be an overall reduction in vehicle premium revenue, that is on initial placement, of some $6.8 million in the first year?

MR. DONALD PALMER: That's on an annualized basis, but yes.

MS. CANDACE EVERARD: Okay. Thank you. And it would appear that this reduction is attributable to the discounts extended to individuals at DSR levels 1 through 5?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: So these are the individuals that would be getting a gain on implementation of the DSR system?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And can you explain for the Board's understanding, why it is that the Corporation is proposing that some drivers be placed in a position on the new scale that will afford them a lower vehicle premium than they're currently paying?

(BRIEF PAUSE)

MR. DONALD PALMER: The transition plan gets to a rather tricky balance, because you're moving from a program -- actually four (4) programs that have different rules, that have different -- different measurements than one (1) single unified program.

So for example, to get a 25 percent discount you only need one (1) merit. And there are many, many dif --people who have one (1) merit and -- and have a 25 percent discount. So that becomes one (1) of your constraints, that you have to come up with a transition scale that will get those people who have one (1) merit, but maybe many years of accident free driving into the new scale.

And then from that, you've got to look at the individual circumstances of which there are many, and on a relative basis come up with sort of relative fairness.

(BRIEF PAUSE)

MR. DONALD PALMER: I would direct the Board to SM-3.

(BRIEF PAUSE)

MR. DONALD PALMER: And -- and that shows all different combinations of claims for years and merits, or demerits, and how they translate from the old program into the new -- new program. So, for -- so, anybody who currently has a 25 percent discount, would be -- go into a corresponding DSR scale that has a 25 percent discount. So it's...

(BRIEF PAUSE)

MR. DONALD PALMER: So in -- in every case -- again, we have talked about Manitobans love their merits. We -- under the new program, we made sure that they retained as many merits under the DSR plan as they used to have under the old plan.

So, again, in some of those cases, they would be getting a somewhat lower discount or a better discount under the new program than they had under the old program, because, otherwise, they would have had a worse discount or less merits.

MS. CANDACE EVERARD: Okay, so, if I understand your evidence correctly, the $6.9 million reduction in vehicle premiums that we looked at on SM-4, Exhibit 1(a), derived from individuals to go to levels 1 through 5, arises from the fact that putting those individuals at a lower DSR level would mean that they would have less merits under DSR than they have currently, and the Corporation didn't want to do that.

Is that fair to say?

MR. DONALD PALMER: That's correct. And -- and again, if you look on the -- on the chart in SM-3, someone who has zero merits and five (5) years claims free would be put on a five (5) -- five (5) DSR, so their vehicle discount would go from zero to 15 percent. The -- it's also true for somebody who's at five (5) merits and zero claims free, they currently don't get any vehicle dis -- discount, under the new program would get 15 percent.

So, again, tha -- that's just when you're moving from one plan to a new plan that have different criteria, you have to draw the line somewhere.

MS. CANDACE EVERARD: What about the -- the idea, though, or the concept of rather than having individuals at levels 1 through 5 enjoy a vehicle premium reduction, that it be individuals at the higher DSR levels, like 9 and 10?

Just as a -- as a concept, is that something that the Corporation consider?

MS. MARILYN MCLAREN: No, the Corporation didn't, because the Rule Number 1 of the transition strategy really was that to get the new program in and started, nobody should lose. That's really Rule Number 1 of the transition strategy: Nobody loses.

So if there is no way to get people at the same discount level, rather than avoid -- in order to avoid having a worse one, they ended up with a better one. So clearly, you can see that the objective really was nobody has anything different happen to them, except for the rate decrease we've applied for, for the people at eight (8), nine (9) and ten (10).

But the overall riding requirement that we were trying to achieve, the public policy objective, is nobody loses in year 1. So that was really the way to achieve it.

And it seems awkward, but it was very consistent with what we've done with other major implementations of this nature. Many -- some people in -- in the room may remember the introduction of things like a school car use, will certainly remember the implementation of clear rate groups; really trying to minimize dislocation through program changes.

The beauty of what we've put together here, is, again, back to the chart, MPI-5, we went back and modelled the impact of implementing this transition strategy in 2001, and the chart you get is -- in 2006, five (5) years later is -- is the chart, MPI-5.

So people will end up where they should up; that validates what Mr. Palmer's been saying about the predictive nature of the program we put together. If they don't get there in year 1, they will get there through their own behaviour and the program rating rules that have been developed.

So while it is a little bit cloogie (phonetic) and a little bit awkward in year 1, the overriding principle is when you do this -- something this fundamental to something that people have lived with, in some cases since 1971, and in other cases with some minor modifications since 1988, nobody loses, you get an even, as best we can, level playing field and then the new program begins.

MS. CANDACE EVERARD: And -- and I think I'm -- I'm understanding the Corporation's point about that, that nobody should lose, but what I'm trying to understand, and -- and if the questions are awkward then I apologize, but I'm trying to understand the -- the distinction between nobody losing and some individuals actually getting a benefit right from the transition.

So just coming back, Mr. Palmer, to the example that you gave on SM-3, the individual that, as it stands, has zero merits, five (5) years claims free; it's being suggested that they be put at DSR Level 5, which will give them on the vehicle premium side rather than no discount a 15 percent discount.

So can -- can you explain -- and there are a couple of examples like that on this scale where you can see drivers that had zero are being given some premium discount.

Can you explain the rationale for that?

MR. DONALD PALMER: In the construction of the DSR scale, every DSR level is assigned to a vehicle discount and a driver premium amount. So -- and the discounts go up as you move up the merit scale and then surcharges go up as you move up the demerit scale.

There are -- under the current program -- there are many, many combinations that can get you just about any discount level because the rules are different, so again, it's -- it's very possible for somebody to have five (5) merits and currently getting zero percent discount on their vehicle premium. That's entirely possible, because of the way the disparate rules of the four (4) different programs that we have under the current Bonus-Malus System.

So when you look at -- at that person that have five (5) -- five (5) merits and you say, Okay, we have to retain that five (5) merits. So you have -- all of a sudden you say, Okay, do we give that person a zero percent discount? Well, probably not because there's other people with five (5) merits who have different claims-free years that have 15 percent, so you can't kind of make individual rules; you have to group people together and say that's just what it has to be.

MS. MARILYN MCLAREN: And further to that, the other example that you raised with the person who's got five (5) years claim-free driving and zero merits, they could be a hair's breadth away from getting that merit, and then the very next day or the very next time they renew, they get a 25 percent discount; no logic there at all and not consistent with the new program, but certainly that's the rules today.

So you put them in a place that is a reasonable reflection of the fact that they have in fact had five (5) years of claim-free driving, sometimes more. And -- and there is a number of these people, who, for whatever reason, just can't get that first merit or get one (1) and lose it and have to regain it; they never really -- they all kind of circulate around zero, one (1), and two (2) merits, these people.

You cannot disregard their five (5) years of claim-free driving, so you have to have a way to put them in a place that gives some reflection of their claims-free driving years that gives them a reasonable position on the new scale. There's no logical reason why those people would be placed at Level 0 on the DSR scale. This is what comes when you put the concept of demerit points, or merit points, claim-free driving, or conviction-free driving, or conviction-prone driving, together with the other piece of that.

So there's two (2) components being put together on one (1) scale. You can't disregard their five (5) years of claim-free driving and that's why the ended up at 15 percent, rather than zero on the scale.

MR. DONALD PALMER: And part of that is, as Ms. McLaren said, that they may be a hair's breadth from getting to a maximum discount under the current program. This way we move them -- that they would move to a maximum discount in two (2) years. Again, would you -- is that fair and equitable zero compared to a -- a -- two (2) years?

It's better than five (5) years, I suppose. So, you know, each -- each one of these was -- combinations was analysed and looked at and -- and said, How can we best minimize that dislocation with all the different rules that we current -- previously had into the new program?

(BRIEF PAUSE)

MS. CANDACE EVERARD: So another example on this SM-3 Schedule that I just like to -- you to have a look at, the individual that starts out with three (3) merits, they have zero years claims-free, it's being proposed that they be put at DSR Level 3, which like the other example I gave you, means they'll now have a vehicle premium discount; in this case, 10 percent rather than zero.

Do you have any additional comments to make, with respect to that example, in addition to what you've already said?

(BRIEF PAUSE)

MR. DONALD PALMER: Again, at a -- at a starting place, you give them the number of merits that they currently have, so -- which is three (3)...

(BRIEF PAUSE)

MR. DONALD PALMER: So you look at -- at the various people who have three (3) merits today that have zero claims-free years, one (1) claim-free, two (2) claim-free, three (3) claims, four (4), five (5) and six (6), and again you have to draw the line somewhere.

Someone who has five (5) years claims-free, 25 percent discount, would you move them all the way up to ten (10)? Probably not, because they only have three (3) demerits -- or three (3) merits. And again, looking at the relative fairness of three (3) merits and zero claims-free, is that better or worse than one (1) merit and two (2) years claims-free, who currently gets a 10 percent discount?

So again, there's relative fairness there. As you say, is -- is one (1) merit and two (2) claims-free year better than three (3) merits and no claims-free years? It's a value judgment you have to make in order to slot them in as a starting place.

MS. CANDACE EVERARD: So coming back to Exhibit 1(a) to SM-4 where we have the -- the $6.8 million decrease in premiums being collected, and, as has been said, that is derived from the individual's proposed to be at DSR Levels 1 through 5.

Is it fair to say that with those individuals at those levels gaining a benefit, that while they may be safe drivers, it's not the safest drivers that are being given a benefit on transition?

MR. DONALD PALMER: In terms of compared to people who have five (5) merits and five (5) claims-free years today, that's -- that's true.

MS. CANDACE EVERARD: Well, it -- it's compared with anyone that's being proposed to be put at

DSR Levels 6 through 10, because according to this exhibit there's no premium reduction at those particular levels.

MR. DONALD PALMER: That's correct. It -- it's purely a transition to get them into the scale.

MS. CANDACE EVERARD: Thank you.

MR. DONALD PALMER: And -- and reflective of maybe the inconsistent program that we currently have that we're moving out of.

MS. CANDACE EVERARD: And just on that point, I do want to come back to these schedules and ask some more questions, but there's been mention in the -- the material and in the evidence about these four (4) existing programs.

Can you just explain for the record, in summary fashion, what each of those four (4) programs are, because I think that should be put on the record.

MR. DONALD PALMER: We have the Driver Premium Merit Discount Program. For every merit that you have, you have a five dollar ($5) discount on your driver licence premium.

We also have the Driver Surcharge System, based on demerits. So the number of demerits that you accumulate through convictions -- if you have more than six (6) demerits, there is a one (1) time -- or there is a penalty -- we call it a "Charge 1 Surcharge -- Charge 1".

We also have a Accident Surcharge Program on the driver's licence premium that -- called a "Charge 2 Surcharge," based on a number of at-fault acc -- accidents occurring in a three (3) year moving window. And that can be a surcharge of two hundred dollars ($200), four hundred dollars ($400), eight hundred dollars ($800), and -- and so on.

And then we also have the Vehicle Discount Program, which you're eligible for a discount if you have at least one (1) merit, at least one (1) claims-free year, and don't have any major convictions, like drunk -- drunk driving. And that discount is 5 percent for every claims-free year that you have.

So one (1) complete claims-free year would give you a 5 percent discount, two (2) would ten (10), three (3) would fifteen (15), and so on.

Those are the four (4) programs that I was referring to.

MS. CANDACE EVERARD: And the Vehicle Discount Program, currently it's to a maximum of 25 percent discount?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Okay, so let's go

back to SM-4 and the Exhibits 1(a) and 1(b).

We've dealt with the first page of Exhibit 1(a), and I'd like you to have a look at the second page of Exhibit 1(a), which we haven't heard about yet.

Can you just give me a brief breakdown of what this table reflects.

MR. DONALD PALMER: Has the -- at each DSR level, the current driver licence premium, in total; the proposed driver licence premium; the dollar difference and the percent difference of those two (2) premiums; and then the last section has total premium, which is the sum of the driver premium that I just described, and the vehicle premium that I described a little while ago.

MS. CANDACE EVERARD: Okay. So, in other words, the total section is a sum of the information on page 1, relating to vehicle premiums, and the information on page 2, relating to driver premiums.

MR. DONALD PALMER: And just to be clear, for an example, if we go to the first page, the current merit eligible vehicle premium of two hundred ninety-one million, three hundred and twenty-two (291,322,000), a current driver licence premium of $8.9 million dollars, add together to get three hundred million two hundred and twenty-nine thousand dollars ($300,229,000).

MS. CANDACE EVERARD: Yes, thank you. So, looking at page 2 still, but just the left-hand side of the page, dealing with driver premiums alone, it would appear that on an annualized basis there's expected to be an $11.3 million reduction in revenue to the Corporation from driver's licence premiums.

Is that fair to say?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And it would appear that if we look at the DSR Level 10 line, the very first line on the table, individuals proposed to be at that level would see their driver's licence premium decrease by some 78 percent? Is that about right?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And this represents going to the far right-hand side of that row, a 2.3 percent reduction in the total premiums collected from those individuals?

MR. DONALD PALMER: Including vehicle and driver premium, yes.

MS. CANDACE EVERARD: And just on that theme, looking at Exhibit 1(a), the next page, which you've already given us some commentary on, the bulk of the drivers that will be receiving under the proposed system lesser driver's premiums, are at the -- a change of between ten ($10) and twenty-nine dollars ($29), a reduction of between ten ($10 and twenty-nine dollars ($29). I'm combining the two (2) rows there.

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And that's about 71 percent of drivers, if we combine those two (2) lines, the 25 percent and the 45 1/2 percent?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Okay. So coming back to page 2 of Exhibit 1(a), we've looked at the $6.8 million reduction in vehicle premiums, the $11.3 million reduction in vehicle premiums, which gives us a total overall of some eighteen point one (18.1) or almost eighteen point two (18.2) premium reduction to the Corporation?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And that's on initial placement?

MR. DONALD PALMER: That's initial placement, yes.

MS. CANDACE EVERARD: In Exhibit 1(b) and this is also reflected in the Application, it's about 85.9 percent of drivers that will be enjoying lower -- lower premiums?

MR. DONALD PALMER: In the transition

year, yes.

MS. CANDACE EVERARD: Okay. Mr. Chairman, I'm about to move into a related, but little bit different section, so would you like to take the lunch break, given that it's ten (10) to 12:00?

THE CHAIRPERSON: Okay. We'll come back for 1:15 for the presenters.

Do we know how many presenters we have? Is it three (3)?

MS. CANDACE EVERARD: Just the two (2), I believe, Mr. Chairman.

THE CHAIRPERSON: There's two (2). Okay.

Okay, we'll be back at 1:15. Thank you.

(MPI PANEL RETIRES)

--- Upon recessing at 11:53 a.m.

--- Upon resuming at 1:17 p.m.

THE CHAIRPERSON: Okay. Welcome back, everyone. Starting off this afternoon with two (2) presenters, Mr. Houghton and Mr. Murray. Both gentlemen are here. We're all quite familiar with Mr. Houghton, he's been here before.

So, Mr. Houghton, if you don't mind, do

you want to lead off?

PRESENTATION BY MR. DOUG HOUGHTON:

MR. DOUG HOUGHTON: Thank you. Good afternoon, Mr. Chairman, Board Members, MPI staff, legal counsel and other presenters.

I'd like to thank you for this opportunity to speak to MPI's proposed Driver Safety Rating system and its effects on Manitoba drivers and motorcyclists.

I'm the current president of the Coalition of Manitoba Motorcycle Groups. However, in order to avoid any contradiction with CMMG's position, I'll be speaking on my own behalf. CMMG's solicitor, Mr. Raymond Oakes will be representing the CMMG. Hopefully, however, the theme of my presentation will parallel that of CMMG.

I've been a licensed driver for over forty-six (46) years and a motorcyclist for most of that time. During that period I've witnessed considerable changes in how driving behaviour is reflected in both licensing and insurance fees.

In the early '60's when I started driving there was no merit/demerit system and as long as you could afford to pay the traffic fines, and as long as you didn't commit a licence revoking offence there was no financial consequence to your driver's licence. Of course, your insurance provider could raise your rates or refuse to insure but in many jurisdictions you could still choose to drive without vehicle insurance or pay a modest uninsured driver's fee upon licencing your vehicle.

I certainly don't want to return to those times, as I believe that a fair Bonus-Malus System is necessary and effective in changing driving behaviour and reducing accidents. I know from personal experience that increased financial penalties can positively affect driving behaviour. Actually, at age sixty-two (62) I'm still working on my fourth merit so I've been on both sides of the -- the table.

I commend MPI's efforts to update and reform the current Bonus-Malus System and generally support the new DSR system which will merge and simplify the current system by allowing the safest drivers to earn additional rewards and increase penalties and surcharges for high risk drivers.

This is certainly a move in the right direction. However, the proposed model continues to perpetuate some of the basic flaws of the current system, particularly as it still applies insurance premium penalties to vehicles in the form of loss premium discounts.

I guess from a psychological perspective, offering vehicle premium discounts is good marketing for MPI as people would like to believe they're receiving a discount rather than incurring penalties. If, however, according to MPI nearly 80 percent of vehicles get a full discount, then it is reasonable to conclude that the discount rate is for all practical purposes the basic rate.

The so-called 5 to 25 percent discounts are really penalties ranging from 5.3 to 33.3 percent. With DSR, these penalties could increase to 44.9 percent, which is the increased premium you pay on all vehicles when you lose a 30 percent discount.

If one views the discounted rate as the real Basic rate, it is -- it is soon apparent that there are still Basic elements of the proposed system which have not yet been satisfactorily addressed.

There are still loopholes which allow high risk drivers to drive fully discounted vehicles and avoid paying full penalties. And when vehicle insurance premium penalties, in other words loss of discount, are applied, they're often applied in an inequitable manner.

Now, avoiding penalties. According to MPI, the proposed DSR system will not prevent high risk drivers from driving fully discounted vehicles owned by another party. According to MPI, about half or twelve thousand one hundred and eleven (12,111) demerit drivers do not register a vehicle in their own name.

And I'm not sure whether this also includes those drivers that are listed as a -- as a secondary or a joint owner on -- on a driver's licence, or on the vehicle registration, sorry. And, of course, these avoid premium penalties on their vehicle. And these drivers are not contributing to their fair share of insurance costs.

A high risk driver may jointly own a vehicle with another person or transfer the ownership to another person and avoid premium penalties on their vehicle. The high risk driver may drive the fully discounted vehicle of another person, family member or employer on a regular basis without penalty to the vehicle owner and no additional cost to themselves, other than the driver's licence surcharge.

In the preceding examples, it is my understand that the vehicle owner will not lose discounts, even if the high risk driver has ongoing claims or traffic violations with that vehicle. I believe the vehicle owner should bear some additional insurance burden if they allow high risk drivers to operate their vehicle on a continual basis.

The high risk driver may avoid driver's licence surcharge, as well, by simply cancelling or not renewing his or her driver's licence and waiting out the surcharge period. These unpaid premium penalties increase premium costs of those Manitobans who continue to register vehicles in their own names, thus negating much of the intended disincentive.

Currently, MPI has no plans to require vehicle owners to declare all regular drivers and introduce premium disincentives for vehicle owners who do allow high risk drivers to operate their fully discounted vehicles on a regular basis.

I accept that this can be difficult to administer and enforce but it is a system widely used in other provinces and should perhaps be considered here. The Corporation is also of the opinion that under the new DSR program it will be less attractive for high risk drivers to transfer ownership of vehicles to other family members so as to take advantage of lower rates. From minor shifts in merits, this may not be the case. However, I disagree with the reasoning. The greater the saving, the more likely one will transfer.

For example -- and I'm using current rates and these are rural rates, Territory 2 here -- I own a pickup truck, a motorcycle and my daughter drives a compact car to university on a regular basis. The 25 percent discount alone is nearly one thousand two hundred dollars ($1,200) per year. If I were living in the city, that would probably exceed fifteen hundred dollars ($1,500) per year. If I were also facing a one thousand dollar ($1,000) driver's licence surcharge, as well as losing this discount, I can guarantee you my daughter would soon own all the vehicles.

Affluent drivers may still buy back at-fault claims and reverse demerits. Although I appreciate MPI's financial reasons for having drivers pay the full accident cost, I still find it a little offensive that the more affluent can purchase a better driving record and show merits with vehicle discounts, while the less affluent with the same accident record, who cannot afford to buy back their demerits will suffer ongoing premium increases and have a less than desirable driving record with many demerits. Once again, this appears to negate much of the intended disincentive for the DSR system. There aren't equal penalties for the same offense. The loss of vehicle premium discounts, which is actually a premium penalty, is applied unfairly and often unrelated to the driving record.

As the following table integrates, high risk drivers may have identical records and pay the identical driver's licence surcharge. But if they're honest and register the vehicle, each may pay a different vehicle premium penalties, depending on the number and value of the vehicles each owns.

In addition to the driver's licence surcharge, each will lose their 25 percent vehicle discounts and be subject to a 33.3 percent premium increase. When the new DSR system is introduced, the loss of a 30 percent discount equates to a 44.9 percent premium increase.

Now the table, I think, is self-explanatory. There appears to be an assumption that the more vehicles owned, the more one deserves to be penalized and the more one can afford to pay. In reality, this is not the case.

For example, using current 2009 rates in Territory 1, let's consider the tradesperson owning a ten (10) year old family sedan and an equally aged E150 van required for work. That person will pay an additional five hundred and fifty-four dollars ($554) in insurance fees over and above the driver's licence surcharge.

Almost all motorcyclists own at least two (2) vehicles and, due to the higher insurance premiums, are hit even harder. If our tradesperson, for example, happens to own a motorcycle instead of a van, the total penalty is eight hundred and seventeen dollars ($817).

By contrast, a more affluent retired person with a two hundred and nine (209) -- 2009 Chevrolet Impala required only for pleasure pays only two and hundred and eighty-four dollars ($284) additional premium.

I'm not in any way suggesting that high-risk drivers should not pay more for the privilege of driving; however, as with the driver's licence surcharges, vehicle premium penalties should also be applied in a more equitable manner relative to the number of demerits and not the value and number of vehicles one owns. Perhaps the loss of discount should only apply to one (1) vehicle.

Only a driver -- oh, sorry, what are -- what are some of the options? Only a driver can engage in high-risk driving behaviour and not the vehicle. Therefore, it is the licensed driver who should be penalized. Adjusting the current system by adding additional merits or demerits is not sufficient. Fundamental changes are needed to affect how accidents and poor driving records are reflected in vehicle insurance and driver licence surcharges.

Ideally, I'd prefer an insurance system that separates the vehicle from the driver; in other words, the vehicle would carry insurance based on the cost of repairing the vehicle itself and the driver's licence would carry insurance for PIPP and liability, the latter which are attributable to the actions of the driver.

This, of course, may be too great a change to be publicly and politically acceptable. There may, however, be a simple, acceptable, and workable alternative. I'm of the opinion that a suitable compromise would be to -- excuse me -- a suitable compromise would be to apply all penalties and surcharges for high-risk driving only to the driver's licence and not the vehicle.

I think most Manitobans would agree to leave the current methodology for premiums, vehicle premiums as is, rated according to the age, value, territory, and use of the vehicle, et cetera, and that all penalties and premium surcharges be applied to the driver's licence so that high-risk drivers pay similar premium penalties for similar offences. As well, there are not the same problems with enforcement and policing as with a declared driver and the ownership transfer scenarios.

The following is a suggested methodology and it is a simple -- I tried to express it as simply as

I could. Assess all vehicles at what is now the discounted premium according to its class and rate group, et cetera. Drivers' licences would all have the basic rate plus an insurance fee as at -- as at present but surcharges would apply using the new merit/demerit scale as follows: Drivers with learner and intermediate stages of graduated licensing, having a slight or higher risk would pay a higher insurance premium on their driver's licence until such time as they've earned sufficient merits to warrant the basic rate.

High-risk drivers who now pay a vehicle premium penalty in addition to licence surcharges would simply have the equivalent vehicle premium penalty amount applied to the driver's licence as well. The amount of this penalty should not differ substantially from the current combined amount, for example, the -- that is the additional premium plus licence surcharge for a person owning one (1) vehicle, but it should be less as the twelve thousand (12,000) or so high-risk drivers who now avoid vehicle premium penalties by not owning a vehicle will now pay additional licence surcharges. This should also offset the loss of vehicle premium surcharge income which is now inequitably applied to multiple vehicle owners.

As well, high-risk drivers should be

required to remain licenced during the surcharge penalty period in order to demonstrate that they have improved their driving habits before demerits and surcharges are removed.

I understand that under the proposed DSR system a driver will move up the scale at a slower rate while unlicensed; however, I don't think it fair that a driver can move up to a zero while unlicensed, neither should an unlicensed or underage driver who commit offences. Perhaps the maximum a person can earn while unlicensed should be placed at minus 2 demerits so the drivers have to demonstrate improved -- improved driving while licensed.

The nearly 80 percent of Manitobans who now receive full premium discounts should be unaffected by such a change; however, all high-risk drivers would now pay their proportional share of insurance costs.

MPI has indicated that by reducing vehicle premiums to the 25 percent discounted rate would result in excessive increases in driver licence premiums. If MPI has to earn the same amount of premium revenue, and if there are now more drivers contributing via their driver's licence, why would driver premiums have to be raised substantially?

If the change to DSR is seamless in terms of cost to drivers, the 80 percent who get full and partial discounts will not see a change; those who would normally be losing their premium discounts would simply be paying those additional surcharges on their driver's license but as a reduced rate as the twelve thousand (12,000) plus high-risk demerit drivers who do not now have vehicles registered in their names would now be contributing.

As well, under DSR, nearly 60 percent of low-risk drivers with a DSR rating of eight (8) or more would pay only a driver's premium of five dollars ($5) if they have registered vehicles; they will pay nothing if they do not own vehicles and not contribute to vehicle insurance even though they may be driving on a regular basis and still subject to PIPP benefits.

On the current -- under the current system, I believe these drivers would be paying between twenty (20) and thirty dollars ($30) on this licence. This represents a substantial loss of income which could be recovered, for the most part, by charging all drivers, regardless of merits, a basic driver fee of twenty dollars ($20), and I'm referring to an insurance fee here.

In summary, applying penalties and surcharges to the driver's licence is the fairest way to resolve current discrepancies in the application of vehicle premium penalties or loss of discount. Such a system will result in shifting insurance premium penalty charges to higher risk drivers with poor records, but all drivers with similar records would pay an equitable surcharge and not one related to the number or value of those vehicles owned. Good drivers would continue to experience premiums at the fully-discounted rate.

Thank you for giving me this opportunity to speak and for your attention to this matter. If you have any questions, I'm open to...

THE CHAIRPERSON: Thank you, Mr. Houghton. Interesting paper. I am sure we will read it over carefully again, although we have now heard it verbally.

Thank you for coming.

MR. DOUGLAS HOUGHTON: Okay, thank you.

THE CHAIRPERSON: Mr. Murray, if you want to move up to the front, you will have the benefit of a speaker.

(BRIEF PAUSE)

PRESENTATION BY MR. JONATHAN MURRAY:

MR. JONATHAN MURRAY: Good afternoon,

everybody. I'm going to be very brief, just speaking from personal opinion today.

When I first saw the information come forward, there was one (1) part that struck my eye that I didn't really feel comfortable about that I thought I should speak my opinion and that's why I'm here today.

That matter would be the minus five (5) demerits for an at-fault accident. And I think that, personally -- well, on my personal level, that growing up in Manitoba, learning to drive on the roads in Manitoba, winter roads, I had my first at-fault accident. I was unfamiliar with the vehicle, it was my parents' car, didn't drive it very often. I got my licence in the summer. This was the first snowfall in the wintertime. Come around a corner and slide right into a pole.

So, I mean, it's an at-fault accident that could happen to anyone. And, I mean, at the time, if this system would have been in place, I would have gotten minus five (5) demerits. And, to me, at that time, it wouldn't mean anything either, because I'm driving my parents' vehicle, I don't have a -- a car registered in my name, so the benefit of the discount isn't affecting me at all.

So, you know, to me, it's just minus five (5) on a piece of paper on my driver's licence.

According to the system, it's not affecting the price of my driver's licence, so, to me, it's not affecting me until that day that I buy my first car, go into MPI and decide to register it, at which case, you know, I'm going to wind up paying a little bit more for -- for insurance.

And, I mean, as a new, inexperienced driver, it's likely that you're going to get a speeding ticket or something of that type. I mean, not everyone is -- is as bad as I was, apparently, but, you know, there are definitely a lot of people that don't get speeding tickets either. But, I grew up in -- in Brandon where they definitely like to do radar, probably at least once a week, and I got a speeding ticket.

So then if I had this at-fault accident, I'm up to minus seven (7) demerits. And I'm sort of thinking, you know, at what point are young drivers going to realize that, you know, I'm so far in the hole now, what's the point? You know, I'm not even going to be able to come back out to, you know, a level playing field and even try to start earning merits if it takes me a year to earn off each one.

So, I mean, for me, I'm sitting at twenty-four (24) years old right now. I have one merit, so I'm not doing too bad right now. Been driving since I was sixteen (16), so given that there's an eight (8) year gap there, you can say that I had a little bit of trouble finding my way.

But, you know, I'm just thinking that minus five (5) for an at-fault accident, especially, given the roads and conditions in Manitoba, is a little tough.

And that's all I wanted to come forward today to say, so thank you for your time.

THE CHAIRPERSON: Thank you, Mr. Murray. Thanks for coming down. Appreciate it.

There being no further presenters, we will go back to you, Ms. Everard.

MPI PANEL, Resumed:

MARILYN MCLAREN, Resumed

DONALD PALMER, Resumed

CONTINUED CROSS-EXAMINATION BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Chairman.

Ms. McLaren, I just want to -- before I continue with the scale and the transition, we covered early this morning that the period of time for which the Corporation is looking to implement these rates is from November 1st of 2009 through the end of fiscal 2010/'11.

How did the November 1st, 2009 implementation date come to be? Why that date?

MS. MARILYN MCLAREN: For the most part, it was a matter of what was doable. You'll remember that we initially, a while back now, thought that we may have been in a position to have a DSR program and apply for rates for a DSR program that would have taken effect March 1 of '09. That was delayed.

So, really, for the most part, it was a matter of when we did our planning, when we understood all of the different pieces that had to come together to enable us to go live, so to speak, November 1st was the earliest that we thought we could do it at that time.

MS. CANDACE EVERARD: Is that still the case today?

MS. MARILYN MCLAREN: I'm not 100 percent sure. We may be looking at a small delay. Before these Hearings close, we'll know more certainly what -- what the expected implementation date would be.

MS. CANDACE EVERARD: And if that information comes to light to the Corporation before the Hearing's ended, can you put that on the record when you have it?

MS. MARILYN MCLAREN: Yes, that's what I was trying to say, just before you asked me that. That was my intention, that we expect to have a final firm date before these Hearings close and we will certainly put that on the record once we have it.

--- UNDERTAKING NO. 2: MPI to indicate the date they plan on implementing the DSR rates

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you. I didn't want to assume anything there.

Okay. So as I said I want to get into and some further detail, the transition structure and so I'll ask you to turn SM-5.1, and in particular page 2.

MR. DONALD PALMER: I have it.

MS. CANDACE EVERARD: Now it's reflected in the second full paragraph on that page, just before the heading "Claims and Convictions Free Years," that the Corporation recognizes that the current 25 percent maximum discount does not recognize the difference in risk between drivers with exactly five (5) years claims free, compared to drivers with more than five (5) years claims free.

Is that right?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And in fact, in that paragraph it's reflected as an example that the at-fault claims frequency of drivers with ten (10) or more claims free years is 45 percent lower than drivers with five (5) years claims free.

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So how does the proposed DSR System in the first transition year acknowledge these differences in risk?

MR. DONALD PALMER: In the first transition year it's recognized by a splitting out into ten (10) merit levels instead of just five (5), both combining merit -- attain merits with claims free years. In terms of the -- how we recognize that in the actual discount, because the transition strategy was for them to pay essentially what they were paying under the old plan that isn't immediately recognized.

MS. CANDACE EVERARD: If I read that --

MR. DONALD PALMER: Except for the decrease in driver premium of course with the eight (8), nine (9), or ten (10) merits.

MS. CANDACE EVERARD: If I read --

MS. MARILYN MCLAREN: Sorry, there is another benefit that I really -- is important to bring forward. The fact that there is effectively some forgiveness now built into the system, with the discount staying the same for some of those steps. If you're a ten (10), you are significantly better off if you have a minor conviction, an at-fault claim, than you would have been if you sat at five (5).

So that's another benefit that they receive immediately upon the transition, in addition to the lower driver premium.

MS. CANDACE EVERARD: If I'm reading the transition schedule correctly, and I'm looking at SM-3, page 3, the chart we were looking at earlier that sets out who's going where, there is no stratification beyond five (5) years claims free.

Is that right? You either have five (5) years claims free or more, but there's no difference or distinction between whether you have five (5) years claims free, or ten (10), or fifteen (15) years claims free.

Is that right?

MR. DONALD PALMER: That's correct, at transition, yes.

MS. CANDACE EVERARD: So my next question is: Why is that the case for the transition year?

MR. DONALD PALMER: Because of the objectives of the transition, in order to get people into the scale paying the same on -- on vehicle premium, hopefully a little less on driver premium, for those people who have demonstrated both five (5) years and -- and have five (5) merits.

Now remember too, that five (5) merits likely means ten (10) claims-free -- or claims and conviction for years. So to say that we only recognize five (5) clean years is -- is inaccurate, because you have had to have had clean years in order to get the five (5) merits in the first place.

MS. CANDACE EVERARD: And -- and I'm not so much talking about convictions, I'm talking about the claims-free years be -- on the -- the idea that a conviction for, say speeding or whatever violation you want; if there's no claim involved there's no cost to the Corporation to deal with.

MR. DONALD PALMER: But even through a traffic accident report you could lose a merit. So it's not just convictions that would reduce a merit; it would also be traffic accident reports.

MS. CANDACE EVERARD: No -- and I appreciate that. What I'm trying to get at is though a situation wherein an individual has some kind of moving violation, they're convicted of it, they take whatever demerits come along with it, but if there's no claim, there's no accident or insurance claim made, then there's no cost to the Corporation, as a result of that conviction.

Or am I wrong?

MR. DONALD PALMER: In a hard -- dollars that we've paid out, you're right. It is demonstrating to us an increased risk of -- and -- and there's a cost to that.

MS. CANDACE EVERARD: So basically, at -- at the transition placement schedule that's been proposed, it's not the Corporation's intention to take individuals with, say, ten (10) or more years claims-free or fifteen (15) years or more claims-free, and put them at a different spot than anyone else that's reflected in the schedule?

MR. DONALD PALMER: As -- as you characterize that, I would agree. But -- but again, I would also reiterate that the five (5) merits also demonstrates probably longer than five (5) years of -- in fact, up to ten (10) years of incident-free driving.

MS. CANDACE EVERARD: Including claims?

MR. DONALD PALMER: Including claims.

MS. CANDACE EVERARD: Is it true that if the Corporation were to take that type of approach, that is, breaking out either people, ten (10) years claims-free or fifteen (15) years claims-free, whatever number you want to use, that the Corporation would be giving up less premium in the first year, meaning there would be less people at the top level?

MS. MARILYN MCLAREN: Well, it would have to be one (1) of two (2) things. We would give up more premium at the top end and someone else would have to pay more, or you would have a scale that recognized a different set of experience that you're suggesting, without having a premium difference. I mean, you -- you could put them into the scale and then figure out what rates you want to charge. They're separate steps in the process, right?

So if you want to give them more discounts, better savings, someone else would have to pay more to have the same financials we've got. Or you could put them on a different -- different implementation scale and not give them any better savings. They're both possibilities, again coming back to the intention of the transition strategy, and would, for the most part, be that no one loses, no one would pay more.

The other point that -- we had some conversation about just before the lunch break that I think it's really worth bringing out at this point, since we're still talking about transition, is the comment that we made earlier in cross-examination, that the fact that the placement, as per the section that you've been referring to in SM-3, shows that through time they get where they belong through their experience, doesn't quite explain the situation strongly enough, because the 2001 placement graph and risk merit -- new DSR merit level, in relation to the risk presented graph that would be in 2001, based on this transition implementation, does not look a lot different than the 2006 graph after several years of experience. That tells us this transition placement is consistent with the directional actuarial objective, and it doesn't tell you that there's much wrong with the transition strategy, as much as it tells you there's something wrong with the system we've got today.

So if you separate it from the premiums paid, right in the very first year, the retroactive model shows that this placement provides a much better fit than the current system does.

The fact that there is misalignment through premiums paid means there is something wrong with the system we have today.

MR. DONALD PALMER: Just for the Board's reference, that first year graph of the at-fault claim frequency in the 2001, according to the retrospective model, is on -- is in SM-5, page 12. And that demonstrates pretty clearly that we have that increasing trend.

MS. CANDACE EVERARD: Would you agree, though, just as a broad proposition, that there could be a way of further stratifying drivers according to their number of claims-free years that would still hold true to the principles of gradualism and minimizing adverse impacts?

MS. MARILYN MCLAREN: It's possible, to a certain extent, and it's possible we could have had about eight hundred thousand (800,000) steps on the transition scale if we had done it one (1) driver at a time.

You really do need to come back to the objectives of the transition. So the more you stratify, the more dislocation you have. It's that constant balance that Mr. Palmer has taught me about through the years with respect to the actuarial objectives of responsiveness and stability. You -- they're -- they're trade-offs.

So, the primary objective in that context of the transition is stability. There will be enough change going on for the people of Manitoba -- the drivers and vehicle owners of Manitoba with DSR.

I don't think yet, so far today, anyone's talked about streamlined renewals, new forms, all of these things. So the strategy, clearly, has to be get the new system in place; ensure to the best possible ability that people understand it; and then, there's any number of different things that can happen through time -- that will come forward with -- with different relationships, perhaps, through time, between drivers' premiums and vehicle premiums. Different relationships between the importance of at-fault accidents and other forms of demerit-type activities. The -- there's any number of different things.

This is very much a -- a living, breathing system which was one (1) of the objectives we talked about at least two (2) or three (3) years ago in these proceedings as -- as what we were trying to achieve: Something that would be fairly flexible, that could be modified through time as experience emerges and different public policy objectives, perhaps, may emerge.

But, to get it in the door, to start on Day 1, the -- the -- the need for stability and -- and simplicity were the overriding considerations in the transition strategy.

MR. DONALD PALMER: There's one (1) other consideration, too, that we haven't talked about in transition, and that's the data that we're using.

Claims-free years up to five (5) and number of merits -- is readily available to us within the context of our current computer systems. It's right there. We ha -- we have to have it, so -- and that's because it's currently use -- used in our current rating protocol.

So, if we had to go back and recreate ten (10) years claims free or fifteen (15) years claims free, certainly, that there's an administrative cost to that as well. And, especially since, as I pointed out, five (5) merits is a proxy for probably ten (10) claims-free years in -- in any event.

So, it's -- it's data that was there. It's available to us. It's readily known by -- by our customers, and that makes the transition strategy also easier to explain.

MS. CANDACE EVERARD: Okay, Mr. Palmer, when you speak of the data with respect to number of claims-free years being possibly difficult to obtain, there was some information provided to us as at 2006. This is at the answer to number 2 -- question 2 -- posed by the Board in the Information Request, and it's specifically 2(c), where we asked for the stratification of the drivers at the different ranges of claims-free years and that was provided.

So, is -- is this information that -- was only available to the Corporation because of the modelling that it did and that you're saying that it's not readily available otherwise?

MR. DONALD PALMER: It's available in the driver's licence system; that's where we claimed the amount. It's not readily available in our rating system. I'm not saying we couldn't get it, but it's -- it's a little extra work to get it on an individual basis.

MS. CANDACE EVERARD: Just while we're looking at this answer to Sub C, this provides that of the three hundred and fifty-seven thousand (357,000), and change, drivers that were to be slated in at DSR Level 10 under the proposed system, about two hundred and forty thousand (240,000) of them are claims-free for fifteen (15) or more years.

Is that right?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now, I --

MS. MARILYN MCLAREN: Sorry, Ms. Everard, it may be worthwhile pointing at this point, because as -- we're talking about the transition strategy, the -- the proposed placement. The transition strategy was something that the Corporation had to deal with and had to make recommendations to and that the Government ultimately decided, and it is included in the regulation, the transition placement. There's a table on Schedule D on page 37 of the Regulation.

So this is something that we have gone over a number of times, a number of different ways, and this is what was determined to be in the regulation. And I'm certainly -- it's very important that we provide this Board and these participants with an understanding of the rationale and the workings of it and how it will hang together.

I just wanted to clarify a little bit with respect to some of the language around "proposed" and what we might be wanting to do or what has been decided.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And -- and I appreciate that it's in the Regulation and I thank you for pointing that out. Certainly we are trying to look at what's before the Board and ensure that the Board has the information that it needs to make a decision.

But I believe that under the legislation, the -- the Regulation won't be enacted until the Board issues an approval, unless I'm wrong about that.

MS. MARILYN MCLAREN: The Insurance Rates and Certificates is a different regulation.

MS. CANDACE EVERARD: I'm sorry?

MS. MARILYN MCLAREN: The -- there's another regulation called the Insurance Rates and Certificates Regulation, that the actual rates to be charged under the DSR system, and in fact all of -- all of the -- the basic AutoPac program rates are included in that regulation, that cannot be brought forward and approved until such time as the PUB provides an order for the rates. It's a different regulation.

MS. CANDACE EVERARD: Yeah, I'm -- what I'm looking at is a section under the MPIC Act, 33 Sub 1.1, which reads:

"No regulation relating to premiums charged by the Corporation for compulsory driver and vehicle insurance shall be passed, pursuant to Subsection 1 [which is the section that allows the regulations] unless Lieutenant Govern and -- Lieutenant Governor and Counsel is satisfied that the proposed change has been approved by the Public Utilities Board, pursuant to Part 4 of the Crown Corporation's Public Review and Accountability Act."

That's what I'm referring to.

MS. MARILYN MCLAREN: Yes. Yes, and -- and we would agree with that. The Driver Safety Rating Regulation that has the -- the mechanics of the program does not include premiums, so the premiums that would be approved by this Board will then be put into a different regulation under the Manitoba Public Insurance Corporation Act, not this regulation that we're referring to, in terms of how is DSR going to work.

MS. CANDACE EVERARD: So the regulation that you're referring to is the one at AI...

MS. MARILYN MCLAREN: AI-1 -- AI.1. And the transition schedule is page 37. Yes, Schedule D.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Taking into account that evidence, I -- I do want to ask a few more questions on this particular area.

If we go back to the transition schedule that's before the Board, if it were the case that DSR Level 10 was reserved for only drivers with fifteen (15) or more years claims-free experience -- so in other words the two hundred and forty thousand (240,000) roughly that there were at 2006, and let's assume that that number is still similar today -- and if that DSR level, Level 10, was the only level wherein drivers would pay a reduced driver premium, what would be the additional driver premium revenue over that which has been proposed?

And -- and let me -- I -- rather than making this more difficult than it needs to be, my thinking is, or our thinking is, that it would be about $10 million of additional revenue. And let me take you through where that comes from and you can tell me whether you agree with it or not.

If we look at SM-5, page 29, there's reflected at the top of that page a table that reflects in the period for which the Corporation is looking to implement DSR and have approval at this Hearing. So the four (4) months in the current fiscal year and the next fiscal year. I'm looking under the Version 2 column. It looks like there's about $15 million less in driver premium expected to be collected during that period. So I'm adding together the 2.6 and the 12.4.

Does that sense so far?

MR. DONALD PALMER: Yes, I've got it.

MS. CANDACE EVERARD: Okay. So coming back to my question: If DSR level 10 were reserved for drivers with fifteen (15) or more years claims-free experience, so those two hundred and forty thousand (240,000) drivers, were the only ones to receive a driver's premium of zero, so instead of paying twenty dollars ($20) they're now paying zero, that would be still a decrease in revenue of about 4.8 million, which is the two hundred and forty (240) people times twenty dollars ($20)?

Does that make sense?

MR. DONALD PALMER: That's -- that's some of it, yes. For those particular people, I'm with you.

MS. CANDACE EVERARD: So if we look at SM-5, page 29, as filed, the DSR Application contemplates about 15 million less, as I said a moment ago, for those two (2) years for driver premiums. If we put only the cream of the crop, so to speak, the people with the fifteen (15) more -- or more years claims free experience and at DSR Level 10, that premium drop is reduced to about 5 million, the 4.8 that we just mentioned, and that's where I get the $10 million difference.

Does -- does that make sense?

MR. DONALD PALMER: We are proposing decreases for eight (8) and nine (9) as well, so if you're saying that they didn't -- don't get any --

MS. CANDACE EVERARD: That's right.

MR. DONALD PALMER: -- and there were no other changes, which means probably your transition scale has to be re-worked because there's -- as we went through examples this morning, there's all kinds of combinations in permutations of those, if -- if the -- I will grant that if eight (8) and nine (9) had to pay more premiums then we would get more premium revenue. I'll grant you that.

MS. CANDACE EVERARD: Okay. Conversely, what about -- and coming back to the proposed transition schedule -- what about charging more to the drivers at the bottom end of the scale?

I've been focussing in the last few minutes on this idea of the best of the best, so to speak, ten (10) or fifteen (15) years claims-free, what is the Corporation's response to the idea, just as a general proposition, that some of the individuals at the bottom end of the demerit scale have to pay more.

MR. DONALD PALMER: Our transition rule was that nobody would pay more. That -- that was -- that was the principle.

So, if you break that principle -- but -- but again, it's a new program. We said that the goal was that nobody would pay more. They would have a chance to change their behaviour under the new rules. Can't be accused of -- of setting retroactive rules or anything like that, that we always have a tendency to -- to hear. We're changing the rules of the game, we're changing them on a going-forward basis. People will pay what they paid before, and that -- that was one (1) of probably the most important underlying principles of -- of transition.

MS. MARILYN MCLAREN: Ms. Everard, clearly, by passing this regulation, the Driver Safety Rating Regulation, the Government has stated its preference for that stable, least disruptive implementation strategy that we've been talking about here.

It's also very important to note that, clearly, you know, in this instance, it takes three (3) of us to get this thing done and -- and approved and the Government -- the Corporation has -- has built a system, the Government has approved a piece of its responsi -- has done -- handled a piece of its responsibility. We're here to inform the process, so the PUB can -- can fulfill its responsibility. The Government will then complete that process.

In terms of the objectives of the transition, the Government has clearly stated its preference in the regula -- by -- by approving the regulation it has adopted.

It's very important to note that the concept of people are entitled to notice of any significant changes in rating impact is a longstanding principle of this Board. There were times, years ago, when the Corporation came forward with applications for higher Charge 1 and Charge 2 surcharges, and there was a delay in the start of the higher surcharges imposed by the PUB, so that people would understand that the rules had changed before they were affected by those rules.

So the concept of the -- implement new things as dis -- with as little disruption as possible, give people notice that the rules are changing, is something that has been ruled by -- and -- and ordered by this Board in the past. So, clearly, if -- if this Board decides that they believe that twenty (20) demerits should go to two hun -- twenty-five hundred dollars ($2,500) starting with the program, they -- they -- they will rule that. But that would be very inconsistent with what the -- this Board has ordered in the past in similar circumstances. And the knowledge of that past behaviour of the Board informed the transition strategy that -- that we've brought forward.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just to clarify for the record, the -- the DSR Regulation, that's at AI-1, is not yet enforced, that's right?

MS. MARILYN MCLAREN: That's right. It would -- it would be coming into force with the program implementation, absolutely.

MS. CANDACE EVERARD: Okay, thank you. I'm going to move into some questions about the modelling done by the Corporation, the retrospective and prospective modelling results.

At SM-5.1, the Corporation has set out information dealing with driver risk, claims, and conviction history. Can you explain, in broad terms, what the relevance is of testing the predictive power of drivers' claims and conviction history.

MR. DONALD PALMER: I -- I'd be delighted to. The -- this is a rating program and we're trying to determine the risk that any individual presents to the road, and to look at characteristics that are pre -- predictive of future claims costs. So from -- from a modelling perspective it's a question -- and specifically for driver behaviour looking at past behaviour to see how it predicts future behaviour and future claims costs.

So that's really the determining factor of what we chose as input -- input factors. For example, if we may have said let's look at parking tickets, and if someone gets parking tickets and that turns out that it's predictive of future accident claims costs, maybe we would want to use something like that. On the other hand, having something like past claims, the question is if someone has a claim last year or two (2) years ago, are they more -- is it possible that it's predictive that they will have a higher likelihood of having a claim next year when we're rating?

So -- so that was the purpose of the modelling, to take a look at past claims to see if they're predictive of future claims, to look at past convictions to see if they're predictive of future claims and put that together. As it turned out in -- they were very predictive. Both claims and convictions are an indication of our expected claims costs in the future, so that's -- that's why we did the modelling, that's what we were testing for.

If in fact past behaviour, driving behaviour, wasn't predictive at all of -- of future claims cost, then probably we wouldn't be here today because we'd say there is no relation, there is no link. We have found that there is a very strong link and -- and that's why we've -- but we had to test to make sure the link was there, how strong the link was there, and design the program according to that link.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Is it the case, Mr. Palmer, that the testing was done on the basis of claims frequency, and was there any component of claim severity taken into account?

MR. DONALD PALMER: It was done on the basis of claims frequency, that's correct.

MS. CANDACE EVERARD: So severity wasn't a factor?

MR. DONALD PALMER: No.

MS. CANDACE EVERARD: Okay. Looking at SM-5.1, page 1, there's a table reflected at the bottom of that page.

Are you with me?

MR. DONALD PALMER: I am.

MS. CANDACE EVERARD: Can you explain, for the record, the importance to the DSR of the findings summarized in this table?

MR. DONALD PALMER: This particular table looks at the number of claims-free years and how it's predictive of future claims frequency. So someone who has zero claims-free years has a 10.4 percent chance of having a claim in the following year. So that comes from the '04/'05 at-fault claims frequency of point one zero four (.104), so 10 percent -- that's a 10 percent chance.

Someone who has ten (10) or more claims-free years, only has a 3.6 percent chance of having an at-fault claim in the following year. So that's about a third of the probability of an accident for somebody who had a claim in the previous year.

MS. CANDACE EVERARD: Okay. So it would be fair to say that the greater the number of claims-free years a person had at the start of a period of time, the lower their expected claims frequency would be during that period of time?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: So does this suggest that the DSR should allow lower rates for those with more claims-free years?

MR. DONALD PALMER: Yes. And -- and just to expand on that, for a new driver entering the system under the -- the DSR program, they're put in at the base level when they're a new driver. As they accumulate claims-free years, they get more merits and so we're recognizing that fact that each subsequent year, that if -- as the number of claims-free year increases, the discount also increases.

MS. CANDACE EVERARD: Can you comment on the relative uniformity of the distributions set out in this table given the various percentage changes?

(BRIEF PAUSE)

MR. DONALD PALMER: I'm not sure I understand the question.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just a moment.

(BRIEF PAUSE)

MS. CANDACE EVERARD: The point is, under the heading entitled -- or the column entitled, "Percentage change in frequency", the second column from the right, the numbers reflected there do not seem to be uniform, relative to the number of claims-free years reflected in the first column.

In other words, these percentages vary; increase and decrease as we go down the column. So what would the implications be of that variation to the DSR proposal, if any?

MR. DONALD PALMER: I suppose you might -- as you have different levels of number of claims-free years, that one (1) -- one (1) claim-free year...

Let me try this again. I work best in

examples. If for ten (10) claims-free years, you were going to come to an ultimate of 25 percent discount, if you were uniform for one (1) year, you'd get a 2.5 percent discount; for two (2) years, you'd get a 5 percent discount; for three (3) years, you'd get seven and a half (7 1/2) and so on up.

This changing frequency would indicate that that's probably not exactly the way that -- it may not match exactly. So, in fact, the proposed system doesn't necessarily have a -- a 5 percent increase for every year of claims-free so it is not uniform so...

And I don't know if we've thought about that in -- in those terms but one extra claims-free year doesn't automatically give you one (1) extra -- an extra X percent of discount.

And I guess, a further example -- I'll pull out the Saskatchewan scale that was introduced into evidence this morning. They have said it is uniform, 2 percent a year.

So, if -- that wouldn't match necessarily with the table at 5.1.1.

MS. CANDACE EVERARD: Thank you. On the idea of predictive power that you spoke of, of looking at past behaviour to try to predict future behaviour, the Corporation has concluded at the top of page 2 of SM-5, that the results in the previous section indicate that claims-free years as a variable is an excellent predictor of driver risk.

That's right?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: So moving on still in SM-5 I'm just on the next page, page 3, there's another table at the top of that page, can you explain in general terms the importance of those results to the DSR proposal?

MR. DONALD PALMER: Sorry, the -- the table on top of page 3?

MS. CANDACE EVERARD: Yes, please.

MR. DONALD PALMER: This table was not only looking at only claims-free years but also years in which there was no claims and no convictions.

So to the -- so again, to the extent that there is no activity, there's also a decreasing trend in accident frequency depending on the number of claims and conviction-free years.

And in fact, if I compare the two (2) tables, if we look at ten (10) or more claims-free years versus ten (10) or four (4) more claims and conviction-free years, the claim-and-conviction-free year frequency is even less than ten (10) years of only claims free.

MS. CANDACE EVERARD: And the idea is still that the greater the number of at-fault claim and conviction- free years at the start of the period, the lower the expected claims frequency will be during the period which also suggests that the DSR should allow lower rates for those with more years at-fault claims and conviction free.

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Thank you. We keep moving through SM-5.1, we get to page 5 which also has a table on it.

Can you summarize and explain for the Board the content of the table and the importance to this Application?

MR. DONALD PALMER: This was just looking at the importance of only of one (1) year of history, not a number of years as the previous table had.

So it looks at what happened last year and the accident frequency of the following year. So, for someone who had zero at-fault claims and zero minor convictions in the prior year, they had a 5.7 percent chance of having an accident -- and at-fault accident in the following year.

Going down the table, if they didn't have an at-fault claim but had one (1) minor conviction, that

5.7 percent chance of an accident increases to 11.15 percent.

If they have had two (2) minor convictions, it goes up to 16.4 percent.

(BRIEF PAUSE)

MR. DONALD PALMER: So that's looking at all -- and two (2) in fact means -- I'm advised two (2) or more minor convictions.

So then we look at the number of -- for those who had an at-fault claim in the previous year but no convictions, their claim frequency was 10.12 percent.

So higher than two (2) zeros, but not quite as high as having one (1) conviction, but close. And then one (1) at-fault claim and one (1) minor conviction had a 14.8 percent chance of an at-fault accident in the following year, and -- and so on down the table.

MS. CANDACE EVERARD: So the idea being still that the greater the number of at-fault claims and/or convictions in the previous years means that that individual's expected claim frequency in the subsequent year is higher, which still suggests that the DSR -- DSR system should allow higher rates for those with more at-fault claims and/or convictions.

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Okay, SM-5.1 has a number of tables in it and we're going to look at the next one now, which is on page 6.

Can you, Mr. Palmer, give the Board a summary of what this particular table reflects and how it's important to this Application?.

MR. DONALD PALMER: Going one (1) step further from the last one that looked at one (1) previous year, we're now looking at two (2) previous years. So first line is that zero at-fault claims in the second previous year, zero convictions in the second previous year, and zero at-fault claims or minor convictions in the previous year; those, all together, mean that there is a 5 percent chance of a claim in the following year.

So, maybe I'll -- I'll talk in terms of year 1, year 2, and year 3. That's probably easier.

So, the second line: No at-fault claims in year 1, one (1) minor conviction in year 1, no claims or acc -- or convictions in year 2, means a 9 percent chance of a claim -- at-fault claim in year 3, and so on down the table.

MS. CANDACE EVERARD: So, would it be fair to say, in summary, that the greater number of at-fault claims and/or convictions in the second prior year, which you're calling "year 1," and the higher -- the -- then the higher the expected claims frequency during the period will be.

MR. DONALD PALMER: In year 3, yes.

MS. CANDACE EVERARD: Now, is it fair to say that this table reflects that the DSR penalty for at-fault claims and/or convictions should last for more than one (1) renewal period, but should diminish over time?

(BRIEF PAUSE)

MR. DONALD PALMER: The -- the answer is "yes," not necessarily as a conclusion from this table. That is, in fact, to go beyond that two (2) or more is what -- exactly what our retrospective model did; looking at five (5) years, keeping -- adding one (1) after another after another, to come up to that predictive equation for the year 6, I guess, in our retrospective modelling.

So the -- the retrospective model just built on the tables that we've just talked about -- one (1) year, two (2) years -- but then adds a third, fourth, fifth year onto that as well.

MS. CANDACE EVERARD: And I'm going to

get into some questions on the retrospective model right away. I just have one (1) more question before I do that, and that relates to SM-5.1.4 which is entitled "Major Convictions".

Can you summarize for the Board the importance of the information set out at that section. 5.1.4.

MR. DONALD PALMER: We were looking, trying to find a link from the predictive measure of major convictions -- so, drunk driving, for instance -- and if that was indica -- indicative of future claim behaviour.

There's some difficulty in doing that because in the second year their licences are suspended and they're not driving. So, it's -- it's more difficult to make a predictive link, one to the other, when in the second year, the one (1) you're actually testing for, they're -- they're not an active driver.

So we believe that there's a linkage there but it's hard to test the -- statistically both, because on the second year people aren't driving, and again, thankfully, there's not a huge number of those major convictions.

MS. CANDACE EVERARD: Can you say though, based on this information that individuals that do have a major conviction, will often incur a major and/or minor convictions in subsequent periods?

MR. DONALD PALMER: Yes. And -- and again, that would -- is probably better met -- measured in the retrospective model.

MS. CANDACE EVERARD: Can we also say that individuals that have had a major conviction will also have a claims frequency that's about at the same level as individuals with two (2) at-fault claims in the previous year?

(BRIEF PAUSE)

MS. CANDACE EVERARD: And I'm -- I'm looking at the second last paragraph of the section, the last sentence.

MR. DONALD PALMER: Yes, I have it and I agree.

MS. CANDACE EVERARD: Thanks. Okay, getting into the retrospective model then in a bit more detail, and of course, the section dealing with that starts at SM-5.3 on page 10. And I think this has been touched on already but just so we have a -- some succinct information on the record, can you advise the Board what was the objective of the retrospective modelling?

MR. DONALD PALMER: Once we, through the -- the other testing that we've -- we've talked about, determined what should we -- what should we count, what are the input factors to determine future at-fault claim activity, we used a model -- a retrospective model to say, assuming that we've designed the program and to count those minor convictions, major convictions and at-fault accidents to certain point levels, what -- what does it look like, in terms of the actual operation of the plan?

And so we simulated as if they had been in DSR in 2001 and then looked at the actual history to see where they would end up on the DSR level, and to see if that was predictive of the at-fault claims frequency in the ensuing year.

So the -- the reason of running the retrospective model, just to see does the plan work? Is it really predictive of -- of future claims activity? And as I indicated this morning with that one (1) graph, after running it for five (5) years, yes, it does work very well.

MS. CANDACE EVERARD: Okay. What steps, if any, were taken by the Corporation to confirm that the model was performing correctly?

(BRIEF PAUSE)

MR. DONALD PALMER: We had significant output on all the drivers. We did spot-checking, spot-testing, to ensure that it was working properly, to -- to manually pick a few drivers and -- and walk them through it and make sure that the results that we got from the model, it -- that it was doing what it was supposed to do.

MS. CANDACE EVERARD: Thank you. If I can get you to turn the page to page 12, still dealing with the retrospective model, and this section deals with the 2001 retrospective model results, can you comment on the graph that's shown at the bottom of the page, in broad terms?

MR. DONALD PALMER: In broad terms what this means that at the initial placement, so using our transition year, that at the beginning using those rules, that it was very predictive of at-fault claim activity in the second year.

So the transition rules work pretty well in terms of determining what the at-fault claiming frequency was going to be in the second year.

MS. CANDACE EVERARD: Thank you. Moving ahead to page 15 there's a graph at the top of that page dealing with the 2001 to 2006 at-fault claim frequency.

Can you interpret that graph, in general terms, and maybe you just want to tell me that the same pattern continues to hold? Not that I'm putting words in your mouth.

MR. DONALD PALMER: I would say the same pattern continues to hold. And -- and in fact it does improve with each ensuing year.

MS. CANDACE EVERARD: Can you confirm that the retrospective modelling after the first year includes modelling of the proposed changes to premium adjustments under the DSR?

(BRIEF PAUSE)

MR. DONALD PALMER: This particular graph didn't do that. This was just looking at future claims frequencies.

So in -- in answer to your question, does this particular graph show us that? The answer is no. But we did model all the proposed rate changes when we -- when we ran the retrospective model.

(BRIEF PAUSE)

MS. CANDACE EVERARD: But the retrospective modelling does capture the factors associated with good behaviour and bad behaviour.

MR. DONALD PALMER: Absolutely. So -- so in the simulation, if a driver starts at DSR level 10 and has an accident in 20 -- or had an accident in 2001, for the 2002 model they would be shown as a DSR level 5 because they would have moved up five (5) steps. So -- so absolutely.

MS. CANDACE EVERARD: Thank you. Now the majority of these charts that we've been looking at in SM-1, if not all of them actually, show that the demerit levels are grouped and I think Board Member Evans had a question about that is -- or that may have not actually been his question.

Can you explain for the record why it was for the purposes of the Application that the Corporation grouped those DSR levels together?

MR. DONALD PALMER: It was only because there's smaller numbers of -- of drivers in those higher DSR levels. The -- there tends to be a little bit more fluctuation with smaller amounts of data.

As the graph that I've shown this morning demonstrates, there is a little bit of fluctuation at the higher DSR levels because it's just random statistical fluctuation.

In one of the Information Requests and -- and I don't have the number right in front of me --

MS. CANDACE EVERARD: 31(b).

MR. DONALD PALMER: 31(b), okay.

(BRIEF PAUSE)

MR. DONALD PALMER: -- it becomes -- and looking at 31, page 2, we do see the real increasing trends in all of those lines but it becomes a bit of a jumbled mess at the -- at the top just because of the random fluctuations in the claims frequencies because of the low number of drivers.

MS. CANDACE EVERARD: Okay. I'm going to move then to some questions about the prospective model which is dealt with in SM-5.5 starting on page 21 of SM-5.

Mr. Palmer, can you explain for the Board what the objective was of the prospective modelling process?

MR. DONALD PALMER: The objective was to come up with premium projections that we could put into our pro formas to -- to present for this Hearing, so, not just looking at past performance but -- but on a going-forward basis using current premium levels and -- and assumptions going forward to see what the effect of the DSR rules would be on premiums going forward.

MS. CANDACE EVERARD: And can you confirm that the vehicle upgrade factor and volume factor have been kept consistent with that presented at the last GRA?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Now, on page 25 of SM-5 there is reference to the merit-eligible vehicles and I appreciate that there's already been evidence given on that. It's reflected here -- this is under the heading of "Step 4" that merit-eligible -- merit eligible vehicles included private passenger vehicles and motorcycles.

Why did the Corporation make that particular assumption; that only those two (2) types of vehicles would be included in that category or under that heading?

MR. DONALD PALMER: Those are the vehicles that are eligible for the existing discount program and as we mentioned this morning, it's the same vehicles that will be eligible for discounts under the DSR program. So for non-passenger vehicles, cement trucks are not subject to the DSR program so they wouldn't be included in this particular projection.

MS. CANDACE EVERARD: Turning to page 29 of SM-5, and we looked at this a little bit earlier and the table at the top of the page, when we looked at it before I only picked up on a couple of the numbers or dollar amounts reflected there.

Mr. Palmer, can you explain, generally, the interpretation of this particular table for the Board?

(BRIEF PAUSE)

MR. DONALD PALMER: This -- this particular table for each year from the current levels of driver premiums and merit-eligible premiums, to what they would have been under the old program, looks at the impact on driver's premiums.

So, for 2009/'10 year with the program starting November 1st, we would expect without changing assumptions on a going-forward basis that driver premium would be $2.6 million less under the DSR program than it would have been under the old Bonus-Malus program.

For vehicle premiums, would be about $2 1/2 million less in the '09/'10 year for a total impact of $5 million less.

For '10/'11, when we're looking at a full year, driver premiums would be about $12.4 million less than they would have been under the old program, vehicle premiums would be about 7.8 percent less for a total decrease in premium of $20.2 million.

MS. CANDACE EVERARD: Did you mean 7.8 percent or 7.8 million?

MR. DONALD PALMER: I meant 7.8 million; sorry.

MS. CANDACE EVERARD: Thanks.

MR. DONALD PALMER: And then one (1) more year for 2011/'12, driver premiums would be $18.9 million less, vehicle premiums would be $6.5 million less, for a total decrease of $25.4 million.

What's labelled as "Version 2" is to change assumptions a little bit on a going-forward basis in terms of possible changes in claims frequency and in conviction frequency. So -- and that changes the numbers a little.

(BRIEF PAUSE)

MS. CANDACE EVERARD: And which version, Mr. Palmer, of figures is carried forward into TI-1; is it version 1 or version 2?

MR. DONALD PALMER: Version 2.

MS. CANDACE EVERARD: Okay. Turning over the page, going to page 31 of SM-5, there's a table at the top of that page.

Can you summarize the content of that table for the Board, please?

MR. DONALD PALMER: That's the expected driver premium and vehicle written premium and, also, the percentage of driver premium as a percentage of vehicle premium.

So, for 2008/'09, the year that we have just completed, driver premium $36.2 million, vehicle premium $690.7 million and driver premiums are 5.24 percent of vehicle premiums.

For the '09/'10 year, driver licence premiums dropped to $33.6 million compared to a written vehicle premium, $716 million. The ra -- the ratio of driver premium to vehicle premium is 4.7 percent. And it continues down for the forecast period.

MS. CANDACE EVERARD: If we look at the subsequent years on the table, it appears that there's fairly consistent downward movement in that percentage as we look from 2008/2009 down to 2012/'13.

Is that right?

MR. DONALD PALMER: No, that's not

correct. There is a consistent downward movement to 2011/'12, and then it turns around and starts coming back up again.

MS. CANDACE EVERARD: Okay, thank you for pointing that out.

So, if we leave off for the moment 2012/'13, the other four (4) years would show consistent downward movement?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: And is that appropriate in the Corporation's view?

MR. DONALD PALMER: Again, that's the effect of the transition rules. If we had extended this table into 2013/'14 and '14/'15, those driver premiums continue to go up. There is an upward drift in the vehicle premium and -- and the surcharge levels.

MS. CANDACE EVERARD: So does the Corporation anticipate that that percentage will rebound to the roughly 4 or 5 1/4 percent range that was reflected in 2008/2009?

MR. DONALD PALMER: All else being equal, yes, I would agree with that. But it's hard to -- that will vary depending on what vehicle discount levels we -- we pick, or if we were to increase the surcharge levels more.

It's pretty subjective to say what's going to happen depending on what the rules are. All else being equal, I would agree with your statement.

MS. CANDACE EVERARD: Thank you. Next page is page 32 of SM-5 and there's another table.

Mr. Palmer, can you explain what this table reflects for the Board, please?

MR. DONALD PALMER: Rather than explain, I think I'll just read in the paragraph at the -- at the top.

"Alternatively, the following table shows the total and average premiums paid by the best 10 percent and worst 10 percent of drivers in the 2006 retrospective model compared to the actual premiums paid by these drivers in 2006 under the Bonus-Malus System."

So for total driver premium, the best 10 percent for 2006 pay $1.5 million. The -- under the retro model because those best drivers don't pay much driver premium pay eighty-four thousand dollars ($84,000), so, there's 95 percent decrease in driver premium for the top 10 percent of drivers.

For the worst 10 percent they currently pay $12.1 million; under the DSR, the retro model pay

$32.4 million, an increase of $20.3 million or 168.5 percent and, in total, driver premium actually increased by 15 percent.

MS. CANDACE EVERARD: And as reflected under the table, these results show that the DSR is expected to transfer a large portion of the driver premiums formerly paid by good drivers to poor drivers; that's right?

MR. DONALD PALMER: That's correct.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Okay. Moving then to a discussion about movement on the DSR scale, I'd ask you to have a look at answer 3, 1-3 posed by the Board in the Information Request round and specifically, answers in subparagraphs (c) and (d).

I'm not going to ask you to read it in because it's lengthy and there's a table, but, can you describe the analysis that was undertaken to determine how an individual moves on the scale, just at a high level, broad strokes?

(BRIEF PAUSE)

MR. DONALD PALMER: The -- again, taking a -- a simulation of what we expected to happen versus what actually happened using those expected claims frequencies that we talked about previously, the comparison is in the table of -- at the bottom of page 2. So for people who moved seven (7) steps actual at-fault claim frequency...

(BRIEF PAUSE)

MR. DONALD PALMER: Could you just give me one (1) moment, please?

MS. CANDACE EVERARD: Yeah, of course.

(BRIEF PAUSE)

MR. DONALD PALMER: Okay, just -- just to go back a bit; I was just looking to -- to see what the question was actually asking for and it was actuarial support for the movement on the scale.

So for people who moved up the scale seven (7) -- seven (7) steps, their actual at-fault claims frequency was 26.5 percent. We would expect those people to be at 25.5 percent, a very small driver or difference of .01 percent.

For people who... And -- and this is aggregated over the whole five (5) year retrospective time period.

So people who were at the same level, after the five (5) years, there'd be some ups and downs, they had a actual 9.7 percent claims frequency. We would expect that to be 9.6 percent. So again, a very small difference.

MS. CANDACE EVERARD: And how did the Corporation determine what the expected at-fault claims frequency would be at a given level?

MR. DONALD PALMER: That would be the previous year's claims frequency.

MS. CANDACE EVERARD: Thank you.

MR. DONALD PALMER: At the given DSR level.

MS. CANDACE EVERARD: And can you confirm that the expected at-fault claims frequency does not include an expectation of change in claims frequency?

MR. DONALD PALMER: That's correct.

MS. CANDACE EVERARD: Just following up on the answer with respect to where the expected at-fault numbers come from and your answer was, From the previous year.

Since it's a table that deals with a five (5) year period, what would be the previous year; would that be the year, 2000, since the table starts at 2001?

MR. DONALD PALMER: It -- it takes all the years separately and -- and sum -- sums them up.

MS. CANDACE EVERARD: In the last row of the table, far right-hand side, the number of drivers that's reflected is some 3.5 million.

That's an aggregate of the five (5) years worth of drivers?

MR. DONALD PALMER: That's correct. Five (5) years, round numbers, seven hundred thousand (700,000) drivers per year is about 3.5 million -- maybe drive -- number of drivers is a bit inaccurate, maybe we should have labelled it as number of driver years.

(BRIEF PAUSE)

MS. CANDACE EVERARD: In future years, does the Corporation anticipate that there will be ongoing testing of the movement on the scale?

MR. DONALD PALMER: Absolutely.

MS. CANDACE EVERARD: And does the Corporation intend to use the four (4) step process described in answer (c) to test the relative risk by DSR level?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: Is it the Corporation's intention to present this testing to the Board at future rate applications?

MR. DONALD PALMER: I guess it is now.

MS. CANDACE EVERARD: Did the Corporation give any consideration to assigning a greater weighting of demerit points to individuals based on the severity of an accident, such as more points for a severe accident than a fender bender and if not, why not?

(BRIEF PAUSE)

MR. DONALD PALMER: Seems to me, we have answered that in an Information Request from the Consumer's Association and Mr. Johnston is just looking for that reference.

In general, having a claim is kind of the indicator of behaviour. So unsafe backing up, for instance, would be a -- an indicator of behaviour and you hit something. If that happens to be a garbage can, you probably have a -- or a neighbour's fence, you probably have a very small low severity claim.

If you happen to hit the neighbour's child, you probably have a very large severity claim. The -- so the severity isn't really an indicator. It --

it's more a question of luck than it is a question of behaviour.

Same, in terms of an unsafe lane change. If you hit an old winter beater it may be a small severity claim, because the winter beater probably isn't worth much. If you hit a brand new shiny Porsche it's probably a high severity claim. Again, not really an indicator of driving behaviour.

So -- so in a short answer to the question is we thought about it but rejected it rather quickly.

MS. CANDACE EVERARD: Okay. Mr. Chairman, I'm about to move into another section and I note the time.

THE CHAIRPERSON: Okay, we'll take a break now. Thank you.

--- Upon recessing at 2:56 p.m.

--- Upon resuming at 3:21 p.m.

THE CHAIRPERSON: Okay, Ms. Everard. Let's make the best use of the next forty (40) minutes.

CONTINUED BY MS. CANDACE EVERARD:

MS. CANDACE EVERARD: Thank you, Mr. Chairman.

Okay I want to get into some questions dealing with the balance between the amount of driver licence premiums and the amount of vehicle premiums, and we've touched on it a little bit but not a lot.

Can you explain for the record, on what founding principle or principles the premium revenue strain is separated into the two (2) categories of vehicle and driver licence?

MR. DONALD PALMER: The Manitoba Public Insurance Basic Insurance Program and -- and specifically PIP, is extended to all residents of Manitoba. There is no tie to a driver's licence necessarily for -- to a vehicle necessarily.

Somewhere along the line, certainly before I ever stated with Manitoba Public Insurance, there was a decision that all drivers should contribute to the Insurance Fund, because there are instances where they are driving vehicles but not necessarily participating in paying of insurance premiums. So at that point in time a decision was made that they should contribute to the insurance pool.

The difficulty in terms of determining what that split should be, is that there is no specific grouping of coverage that's assigned to that drivers licence policy. So it's -- it -- it's kind of a question of how high is up.

We have adjusted that driver premium. It was set at some level way back when. We have adjusted it. I think the last time was back in about in the '90s sometime, and it was -- and the adjustment was based on growth of -- of vehicle premium. But, again, not assigning any specific coverage to that.

So, it certainly is a good means, especially under driver safety rating, to be able to have access to an individual in terms of surcharging them because it's really individual behaviour that we want to address through additional driver premium.

But in terms of whether the split should be 5 percent driver premium/95 percent vehicle premium, as -- as we currently have, round numbers, or whether it's 1 percent /99 percent or 10 percent/90 percent, there's really not a definitive actuarial answer for that.

We have -- I guess, through precedent, it has reached a level that we think is reasonable. We don't see any particular reason to change that, but in terms of -- of a measuring stick, that it's -- that a 5 percent/95 or a 7 percent/93 would be the correct split, I can't really give you an answer for that.

MS. MARILYN MCLAREN: Just a little bit

more history on that, Ms. Everard.

"Some time in the past" that Mr. Palmer referred to was, in fact, 1971 -- the year the program was established. One (1) of the founding principles of the program was not only that every driver ought to contribute to the insurance fund, it's that principle and the fact that we can charge premiums to drivers that enables us to have a system that personally rates each and every driver without worrying about particular categories.

Age, for example, has never been a rating factor in Manitoba Public Insurance because we can treat each young new driver as an individual; that's because we have premium right on the driver's licence.

The other thing it does for us is allows us to -- because the surcharges as well -- charge 1s, charge 2s and a basic driver's premium have all been in place since 1971. That allows us, unlike virtually all, I believe, private insurers, we don't have to ask our customers to list the people who will use their vehicles. We don't have to have mechanisms that are sometimes in place to deny claims presented by, perhaps, someone who lives in the household but was not listed on the policy.

All the administration around that and all the ramifications around having to reflect the appropriate vehicle premium from a number of drivers is simply not an issue for us all because of the driver premium.

Because there has been no coverage specified, there's never been an actuarial exercise with determining, from that perspective, what should be the split.

I think it's something that has caught the attention of this Board in years past, and I think it's something that will very well -- we will very well have more conversations about in the future.

But I think the 5 percent that was reflected on that table for the '08/'09 year was probably lower than it was in 2003 because we haven't changed the driver premiums.

That's been part of history as well -- is the premiums would consistently become a smaller percentage of the total, and then we'd have an increase and they'd jump way up higher than they had been for years. And then they'd wear away again and then they'd jump up way higher.

I think that's something that we will have an opportunity to address and deal with, more from a policy perspective, but also more from a -- a -- a smooth, planned change through time as we move to the Driver's Safety Rating framework.

MS. CANDACE EVERARD: Okay. In the response to question 19 posed by the Board where the Board asked that it be provided with a rationale and justification for the current relative level of the two (2) types of premiums, the answer was that the existing distribution is based on the judgmental split that's been approved by the Board.

Is the Corporation referring to a specific Order in that answer or just past approval of the revenue requirements and, in other words, an implicit approval on the part of the Board?

MS. MARILYN MCLAREN: Perhaps somewhere between the two (2); not necessarily just an implicit approval. Clearly, each and every Order is a very explicit Order, but, I think there was a time in the mid-1990s where there was quite a bit of conversation in these proceedings on this point and -- and the Board made it quite clear that -- that it believed, at that time, that the relationship had gotten out of whack, particularly, you know, if you think about the mid-1990s, the early '90s, during a time when -- when vehicle rates were increasing significantly before the move to the pure no-fault system, even after the move to the pure no-fault system when we had an RSR rebuilding program all focussed on the vehicle side of the equation, but, the Board was quite clear in saying it really believed that -- that the relationship had -- had gotten out of whack.

I believe we came back the next year with -- I think that's when the forty-five dollar ($45) basic premium on the driver licence began, some fairly significant increases to both Charge 1's and Charge 2's.

Since then I think we also increased the Charge 2's again in 2001 or so when we introduced the two hundred dollar ($200) surcharge. So, there have been some changes, but I think there have been at least a few explicit -- direction provided and then -- and later explicit approvals for the relationship that we have today and some of it does wear down through time but -- but it has been quite explicit on more than one (1) occasion.

MS. CANDACE EVERARD: And when you're talking about Charge 1 and Charge 2, you're talking about the same surcharges that Mr. Palmer spoke of earlier when I asked about what the four (4) current systems are? So --

MS. MARILYN MCLAREN: Yeah.

MS. CANDACE EVERARD: -- Charge 1 being the -- the surcharges based on having more than six (6) demerits under the current system and Charge 2 being the accident surcharge program based on the number of at-fault accidents in a three (3) year window?

MS. MARILYN MCLAREN: Yes, exactly.

MS. CANDACE EVERARD: I just wanted to make sure that I knew what you were talking about.

So you -- Ms. McLaren, you've talked about the discussions on the split in the mid-'90s and -- and at different points in time.

Would you say that the Corporation has ever studied the split and what the split should be or would that -- would you say that that's not occurred?

MS. MARILYN MCLAREN: Only -- we -- we have done so only in relation to the changing relationship of the two (2) categories of premiums themselves. We did recognize that, you know, as vehicle premiums grew, you know, fairly quickly back at a point in time, driver premiums had not been touched, so, we've looked at it only in relation to the relative contribution of both within the Basic Compulsory Autopac program.

It's very much a matter of public policy; it really is. You -- you can't possibly have a determination of a -- on any other -- on a scientific or actuarial basis when there's no coverage, when there's no transfer of specific risk on the driver licence premium per se.

And, you know, there -- you -- you get into discussions around, what should it cost a new driver entering the system for the first time, a number of issues like that. It very much a question of public policy. It's fundamentally important that the Corporation continue to be able to be true to that long-standing principle that every driver needs to contribute.

You know, it's one (1) of the fundamental objectives of the approach we've taken to the streamlined renewals in the one (1) part driver licences for years, for years before the amalgamation and Division of Driver and Vehicle Licensing wanted to move to a one (1) part licence, wanted us to facilitate that by just throwing all the premium off the driver licence completely and increasing vehicle rates, that time about -- you know, 5 or 8 percent and because of the public policy implications and the objectives of the program, that never saw the light of day.

The government never would have approved that kind of an approach to a one-part licence, so, it's really important that we maintain that principle and it's a public policy discussion about what should the split be.

MS. CANDACE EVERARD: And has the Corporation looked at the public acceptability of the split as the split has been over the last number of years?

MS. MARILYN MCLAREN: Very much so. Never in that context though, never in that context specifically of what does, you know, the average vehicle owner or driver believe the split should be. We clearly know that vehicle owners don't understand why they pay both. This program will address that.

We also know that the -- there are many, many drivers who don't own vehicles and have their full five (5) merits - according to today's program - would be hard-pressed to understand why their rate would ever go up; you know, from the twenty dollars ($20) that they would pay today with their discounts.

So I think we -- we clearly understand that it's a sensitive subject. That there are perceptions and beliefs about what drivers should pay to contribute to the fund but not in relation -- we have never dealt with the public specifically in relation to the split between the two (2) categories.

MS. CANDACE EVERARD: Do you have a sense of how the vehicle and driver premium split in Manitoba compares with what the splits are in Saskatchewan and BC?

MR. DONALD PALMER: I -- I don't have those specific numbers. I can tell you that Manitoba is the only jurisdiction that has a -- a basic driver premium for both Saskatchewan and ICBC. It's only on the basis of surcharges that we talked about this morning, those additional premiums for convictions that -- and -- and under the newer SGI program also for at-fault accidents gets that additional premium.

But we're the only ones that have a specific driver premium for everybody.

MS. MARILYN MCLAREN: Yeah, they both have demerit point surcharges of various fashions. In ICBC, they -- they're very concerned about, you know, the -- I don't know whether they use the language of designated drivers but, for example, if there is... You know, claims can follow a vehicle, sometimes more readily than they would follow a driver which is not, not the plan that we believe is -- is appropriate in -- in our circumstances.

SGI, whether, you know, there's -- there's an at-fault accident and then they never sort of get the increased surcharge because the vehicle might change hands or something, they simply don't worry about it. The thing that's a little bit clear from the table that you produced earlier today -- but I think is very clear from some of the information that's been shared in the proceedings and in previous times, is the Saskatchewan system is -- is a much, much broader, less specific, more generic rating system overall.

They don't have territories. They don't have a pleasure use and an all-purpose use. They have any number of differences in their classification -- their risk classification system that they just don't see a need to pay attention to and that would be one (1) example as well.

MS. CANDACE EVERARD: Okay. Does the Corporation believe that the proposed driver licence premiums in this Application are sufficient for non-vehicle owners?

MR. DONALD PALMER: Yes, I -- I believe that. Again, I think you -- you can't necessarily look at a driver premium or vehicle premium in isolation. As Ms. McLaren pointed out, this gives us a very good vehicle in which to assess individually individual's additional driver premium for convictions and for accidents.

It goes after an individual -- really, the -- the root of the -- the bad or high-risk driving behaviour. So I -- I think in looking at -- at a total picture rather than saying this much for driver premium or vehicle premium is not really the context.

I -- I think you have to look at the

combination and Mr. Johnson handed me a couple of -- or one (1) Information Request from a prior Hearing and it's -- the question -- and -- and this comes actually from the 1997 GRA.

"Please explain why the Corporation decided that no documented review regarding the need for an increase in drivers' licence premiums was needed for inclusion in the 1997 GRA."

And the response was:

"The decision to increase driver licence premiums was part of the overall package or rate and covered adjustments for 1997.

The overall package of adjustments was designed to achieve revenue requirements in a matter which limited to the extent possible the increase in vehicle premiums. No formal review of the drivers' premiums was required to achieve this objective."

So I think our approach in this Application is very consistent with that. It's part of the -- the whole picture but to individually look at the pieces, I don't -- doesn't get you very far.

MS. CANDACE EVERARD: So was the forty-five dollars ($45) what came in, in '97?

MR. DONALD PALMER: Looks like it, yes. The increase from I think it was thirty-five ($35) to forty-five dollars ($45).

MS. CANDACE EVERARD: So that same forty-five dollar ($45) premium has been in effect, so, for about twelve (12) years?

MR. DONALD PALMER: Yes.

MS. CANDACE EVERARD: And is there a particular reason why I don't think the Corporation has asked to adjust that number over the last twelve (12) years?

And if -- if you have asked and it just didn't happen, then, please correct me.

MS. MARILYN MCLAREN: No, other than, you know, within the overall context the Corporation was not uncomfortable with the forty-five dollars ($45).

There is a very specific reason we haven't asked to change it in this proceeding and that would be consistent with all of our rationale for the stable introduction of -- of the new program.

MR. DONALD PALMER: And -- and again, going back to 1997, the reason it was asked for then was we were looking at a fairly substantial rate increase on vehicle premiums. So that was a way to smooth out into all Manitoba motorists rather than specifically to vehicle owners. So -- so it was spreading out the pain so to speak.

Now we have not been looking at rate increases over the last eleven (11) years. So -- so not only is that we -- we haven't been looking for additional revenue.

Had we been, you know, facing a 4 or 5 or 10 percent rate increase, we may very well have -- have had the same approach that we had in 1997 to say, let's get it from -- not only from the vehicle premium but additional from the driver premium as well.

We haven't -- we haven't been faced with that over the last eleven (11) or so years.

MS. CANDACE EVERARD: Okay. Now, I -- I've heard the evidence about there being no specific coverage attached to the driver's licence premium but I also heard Ms. McLaren's evidence that the Corporation needs to ensure that every driver is contributing.

So has the Corporation given consideration to the amount paid by non-vehicle owner drivers to the cost that those individuals have on the system?

And I -- I mean, I appreciate that there have been surcharges in place where non-owning drivers

have an
at-fault accident, but, what's the relationship there in the Corporation's mind?

MR. DONALD PALMER: Again, there is coverage with the vehicle. So when -- when someone -- if I -- as a vehicle owner if I lend a car to my wife or to -- to a friend, I'm also lending the insurance coverage.

So -- so the insurance coverage isn't just for me as a driver, it's for any occupants of that vehicle. So again, to say that they're not covered, there's an implicit rental charge every time I -- I lend my vehicle out.

So, I'm -- I'm lending them my insurance as well as my car. So, to say that they're not contributing, that may not be completely accurate.

MS. MARILYN MCLAREN: I think it's really important that we talk about the context beyond what Mr. Palmer described. And I think it's worth going back and referencing, I believe, something Mr. Oakes may have mentioned in his opening statement, and Mr. Houghton mentioned as well though -- the concept that there are some vehicle owners who have more vehicles than drivers.

And -- and we know that that's true, in some cases in Manitoba where there truly is very limited number of people using a particular car, truck and motorcycle, for example. But there's far, far more people in this Province and family situations where they share one (1) vehicle. Far more.

So the concept of lending the vehicle would be quite -- probably "offensive" is not too strong a word to many family situations where, clearly, the -- the couple own the asset. They both contribute to paying the premium. They share the vehicle and they have two (2) driver licences between them. So, that is the premium payable.

There are also cases where, you know, there -- there's parents and a couple of teenagers all sharing one vehicle. There are many, many more of those situations than we have situations where there is one (1) person who has a number of vehicles that they would choose to own and not really regularly share with anyone else.

So, when you talk about the cost of providing the coverage, it really is within that overall context. And that's where it gets difficult as well, talking about things, about, well, you -- you know, the Corporation has not made an effort to control who people give their vehicles to. It's a legitimate decision for a couple to make with respect to who should be the registered owner for insurance rating purposes of their vehicle. It truly is a joint asset. It's a shared asset.

So, within the context of what are the cost of claims for non-owners, I can tell you, like in every category, the -- the majority of non-vehicle owner drivers probably have five (5) merit points and they probably think the twenty dollars ($20) is too much to be paying today because they believe they're helping to pay the eight hundred (800) or twelve hundred (1,200) or fifteen hundred dollars ($1,500) for the premium that is attached to that vehicle that, you know, they -- they share in the responsibility for and share in the ownership.

So it really does need -- over and over we need to talk about sort of the -- the overall holistic approach to this, and that's a very important factor that I don't want us to lose sight of; is that people who don't own vehicles probably don't get a driver licence and never own a vehicle in their life, first of all.

And, also, just because they're not the registered owner of a vehicle, doesn't mean that they don't share, you know, fiduciary ownership and responsibility for that vehicle within their family situation.

MS. CANDACE EVERARD: Okay, you -- you

commented just in your last bit of evidence that some people who are paying twenty dollars ($20) for a driver's licence may think that that is too much.

Is that something that the Corporation has had feedback on -- that do Manitobans generally think twenty dollars ($20) is too much for a driver's licence, or -- or...

MS. MARILYN MCLAREN: We know the vehicle owners absolutely do. They really believe they're being double-dipped -- double-dinged -- that they pay the premium on the vehicle.

I don't know that we've got any specific research from five (5) merit holding drivers who don't own vehicles to say: Is twenty dollars ($20) the right amount? I don't know that we have that today, but I think we certainly have heard every bit as strongly from those non-vehicle-owning drivers as vehicle-owning ones that have their five (5) merits.

They fundamentally believe that five (5) is not enough. Five (5) is not enough to reward their many, many years of safe driving, and I would argue that, implicit in that, if they think five (5) merits is not enough, then they probably think that they're not being adequately rewarded by charging them twenty dollars ($20).

MS. CANDACE EVERARD: Because in the Application as presented, going forward, it's contemplated that some drivers will pay zero or, if they don't own a vehicle, will pay five dollars ($5) for a driver's licence.

And I -- I take it then it's for the reasons that you've described, that the Corporation is proposing that or are -- are you wanting to follow the approach in the other provinces that was mentioned or...?

MS. MARILYN MCLAREN: No, not at all. It is for the approach that I described and exactly for the reasons that I described that we think for the people with eight (8), nine (9), or ten (10) merits, then eventually eleven (11), twelve (12), and more if they're paying a vehicle premium, then they would not -- it -- it makes senses and it's appropriate that they not additionally pay the driver premium as well and if they don't own the vehicle after the years of driving that would be recognized with eight (8) or more merits, a five dollar ($5) contribution is -- is almost like a -- a token contribution.

And just -- just another point of clarification, there is -- there is one (1) coverage that comes with the driver licence and the premium on the driver licence, but it is -- is very rarely used and not priced, therefore, because it is so rarely used and that's when a -- a person with a Manitoba driver's licence and insurance policy uses someone's vehicle that they legitimately believe was insured and it turns out not to be, the driver's licence policy comes into force and we'll pay that claim for them. So there is policy, but it is very rarely used.

MS. CANDACE EVERARD: So there is some coverage that's attached to the driver's policy?

MS. MARILYN MCLAREN: Yes, that's right.

MS. CANDACE EVERARD: And that's up to two hundred thousand dollars ($200,000)?

MS. MARILYN MCLAREN: Exactly.

MS. CANDACE EVERARD: I think the earlier evidence, though, was that there's no actuarial evidence to support the quantum of the driver's licence premium?

MS. MARILYN MCLAREN: Because of the overriding policy objective that every driver needs to contribute to the fund.

If it was priced on a purely actuarial basis, probably specifically for that narrow little bit of coverage that I just told you about, I expect that a dollar per driver would be too much in a given year.

So it's really the overriding policy objective is ensuring -- and it's from Day 1, you know, the -- the pure no-fault program came into place in 1994, but since 1971 Manitobans have had access to a -- even back in those days in the tort context, there was always access to some pretty decent Part 2 no-fault accident benefits and the -- the contribution from drivers was really always intended to offset the cost of the program and more so than -- more so than windshields and bumpers really the cost of -- of the accident benefits because although, you know, Manitobans are protected whether or not they have a driver licence and whether or not they have a vehicle insured, all Manitobans always had access to some no-fault benefits right since 1971.

MS. CANDACE EVERARD: So just so that I -- I get this straight, when you say that it's very important that every driver must contribute to the fund, you're saying that even when some drivers will pay no driver's premium, under the proposed system those that do own a vehicle are paying premium through the vehicle premium and the ones that don't own a vehicle are going to pay the five dollars ($5); is that it?

MS. MARILYN MCLAREN: Exactly, and the fact that they -- that's -- that's the beauty of the system that we've been able to put together and -- and deliver to Manitobans since the integration with DVL is we don't have to act like we don't know that most drivers own vehicles and most vehicle owners have driver licences.

So, in this program each and every driver will continue to pay a premium. Some of them will do it solely through their vehicle premium, some will do it solely through a driver's licence premium, but everyone will continue to contribute to the fund.

MS. CANDACE EVERARD: And is there any hope on the part of the Corporation that these changes will incent any type of behavioural changes on the part of Manitobans?

MS. MARILYN MCLAREN: There is great hope and we believe that there is a better chance that that will happen than with the system that we have today.

In no small part through the new forms that we've included information on as part of this application, in no small part because if people understand the program, if they understand the scale, if they understand how they move up and down the scale, that in itself should make it more likely that we'll get the results that we're really wanting.

So absolutely we have hope. We have not come up with any legitimate defendable method to predict reduction in claims frequency related to that hope, but it will certainly emerge if it happens and it will be reflected in our ongoing costs.

MS. CANDACE EVERARD: Okay. I would ask you to turn then to question 27 posed by the Board in the Information Request round and, in particular, answer 'A'. This is a question about territorial differentiation and statistical analysis.

My first question is: If I direct your attention to the first paragraph of the answer, second sentence:

> "Provides that the Enterprise Data Warehouse or EDW will capture this data being driver territory data as part of the new DSR system."

What is the EDW or Enterprise Data Warehouse?

MR. DONALD PALMER: The Data Warehouse -- Enterprise Data Warehouse is an amalgamation of corporate data from all the various corporate systems. So from the claim system and the driver -- the old driver licence system which has been rolled over into the Autopac online system.

So they all come together so that you can do data retrievals and -- and queries easier and -- and to link different systems. So not only see premium data but also claims data if you've got a policy number.

MS. CANDACE EVERARD: And is that for use by Basic only or is it a Corporate wide data warehouse?

MR. DONALD PALMER: It's Corporate wide.

MS. CANDACE EVERARD: So does the fact that the EDW can track by territory mean that in the future there could be variations in the DSR scale by territory?

MR. DONALD PALMER: I don't think that that would be part of the driver safety rating to have it vary by -- by territory but you could. And historical data coming from the old driver licence system didn't have territories. So we didn't have that -- that linkage. Now that we have, as Ms. McLaren pointed out, combined renewal statements that there is a territory on there that makes it possible to -- to look at the data.

Now -- and maybe this is anticipating your -- your next question but, if we look at the graph on the -- on the next page other than some -- some statistical noise at the -- at the start, the rural line and the Winnipeg line really parallel each other.

So the relationship between the different DSR ratings is pretty much consistent. It's just there is a territorial difference between Winnipeg and rural and that's -- that's sort of uniform gap between the two (2) lines --

MS. CANDACE EVERARD: Okay. And -- and I am --

MR. DONALD PALMER: -- which is the same differential as we have on vehicle rates. So could we -- could we do it? I suppose we could. Would we actively pursue it? I very much doubt it.

And -- and certainly, again, from a -- a public acceptability perspective, Manitobans expect equal treatment depending on whether they're rural or Winnipeg residents. If we said that the difference between a high risk driver and a safe driver in Winnipeg is 50 percent but in rural Winnipeg -- or in rural Manitoba it's only 10 percent that's -- that's a really hard sell.

So -- so could we? Yeah, we could. Would we pursue it ever? I really doubt it.

MS. CANDACE EVERARD: Thank you. And I do want take you to that chart but can you just flip back to the narrative part of that answer for me for a moment?

The last sentence of the answer reads:

> "Based on this preliminary evidence, it suggests that there may be a difference in absolute driver risk or at-fault claim frequency per driver by territory; however, relative risk by DSR level appears to be reasonably

consistent, at least for the merit side
of the scale."

Can you elaborate on the consistency on the merit side of the scale?

MR. DONALD PALMER: And that's what I was eluding to in the description of the -- the graph. That the -- the blue line and the red line, being Winnipeg and -- and rural, are essentially parallel. The -- so, there -- there is a consistent gap between the Winnipeg frequencies and the rural frequencies.

It doesn't matter what DSR level you're -- you're at, there is that territorial gap that's reflected in our vehicle territorial rates.

MS. CANDACE EVERARD: And when...

(BRIEF PAUSE)

MS. CANDACE EVERARD: Mr. Palmer, in looking at the left-hand side of the chart, you referred to the -- the blue line and the statistical noise.

Is it your evidence that the left part of the chart that reflects the -- the whole of the demerit side of the scale - so anything in the negative range - is statistical noise or a statistical anomaly or are you referring mainly to the grouping of negative DSR levels eleven (11) through fifteen (15)?

MR. DONALD PALMER: Yeah, I -- I would say that the fact that it bounces significantly from minus seven (7) to -- to ten (10) and then -- and the minus eleven (11) to fifteen (15) grouping, it goes down a big chunk and then it goes back up, that's statistical noise.

The -- as far as the -- the difference between Winnipeg and rural, that may just be a -- a fact that a recognition of claims frequency is higher in -- in Winnipeg because that's where the surcharges would occur. So because there's higher accident frequencies in Winnipeg, there's probably more surcharges which would cause that gap.

So it -- it's more a function of the program than the fact that -- that there should be a different program.

MS. CANDACE EVERARD: We looked earlier at a couple of charts in SM-5. There's one on page 12 and one on page 15 and just keep the IR graph open, if you would -- that we've just been looking at.

And if we look back at the SM-5 charts, as I said, pages 13 and 15, can you explain why a similar discontinuity does not appear in those results of the retrospective model, given the significance of the

Winnipeg territory relative to the province as a whole?

(BRIEF PAUSE)

MR. DONALD PALMER: The Enterprise Data Warehouse and -- and -- is -- is just building up the data, so, it's -- it's an incomplete database. It's -- it's the -- what we've got in terms of the last -- the last renewal cycle.

So it's -- it's the only data that we had for territory so it -- it tells somewhat of a story but it's certainly not all -- all of the data.

(BRIEF PAUSE)

MS. CANDACE EVERARD: So, Mr. Palmer, still looking at the IR Response and the chart with the statistical noise in the demerit range, would it be fair to say that that variation argues for varying the level of driver premiums by territory? Or does the Corporation believe that the fact that the vehicle premiums already a territorial component adequately accounts for that?

MR. DONALD PALMER: That -- that's what I would agree with. Just -- and because in Winnipeg there will be more surcharges, so that will cause the gap. So it's already, in fact, been taken into effect.

So -- so having those lines separate is more a function of the program than -- than the program needing change.

(BRIEF PAUSE)

MS. CANDACE EVERARD: Just one (1) final question on this point and then we'll probably wrap for the day.

Mr. Palmer, in the absence of driver premiums varying by territory under the DSR system, how might the DSR proposal be modified to account for the widening gap reflected in the demerit side on the chart in the IR Response that we've been looking at?

MR. DONALD PALMER: I don't think there is a requirement for modification. I think the fact that there are higher frequencies -- claims frequencies in Winnipeg drive that gap. So that will be the observation, that we will see -- higher surcharges in Winnipeg, but it's because of those differences rather than something extra that has to be recognized.

MS. CANDACE EVERARD: Thank you, Mr. Chairman. I'm willing to stop at this point and resume in the morning.

THE CHAIRPERSON: Okay, thanks everyone. See you back at 9:00.

MR. KEVIN MCCULLOCH: Mr. -- Mr. Chairman, perhaps, if I could -- Mr. Palmer has a response to the one (1) Undertaking that was given today, and perhaps we could wrap that up and -- and get it dealt with through a verbal response.

THE CHAIRPERSON: Mr. Palmer...?

MR. DONALD PALMER: The question was referring to Pre-Ask PUB Number 1, and it was the effect of licence surrender in Saskatchewan that we didn't have data on.

In -- for SGI in Saskatchewan, those surcharges in the new scale are due immediately, and after ninety (90) days a driver cannot do business with SGI until that surcharge has been paid. So it never goes away.

If someone was to, say -- was not to renew their licence and came back in five (5) years, that surcharge would still be there and he would have to pay it.

THE CHAIRPERSON: Thank you. Okay, we'll stand down for now.

--- Upon adjourning at 4:07 p.m.

Certified correct,

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Cheryl Lavigne